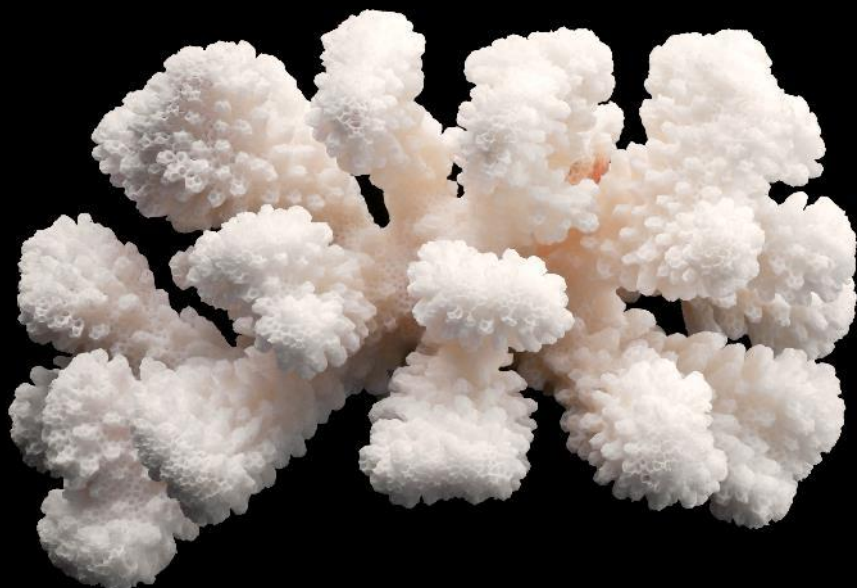


Asset Management

# Biodiversity policy

June 2023



HSBC

Opening up a world of opportunity

The wealth of plants and animals and their interactions are known as biological diversity, or Biodiversity<sup>1</sup>. Natural ecosystems are under threat as a result of deforestation, land degradation, pollution of the water, air and soil, hunting and harvesting, and climate change. This presents broad challenges for society and a systemic risk from an investment perspective.

The World Economic Forum has estimated that \$44 trillion of economic value generation – more than half of the world's total GDP – is moderately or highly dependent on nature. In the Forum's assessment, biodiversity loss is one of the most severe risks facing humanity in the next ten years<sup>2</sup>. Maintaining and restoring biodiversity is crucial for human health, food security and a sustainable global economy, as evidenced by WWF's Living Planet Report 2022 which states that the population sizes of mammals, birds, fish, amphibians and reptiles have reduced on average by 69% since 1970. Separately, the landmark Global Assessment Report on Biodiversity and Ecosystem Services (IPBES, 2019) warned that a million plant and animal species are threatened by extinction.

The Convention on Biological Diversity agreed a Global Biodiversity Framework at COP15 in Montréal, Canada in December 2022 which sets out a pathway to a world living in harmony with nature by 2050. The Framework includes action for large companies and financial institutions to monitor, assess and disclose transparently their risks, dependencies and impacts on biodiversity, including their operations, supply and value chains and portfolios.



Note:

1. Biodiversity is the variability among living organisms from all sources, including terrestrial, and other aquatic ecosystems and the ecological complexes of which they are part; this includes diversity within species, between species, and of ecosystems.
2. [www3.weforum.org/docs/WEF\\_Global\\_Risks\\_Report\\_2023.pdf](http://www3.weforum.org/docs/WEF_Global_Risks_Report_2023.pdf)

In September 2020, HSBC Asset Management joined a group of 26 global financial Institutions to launch the Finance for Biodiversity Pledge committing to work to protect and restore biodiversity through our investments. Since then, we have been working alongside other investors and through the Finance for Biodiversity Foundation to ensure we will be able to meet the commitments set out below. The Pledge now has some 140 signatories.

Our consideration of biodiversity is part of our overarching approach to responsible investment, covering how we make investment decisions and the investment solutions we provide to our clients.

We are committed to:

- 1 Collaborate and share knowledge** on assessment methodologies, biodiversity-related metrics, targets and financing approaches for positive impact – we actively participate in working groups through the Finance for Biodiversity Pledge. We also collaborate on specific biodiversity-related engagement and investor statements.
- 2 Engage with companies** on mitigating and then reversing their negative impacts on biodiversity. Biodiversity is a key element of our Global Stewardship Plan. It focuses Biodiversity engagement on topics including but not limited to deforestation (on key commodities such as cattle, palm oil, soy and wood products), regenerative agriculture, responsible husbandry, animal welfare, water management, plastic and other pollution, as well as circularity by design.

We have engaged on a collaborative basis, for example the UN Principles for Responsible Investment (UNPRI) engagement on deforestation and encouraged better disclosure through our support for the CDP<sup>3</sup> Forests programme.

We use our votes to escalate engagement where we consider this appropriate. We may also vote against the re-election of the chair or relevant board director who fail to implement adequate policies and reporting on biodiversity and nature issues.

Note:

3. Previously known as 'Carbon Disclosure Project', CDP runs a global disclosure system for companies and others to manage their environmental impacts.

**3 Integrate biodiversity risk into our investment process** – we aim to assess our investments for significant positive and negative impacts on biodiversity and identify drivers of its loss. We are starting to integrate biodiversity metrics from external research providers where we consider this is a material issue and address through our collaborations the limitations of existing biodiversity metrics.

In line with our wider policy of integration of environmental, social and governance factors we exclude from a number of actively managed sustainable portfolios certain issuers where the risks to biodiversity may be highest:

- ◆ **UN Global Compact** – companies with confirmed breaches relating to the Rio Declaration on Environment and Development

**4 Develop investment products that deliver positive biodiversity outcomes** – we are aiming to build one of the world's largest natural capital managers through our joint venture Climate Asset Management, creating funds that invest in activities that preserve, protect and enhance nature over the long-term.

**5 Reporting and target setting** – We have set the ambition to report annually on our progress and be transparent about our biodiversity impact. We expect this reporting to improve over time as the guidelines and metrics evolve. We also intend to set and disclose targets based on the best available science to increase significant positive and reduce significant negative impact on biodiversity.



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