Climate Change

Climate change continues to reshape our world, with far reaching and systemic impacts. The costs for inaction are increasingly clear. To address these risks, we have seen policy makers and regulators act to reduce emissions, improve climate reporting and risk management, while facilitating the movement of capital to companies at the forefront of the transition.

Key to our approach is our commitment to net zero. HSBC AM is a member of the Net Zero Asset Managers initiative[3]. In this context, we commit to supporting the goal of net zero greenhouse gas ('GHG') emissions by 2050, in line with global efforts to limit warming to 1.5°C, and are guided by the Net Zero Investment Framework. Our engagements align and support these overarching strategic objectives.

Further details on our net zero commitment can be found here.

Engagement approach

We encourage priority companies where Climate Change is a material issue to:

Climate strategy

- Set a net zero ambition from the company covering all material areas of business and operation, aligned with the objectives of the Paris Agreement.
- Develop clear short and medium-term emission reduction targets, for both scope 1, 2 and material scope 3 emissions.
- Set out sector-based decarbonisation strategies supporting the achievement of the company's net zero target, inclusive of climate solutions and objectives to grow green revenue.
- Set out capital expenditure plans to support the company's net zero targets and objectives.
- For companies covered under our Energy or Thermal coal policies to set out credible transition plans (see details below).

Climate risk and reporting

- Publish comprehensive climate risk disclosure and scenario planning, including details on assumptions used e.g. carbon pricing. We encourage companies to align with the recommendations of the TCFD and report in accordance with IFRS S2.
- Disclose emissions data and independent assurance of this information, including emission reduction trajectories (absolute and intensity).

Climate governance including lobbying

- Ensure senior management are accountable for the company's climate strategy and there is sufficient board oversight of material climate risks.
- Publish a Paris-aligned climate lobbying position, consistent with an overall net zero outcome.

3. More information available at https://www.netzeroassetmanagers.org/

Just Transition

- Commit to a Just Transition.
- Set out how the company has engaged with stakeholders, including workers, suppliers and communities on identifying impacts associated with the energy transition in their climate strategy.
- Identify risks and opportunities related to a Just Transition and develop a suitable approach to addressing Just Transition considerations.
- Integrate Just Transition objectives within transition plans. This may include specific metrics or objectives in relation, but not limited to employee training and development, green job creation, safeguarding workers' rights, support to affected communities, social dialogue, among others.

Voting implications

We believe that the board should be responsible for the company's climate change strategy and the oversight of relevant issues. Where the strategy or actions of a company in a carbon intensive sector fall short of that required for low carbon transition we may vote against the re-election of the chair or relevant board director.

We assess "say-on-climate" resolutions put forward by companies on a case-by-case basis. Our support of the proposal is contingent on factors such as our assessment of the climate strategy proposed, the scope of any targets, management oversight and accountability, and capital expenditure plans. We typically support proposals to introduce a regular "say-on-climate" resolution, regular reporting on climate or a vote on climate transition plans.

Please see our Global Voting Guidelines on the page 'Policies and Disclosures' of our public website for further details.

Thermal Coal Policy

In September 2022, we published a policy outlining our commitment to phase out active investment in thermal coal. Under this policy, we will continue to engage with issuers, prioritising those in which we have the highest exposure. Our engagement focuses on companies with more than 10 per cent revenue exposure to thermal and/or metallurgical coal.

We expect that companies who derive revenue from coal above this threshold provide suitable TCFD-aligned or equivalent reporting. We may vote against the re-election of company chairs where this disclosure remains weak.

Energy Policy

Guided by our Energy Policy and the Net Zero Investment Framework, we will engage with and assess transition plans of listed issuers responsible for around 70 per cent of relevant emissions. By the end of 2024, we will have commenced engagement with oil and gas and power and utilities companies in this group; we already engage with many of them.

We will assess their transition plans in line with an IEA Net Zero Scenario, including aspects such as 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. These aspects of the transition 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.

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