Policies - setting standards

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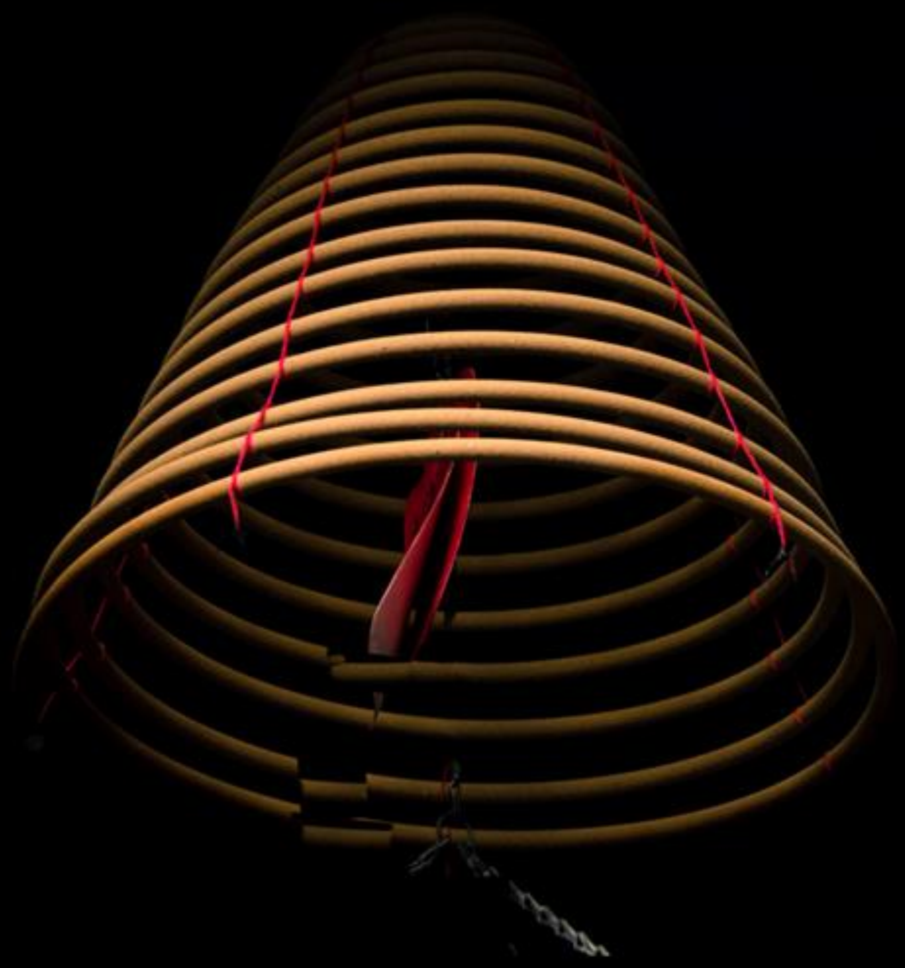
Today, we and many of our customers contribute to greenhouse gas emissions. We have a strategy to reduce our own emissions and to develop solutions to help our clients invest sustainably. For more information visit https://www.assetmanagement.hsbc.com/about-us/net-zero The information presented concerns the activity of HSBC Asset Management globally. We draw your attention on the fact that the numbers presented and the commitments listed are not necessarily a direct reflection of those of HSBC Asset Management in the various jurisdictions.



We have a range of policies and guidelines explaining our approach to issues including climate change, biodiversity, human rights and banned weapons.

Banned and controversial weapons

Under our banned weapons policy, the active, systematic and index portfolios which we manage do not hold listed or unlisted equities and bonds issued by companies assessed to have proven involvement in certain weapons banned by international convention, including anti-personnel mines, biological weapons, blinding laser weapons, chemical weapons, cluster munitions and non-detectable fragments. Our sustainable funds also apply some restrictions to companies with involvement in controversial weapons such as nuclear weapons and white phosphorous. These policies do not apply universally to strategies incorporating third party funds.

Thermal coal

During 2023, we updated our policy on thermal coal to include issuers with significant metallurgical coal exposure in due diligence requirements.

Phasing out thermal coal is a priority for early action in achieving net zero emissions. Burning coal for electricity generation is one of the most carbon emission intensive activities in the economy.

Many countries are well advanced in phasing out thermal coal power. But some emerging markets still rely on coal for most of their electricity and need more time for the transition. For that reason, our thermal coal policy allows more time for the emerging markets to phase-out thermal coal.

Our thermal coal policy is a ten-point plan (subject to applicable governance and/or consent requirements for applicable products and mandates):

1. By the end of 2030, we will not hold listed securities with more than de minimis revenue exposure to thermal coal in EU / OECD markets in our actively managed fund portfolios.
2. By the end of 2040, we will not hold listed securities with more than de minimis revenue exposure to thermal coal in all markets in our actively managed fund portfolios.
3. We do not make direct investments in projects for coal-fired power, thermal coal mining and infrastructure, or new metallurgical coal mines.
4. Our actively managed portfolios do not participate in IPOs or new fixed income financing by issuers developing new thermal coal or, unless they have credible transition plans, those with more than 10 per cent revenue exposure to thermal coal.
5. Our actively managed sustainable funds exclude issuers with thermal coal mining and power generation above 10 per cent revenue exposure, unless they have an adequate transition plan.
6. We conduct due diligence on active fundamental holdings with more than 10 per cent revenue exposure to thermal or metallurgical coal. We expect to divest over time where transition plans are inadequate.
7. We continue to engage with issuers, prioritising those where we have the highest exposure.
8. Following engagement for issuers held in active fundamental strategies, we normally vote against the re-election of chairs for those with exposure to thermal coal which do not provide Taskforce for Climate-related Financial Disclosure (TCFD)-aligned or equivalent reporting, and where transition plans are weak.
9. We do not launch new passive ETFs and index funds including issuers with more than de minimis exposure to thermal coal, unless the strategy has specific Paris-aligned 1.5°C objectives and/or clear divestment pathways.
10. We continue our active engagement with clients to inform and support their own net zero commitments.

Energy

During 2023, we published an energy policy outlining our approach for considering climate change impacts on the oil & gas and utilities sectors. It forms part of our Net Zero Asset Managers commitment and is aligned with the HSBC Group Energy Policy. The key elements of our policy are as follows (subject to applicable governance and/or consent requirements for applicable products and mandates):

Transition plan engagement and assessment – listed issuers

- We will engage with and assess the transition plans of oil & gas and utilities listed issuers amongst those responsible for around 70 per cent of emissions associated with our holdings
- Our transition plan assessment will include plans to reduce carbon exposure and develop alternative energy sources, alignment of capital expenditure, timelines for transition, interim emission reduction targets and quality of climate risk management disclosure and emissions reporting. It will include just transition elements and regional context.
- The assessment will inform the engagement objectives we set for issuers, as well as our assessment of progress towards meeting our 2030 interim emissions reduction target and net zero objective.
- Where issuer transition plans fall short or there has not been adequate progress in meeting objectives, we will consider escalation of our engagement. These insights will also inform our analysis of the sustainability of investments. We are likely over time to reduce investment exposure to issuers whose transition plans are inconsistent with our net zero objective and 2030 interim emissions reduction target.
- We already use Transition Pathway Initiative scores to assess issuers' progress with transition plans to inform our voting. This may include voting against the re-election of the chair or relevant board director of oil & gas and utilities issuers.

Investment considerations & restrictions – listed issuers

- We assess issuers' carbon emissions and intensity in our integration of ESG factors in our active fundamental investment funds. We will introduce for our sustainable named funds with an active fundamental investment process an exclusion of listed issuers whose overall operations are substantially in unconventional oil and gas, such as arctic oil & gas, oil sands and shale oil, subject to data availability and due diligence.

Investment restrictions – unlisted project financing

- Our Alternatives business will not undertake new direct investment in projects associated with a range of energy-related activities (for further details refer to our policy).

Clients

- We continue our active engagement with clients to inform and support their own net zero commitments.

Guidelines

Climate change

Our climate change policy is intended to help increase the climate resilience of our clients' investments, as well as contributing to financing the transition to a low carbon economy. At the heart of this policy are our commitments under the Net Zero Asset Managers initiative. Our path to net zero requires action to address sectors with the largest emissions held in our portfolios, such as oil & gas and utilities, including thermal coal.

Biodiversity

Natural ecosystems are under threat as a result of deforestation, land degradation, pollution of water, air and soil, hunting and harvesting, and climate change. This presents broad challenges for society and a systemic risk for investors. We are signatories to the Finance for Biodiversity Pledge to work to protect and restore biodiversity impacted by our investments. Under this Pledge, we aim to work with other investors, engage with companies, assess impacts of our investment on biodiversity, set targets, and report publicly by 2025. We shall develop our biodiversity approach during 2024 to meet these pledge commitments.

UN Global Compact, including human rights

The UN Global Compact (UNGC) is an important element in our responsible investment approach. It captures our commitment to respecting human rights and supporting international principles and standards including the Universal Declaration of Human Rights, the International Labour Organisation's standards and the United Nations Guiding Principles for Business and Human Rights.

In addition to human and labour rights, the UNGC's ten principles cover environmental action and anti-corruption. Our third-party UNGC monitoring informs due diligence on listed issuers alleged to be in breach of these principles where their securities are held in funds with an active fundamental investment process in our main international investment offices.

More information on our policies is available on our public website.

Important information

The information presented may refer to HSBC Asset Management's global AUMs/figures and global policies. Even though local entities of HSBC Asset Management may be involved in the implementation and application of global policies, the numbers presented and the commitments listed are not necessarily a direct reflection of those of the local HSBC Asset Management entity.

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