HSBC Global Asset Management

Our approach to addressing ESG issues and climate change

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For Professional Clients only

HSBC
Global Asset
Management

PUBLIC

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Executive summary

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Executive summary

Our approach to addressing ESG issues and climate change

HSBC Global Asset Management believes that Environmental, Social, and Governance (ESG) issues can have a material effect on company performance. Issues including climate change, water scarcity and availability, deforestation, health and safety, and executive pay, are generating risks and opportunities for companies which financial markets may not price appropriately. Therefore, material ESG considerations are an integral part of security analysis alongside fundamental financial considerations. Our analysts and portfolio managers use ESG data, including carbon emissions metrics to enable us to identify and manage ESG risks and opportunities and can make well-informed investment decisions.

We see it as consistent with our fiduciary duties to our clients to review the climate resilience of investments and contribute towards financing the transition to a low-carbon economy. We achieve this through:

- Identifying low-carbon investment opportunities;
- Assessing the risks and opportunities presented by climate change;
- Engaging with investee companies;
- Reporting on the actions we have taken and the progress we have made in addressing climate risk; and
- Working with policymakers.

Furthermore, we have a responsibility to exercise active stewardship on behalf of our clients. We meet with companies regularly to improve our understanding of their business and strategy, signal support or concerns we have with management actions, and promote best practice. We believe that good corporate governance ensures that companies are managed in line with the long-term interests of their investors. We also engage with carbon-intensive companies to encourage climate–resilient business strategies.

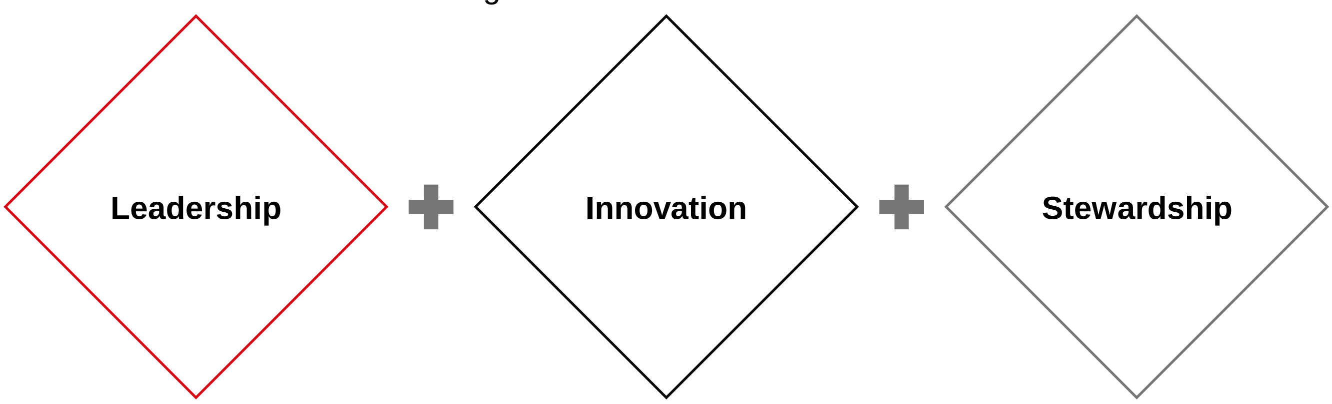
This approach allows us to integrate material ESG factors into our investment analysis and decision-making during every step of the investment cycle in order to achieve client aims of reducing risk and enhancing returns.

Responsible Investment Approach

Responsible Investment at HSBC Global Asset Management

Responsible investment is integral to HSBC Global Asset Management (HSBC)'s investment philosophy and approach

- With a strong heritage of successfully connecting our clients to global investment opportunities, and proven expertise in connecting the developed and developing world, we have a unique perspective on ESG factors
- We have a long-term commitment to our clients and a structured and disciplined investment approach to deliver solutions that support their financial ambitions while transitioning to a more sustainable future
- Our mission is to unlock sustainable investment opportunities for clients by offering expert insights and specialist investment strategies that draw on the depth of our network and global on-the-ground expertise
- We aim to preserve and deliver long-term growth of our clients' capital while transitioning to a more sustainable world through:



We are transparent in our position regarding the transition to a low-carbon economy and work with policy makers and industry leaders to the benefit of our clients and the long-term health of the financial system

We have stand-alone, public, Climate Change and Responsible investment policies that covers our approach to increasing the climate resilience of our clients' investments as well as contributing towards financing the transition to a low carbon economy and have published climate-scenario analysis research to explore how policy timing and future technology costs influence economic outcomes and investment decisions

We create and develop solutions based on client need, designed to mitigate risk and capture opportunities around environmental, social and governance (ESG) issues

Our responsible investment funds' reporting includes carbon footprint analysis and comparison to appropriate benchmarks, while we produce annual reporting on our activities that include our approach to climate change:

- **PRI Report**
- **Responsible Investment Annual Review; and**
- **Montreal Carbon Report**

We liaise with companies through both engagement and voting, improving market transparency and sustainability disclosure, to better understand investment risks and opportunities

We are a long-standing supporter of CDP and have engaged with companies that have failed to reply to the CDP questionnaire on their water and carbon footprint.

Additionally, HSBC strongly supports the Financial Stability Board-backed (FSB) Taskforce on Climate-related Financial Disclosures (TCFD) recommendations and has engaged with companies to implement these recommendations.

Source: HSBC Global Asset Management, January 2020.
For illustrative purposes only.

Responsible Investment at HSBC Global Asset Management

Leading the transition to a low-carbon economy through our commitments to international standards and reporting frameworks, and involvement with relevant industry and public policy initiatives

- HSBC Global Asset Management was an early PRI signatory in 2006
- We have signed the Hong Kong Principles for Responsible Ownership and the Taiwan Stewardship Principles for Institutional Investors
- We are also a signatory of the UK Stewardship Code and achieved a Tier 1 ranking from the Financial Reporting Council (FRC) in its 2016 review of Code signatories
- Below is a list of select HSBC Group and HSBC Global Asset Management's memberships and affiliations:

HSBC Global Asset Management	Participation since
UKSIF (the Sustainable and Finance Association)	2001
ICGN (International Corporate Governance Network)	2004
Eurosif (the European Sustainable Investment Forum)	2004
PRI (Principles for Responsible Investment)	2006
IIGCC (Institutional Investor Group on Climate Change)	2007
ACGA (Asian Corporate Governance Association)	2011
Cambridge Institute of Sustainability leadership - ILG	2016
Council of Institutional Investors	2017
Global Climate Action 100+	2017
One Planet Asset Manager Initiative	2019

HSBC Group	Participation since
UN Environment Programme Finance Initiative (UNEPFI)	1992
UN Global Compact	2000
Wolfsberg Principles	2000
OECD Convention on Combating Bribery	2000
OECD Guidelines for Multinationals	2000
Global Sullivan Principles	2000
UN Universal Declaration of Human Rights	2003
Equator Principles	2003
Roundtable on Sustainable Palm Oil	2003
Carbon Disclosure Project (CDP)	2004
Extractives/industries' Transparency Initiative	2005
UN Principles for Sustainable Insurance	2013

- Additionally, we engage with policymakers both independently and collectively with other investors through the IIGCC, to encourage relevant bodies to:
  - Provide stable, reliable and economically meaningful carbon pricing that helps redirect investment commensurate with the scale of the climate change challenge
  - Strengthen regulatory support for energy efficiency and renewable energy, including financing clean energy research and development
  - Develop plans to phase out subsidies for fossil fuels
  - Ensure that national adaptation strategies are structured to deliver investment
  - Consider the effect of unintended constraints from financial regulations on investments in low-carbon technologies and in climate resilience

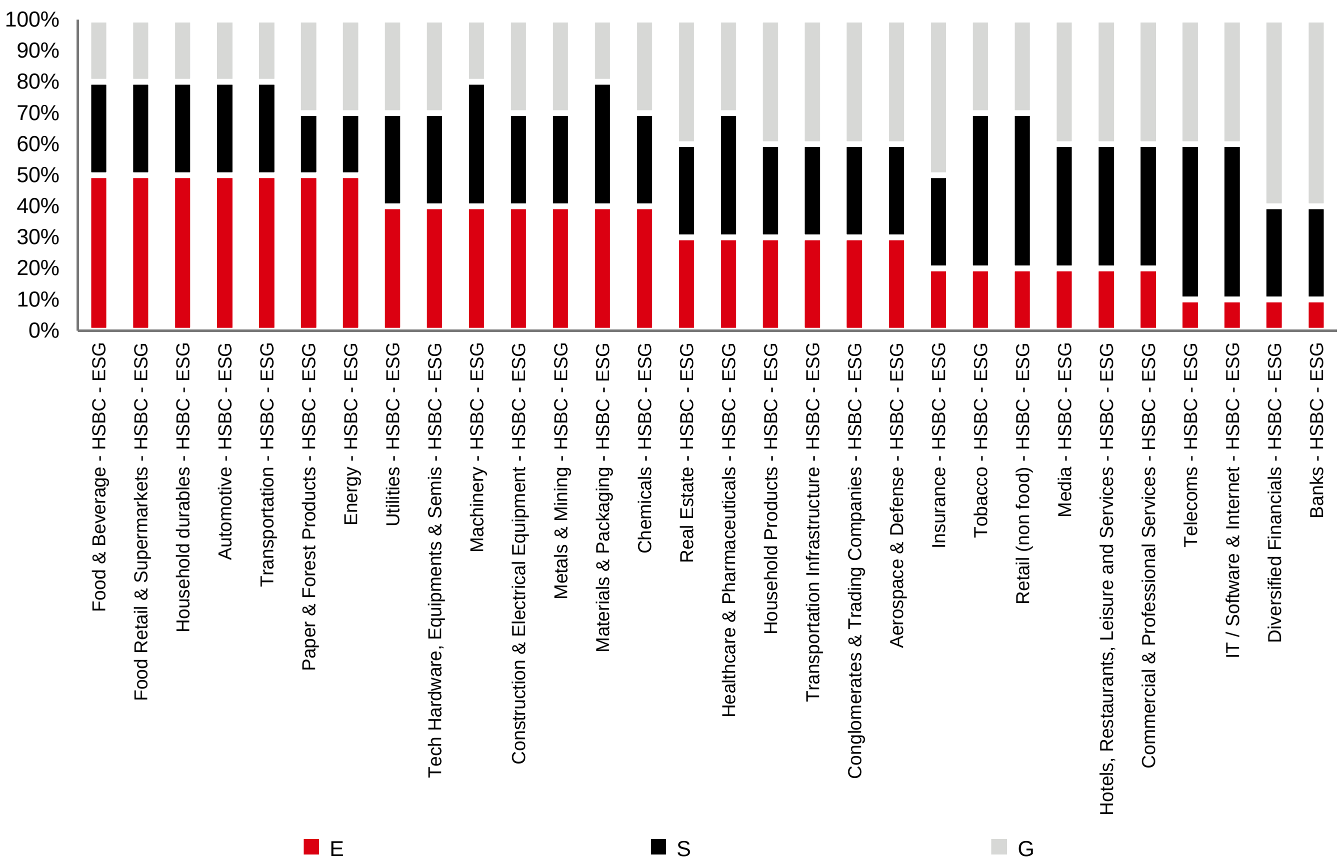
Source: HSBC Global Asset Management, January 2020.

Responsible Investment at HSBC Global Asset Management

Our innovative approach to ESG integration ensures that material environmental, social and governance factors, and controversies are considered as part of investment decision-making

- Since 2010, ESG assessments are a core responsibility of all of our portfolio managers and analysts
- Our ESG research utilises our proprietary ESG ratings tool that evaluates over 10,000 public issuers on both absolute ESG risks and relative ESG performance compared to sector peers:
  1. Absolute ESG risk analysis evaluates issuers' compliance with UN Global Compact principles
  2. Relative ESG performance ranks an issuer's ESG performance within its sector using a bespoke scoring system that was designed in collaboration with our investment teams (detailed below)

Weight ranges: E: [10 - 50%] S: [20 - 50%] G: [20 - 60%]



- We determine the ESG weights, based on the company's sector and underlying business:
  - e.g. higher weighting of environmental performance for Energy and higher weighting for governance for Banks and Diversified Financials
- We created 30 ESG sector combinations derived from MSCI ESG/GICS industries
- State-owned enterprises, local governments and agencies are evaluated separately

Source: HSBC Global Asset Management, January 2020.

Responsible Investment at HSBC Global Asset Management

Strong governance and controls are in place to ensure our approach to ESG integration is applied systematically

- Issuers deemed to be high risk (either because they have been identified as being non-compliant with the UN Global Compact (UNGC) or are in the bottom 5% of their sector in terms of ESG score) undergo enhanced due diligence:
  - Using input including sell-side research, company reports as well as the outcomes of potential engagement, the portfolio manager or analyst provides further detail on the issuer's ESG performance of UNGC controversy
  - A senior investment professional is required to sign-off on making an investment (or continuing to hold the investment)
- Governance of the ESG integration process is detailed below:

Global Research Oversight Committee (GROC)

- Monitors the integration of ESG research in HSBC Global Asset Management
- Agrees commercial terms with third-party ESG research and data providers

Stewardship, Engagement & ESG Quarterly Committee

- Oversees high level global ESG processes
- Reviews and approves global voting guidelines and amendments
- Oversees the global engagement process
- Ensures consistency across locations and asset classes

ESG Investment Oversight Committee (Asset Class Integration Workforce)

- Drives ESG integration within asset classes' research and portfolio management process
- Promotes best practice with regard to ESG integration
- Ensures optimal coordination and synergies within and across asset classes
- Ensures appropriate application of ESG process to portfolios
- Oversee the implementation decisions to be deferred to the FI/Equity ESG Committee
- Makes recommendations to pass or sanction (fail) a stock or issuer

ESG Analyst Group

- Coordinates a common approach to ESG in investment research globally across asset classes
- Creates a forum for feedback to ESG Research and ESG Engagement from analysts and PMs
- Provides a "bottom-up" perspective to the "top-down" decision making at the ESG Asset Class Integration Workforce

Asset Class ESG Committee (fixed income or equity)

- Reviews the success of the ESG integration
- Decides means to implement sanctions i.e. Do Not Add, Reduce or Complete Disinvestment
- Monitor sustainability reporting
- Fixed income: Review Green Bond approval process

  - Accountability for the integration of ESG considerations lies with our Global Chief Investment Officer (CIO);
  - Our asset class CIOs and investment teams are responsible for integrating ESG issues into their respective investment processes; and
  - A dedicated team of ESG specialists provide ESG knowledge and insight.
- Governance of stewardship, voting and engagement activities is overseen by the Stewardship Forum, chaired by Melissa McDonald, Global Head of Product – Equities and Responsible Investment, and includes the following members:
  - CEO of HSBC Global Asset Management;
  - Global Chief Investment Officer;
  - Chief Risk Officer; and
  - Global Head of Compliance

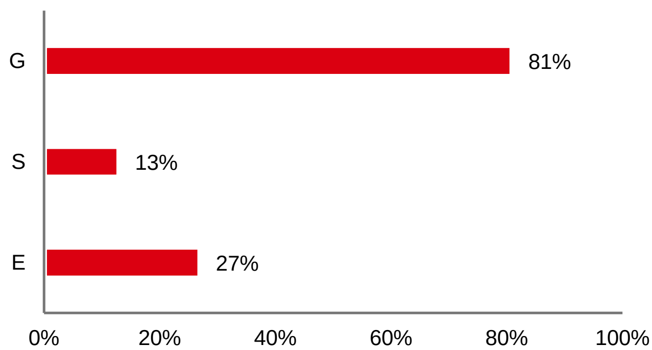
Source: HSBC Global Asset Management, January 2020.

Responsible Investment at HSBC Global Asset Management

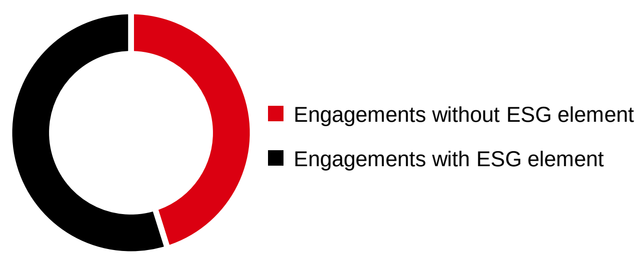
Stewardship around climate change is an essential part of our approach to responsible investment, to protect and enhance our clients' investments with us by promoting good practice through both engagement and voting

- We engage directly and collectively with other investors, in particular through the Institutional Investors Group on Climate Change (IIGCC) and the United Nations (UN) backed Principles for Responsible Investment (PRI)
- In line with the Paris Agreement, we recognise the imperatives of a just transition of the workforce and have committed to the Statement of Investor Commitment to Support a Just Transition on Climate Change
- We are founding signatories of the Climate Action 100+ initiative, and part of its Steering Committee
  - We are the lead/co-lead investor in engagement projects with companies across four continents, working in collaboration to help those firms deliver improved governance, targets and disclosure of their climate related risks. We have been focusing on improved disclosure for many years

In 2018, among issuer engagements that included an ESG element, Governance issues were the most commonly mentioned



In 2018 we engaged with issuers 1,163 times, of which over 50% (638 engagements) had an ESG element



- Where companies in energy-intensive sectors persistently fail to disclose their carbon emissions and climate-risk governance, we normally vote against the re-election of the company chairperson
- Over the last five years we have witnessed a steady growth in the number of climate-related shareholder proposals put forward at company AGMs
  - We will continue to support shareholder resolutions that request additional disclosure or action in line with our view of the company
- We will continue to use our vote to:
  - Support our engagement efforts; and
  - Where we consider that companies are not making sufficient progress towards the engagement goals, or that material sustainability issues have not been addressed, we will consider voting against the annual report and accounts, specific directors and remuneration reports

Source: HSBC Global Asset Management, January 2020.

Climate Change

HSBC Global Asset Management

Climate Change

HSBC is aware of the risks climate change presents and is committed to increasing the climate resilience of our clients' investments as well as contributing towards financing the transition to a low-carbon economy.

- Without global action to address the challenge of climate change, investors' holdings, portfolios and asset values will be impacted in the short, medium and long term. Therefore, HSBC is committed to:

Deliver low-carbon investment opportunities that meet our clients' investment criteria and are subject to their risk and return objectives	◆ HSBC has launched two Lower Carbon funds (one equity, one fixed income) with the objective to have a lower carbon footprint than the relevant benchmark ◆ Additionally we have a Climate Change thematic equity fund that invests in companies that may benefit from the transition to a low carbon economy
Identify and assess the risks and opportunities presented by climate change and climate policy to our investment portfolios to inform our investment decisions.	◆ HSBC along with Vivid Economics published research on different climate scenarios and the impact on company valuations
Engage with investee companies to ensure that they are minimising and disclosing the risks and maximising the opportunities presented by climate change and climate policy.	◆ Our engagement focuses on: 1. Governance that ensures senior accountability to manage climate risk and opportunities 2. Long-term decarbonisation strategies including plans for capital spending 3. Operational efficiency including quantified efficiency targets 4. Public policy positions 5. Transparency and disclosure around climate resilience of business strategies
Disclose publicly and to our clients the actions we have taken and the progress we have made in addressing climate-related risk, and investing in climate-related solutions	◆ Our annual RI review covers the steps we have taken over the past year in addressing climate change and investing in solutions ◆ As signatories to the Montreal Carbon Pledge we are committed to measuring and publicly disclosing the carbon footprint of our clients' investment portfolios on an annual basis
Advocate for a supportive policy framework, working with policymakers to support their efforts, and encourage capital deployment at scale to finance the transition to a low-carbon economy.	◆ We are active members of a variety of organisations, initiatives and networks that serve to progress public policy dialogue on responsible investment, including the PRI Global Policy Reference Group, IIGCC Policy Group, and relevant committees of the European Fund and Asset Management Association (EFAMA) and the UK Investment Association ◆ We also work closely with our HSBC Group Public Affairs colleagues to respond directly to consultations and discussion papers that have wide-ranging impacts on establishing a more sustainable financial system

Source: HSBC Global Asset Management, January 2020.

Climate Change

We are strong supporters of – and an early signatory to – the disclosure recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD). Our responses to the four recommended areas of disclosure – governance, strategy, risk management, and metrics and targets – are outlined below and will continue to evolve:

Governance

Strong oversight of ESG integration

- Integration of climate-related risks and opportunities into our investment decisions, alongside all material ESG considerations, lies with our Global Chief Investment Officer (CIO)
- Asset-class CIOs and investment teams are responsible for integrating ESG issues into their respective investment decisions, supported by our ESG specialists

Strategy

Identifying and analysing risks and opportunities

- Key areas for analysis are:
  - Transition risk resulting from the structural changes required for a global movement from a high-carbon to a low-carbon economy;
  - Physical risks due to more frequent and severe climate events, as well as longer-term shifts in climate patterns; and
  - Climate opportunities both from reducing greenhouse-gas emissions, and existing and new technologies focused on reducing the climate impact.

Risk Management

Climate change is a core consideration/risk

- We integrate climate-risk management in our overall approach and address climate risk at three levels:
  1. Company/Issuer-specific assessment of climate-related issues:
  2. Portfolio-level assessment of climate-related issues; and
  3. Macro/sector research on climate-related issues.
- Furthermore, Engagement with investee companies, to better understand management of the risks and opportunities presented by climate change and climate policy, is an important part of our process

Metrics and Targets

Alignment to voluntary frameworks

- As signatories to the Montreal Pledge since 2015, we have committed to measuring and publicly disclosing the carbon footprint of our clients' investment portfolios on an annual basis
- We use the TCFD recommended metric – weighted-average carbon intensity and publish our Montreal Pledge report on an annual basis on our website

Source: HSBC Global Asset Management, January 2020.

Climate Change

We are committed to finding innovative and impactful investment solutions to enable our clients to participate in the global transition to a low-carbon economy.

- HSBC's Green Impact Framework sets out guidelines for our green impact strategies including eligible project and activities aligned with impact
- The Framework draws on the International Capital Market Association (ICMA) 2018 Green Bond Principles and 2018 Sustainability Bond Guidelines, to provide guidelines for how eligible investments are selected

Use of proceeds

- We will not invest in bonds where the use of proceeds are not clearly defined
- We will consider bonds that are used to finance or re-finance in part or in full new and/or existing Green Projects
- We expect issuers to provide an estimate of the share of financing vs. re-financing, and the types of projects that may be refinanced for a maximum look-back period of 18 months for refinanced Green Projects

Building on the HSBC Green Bond and HSBC SDG Bond Frameworks, we have determined specific eligible categories within The Green Bond Principles' broad categories.

ICMA GBP Project Category

- Renewable energy
- Energy efficiency
- Clean transportation
- Green buildings
- Sustainable water and wastewater management
- Climate change and adaption
- Pollution prevention & control
- Environmentally sustainable management of living natural resources and land use
- Terrestrial and aquatic biodiversity conservation
- Eco-efficient and/or circular economy adapted products, production technologies and processes

We aim to show the eligibility criteria when selecting green bond – the framework will also encourage transparency and knowledge sharing amongst investor and issuer communities, as we firmly believe it important to be transparent with investors

Source: HSBC Global Asset Management, January 2020.

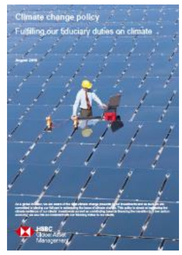
Policies, Frameworks and Reporting

Policies, Frameworks and Reporting

Our policies, frameworks and reporting set out our approach to responsible investment and describe how we implement our commitments. Full policies can be found on our website.

The **Responsible Investment Policy** is reviewed annually (last update was made in April 2019) and covers our positions on:

- Integrating ESG into investment practices;
- Exclusions;
- Climate change;
- Engagement;
- Voting;
- Public policy; and
- Managing conflicts



The **Climate Change Policy** covers our approach to increasing the climate resilience of our clients' investments, as well as contributing towards financing the transition to a low-carbon economy

Our **Engagement Policy** applies to both equity and fixed income assets and reflects our adherence to the relevant directives of which we are a signatory and our approach to engagement, covering:

- Monitoring issuers;
- Engagement;
- Collective engagement;
- Voting; and
- Conflicts of interest.

Our **Global Voting Guidelines Policy** set out our voting guidelines, informing our clients, company boards and other stakeholders how we exercise these voting rights and our approach for key voting issues, such as:

- Board's role and leadership;
- Board composition and independence;
- Board remuneration;
- Disclosure and audit; and
- Shareholder rights.

As per our **Banned Weapons Policy**, we exclude any security that have been issued by corporations considered to be involved in the development, production, use, maintenance, offering for sale, distribution, import or export, storage or transportation of weapons banned by international convention.

The **Green Impact Investment Framework** sets out guidelines for our green impact strategies.

These guidelines predominantly apply to specific investment solutions in our bond and infrastructure asset classes; we seek to align these as appropriate across all impact strategies.

Our **Annual Responsible Investment Review** details the progress we have made and the actions we continue to take towards more responsible investing across three areas:

1. Informing and supporting a sustainable financial system;
2. Actively managing investments on behalf of our clients; and
3. Applying responsible investment principles through the entire investment process and across all capabilities.

We signed the **Montréal Carbon Pledge** in 2015, and our annual disclosure forms an important part of our commitment to report on the actions we have taken and the progress we have made in addressing climate risk as outlined in our Climate Change Policy.

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The value of investments and any income from them can go down as well as up and investors may not get back the amount originally invested.

Where overseas investments are held the rate of currency exchange may also cause the value of such investments to fluctuate.

Investments in emerging markets are by their nature higher risk and potentially more volatile than those inherent in some established markets.

Stock market investments should be viewed as a medium to long term investment and should be held for at least five years.

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