2021
Responsible Investment Review

HSBC
Asset Management

Together we thrive

Contents

At a glance

2001

Launched first Socially Responsible Investing (SRI) equity fund and joined the UK Sustainable Investment and Finance Association

2006

Signatory of: PRI Principles for Responsible Investment

Launched first SRI bond fund and became signatories to the Principles for Responsible Investment

2007

Joined Institutional Investors Group on Climate Change

2015

Signatory to the Montreal Carbon Pledge

2016

Joined the Cambridge Institute of Sustainability Leaders – Investment Leaders Group (ILG)

2017

Launched Climate Action 100+ initiative in collaboration with other investors

2019

Founding member of One Planet Asset Manager Initiative supporting the One Planet Sovereign Wealth Fund Working Group

2020

Launched HSBC Pollination Climate Asset Management to create world's largest natural capital manager

HSBC AM 2020:

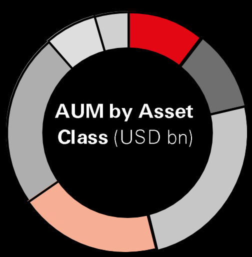
$612.0bn
in assets under management

612 Investment Professionals

356 EMEA
173 Asia-Pacific
83 Americas

25+
countries

24
investor awards won



- Equity **73.9**
- Multi-Asset **169.0**
- Liquidity **132.4**
- Fixed Income **160.4**
- Alternatives **47.5**
- Other **28.8**

Source: HSBC Asset Management As at December 31, 2020

A Foreword from our CEO

2020 was an unprecedented year with environmental, social and governance (ESG) factors taking centre stage. The massive Australian wildfires at the start of the year killed an estimated one billion animals, destroyed habitats, and threatened many species with extinction. The enormous biodiversity loss along with the quality of life and economic impacts were stark reminders of the importance of limiting the earth's temperature rise.

But 2020 might be better remembered for the Covid-19 pandemic and the Black Lives Matter movement. Both of which resulted in the "S" in ESG rising to prominence as companies sought to reaffirm their public image and adapt their business models to reflect new norms. World leaders responded to the pandemic with restrictions and lockdowns, resulting in environmental benefits such as reductions in greenhouse gas emissions, even if temporarily. Encouragingly, global cooperation led to the rapid development of vaccines, illustrating how public and private participants can work together to solve global issues such climate change, helping the transition to a more sustainable world.

HSBC Asset Management have a role to play in supporting this transition. We are committed to helping our stakeholders prosper – our clients, shareholders, employees, the societies in which we operate, and most importantly, our planet. As such, responsible investing remains a long-term focus for us. We will invest with purpose and discipline, supporting the preservation of clients' assets and unlocking sustainable investment opportunities. We will continue to engage with companies, policy makers, regulators and industry initiatives for the benefit of our stakeholders and to create a healthy financial system.

Our responsible investment strategy

In 2020 we launched our 5-year business road map, which sets out our ambition to become a leader in responsible investing. We will embed responsible investment thinking in the heart of everything we do – from our interaction with clients, the incorporation of ESG factors into our core products and solutions, to the creation of new products and solutions that deliver value for end-investors and positive impact for society at large.

To be successful, our culture must be aligned with our ambition. Hence we created a Diversity, Equity and Inclusion Committee to build on our existing policies and evolve them to reflect new norms. We aim to create a truly motivated, diverse, equitable and inclusive asset management workforce, proactively shaped to deliver our vision and strategy and to reflect the clients we want to serve and the societies in which we want to live in.

Our progress so far

To support our ambition, we believe that success starts with the engagement of our employees and clients. We developed a customized ESG Investment Module in partnership with Principles for Responsible Investment (PRI) for our client-facing teams. Approximately 300 colleagues in Asia, EMEA and the Americas completed the course. For our clients, we hosted

a series of training sessions and published insightful thought pieces on ESG integration in fixed income portfolios, green bonds and sustainable infrastructure.

We now offer a number of innovative solutions to support our clients who want to allocate capital to achieve specific sustainable outcomes. We launched our first Sustainable Development Goals (SDGs) aligned impact solution, the **HSBC Real Economy Green Investment Opportunity Global Emerging Markets Fund** in conjunction with the International Finance Corporation. The fund invests in a diversified portfolio of emerging market green bonds and other similar bonds that deliver real economy in primarily lower income countries.

In addition, we developed a series of ESG ETFs to help clients achieve their ESG objectives in a cost-effective manner. Where clients had specific constraints, we were able to create customised solutions to meet their needs.

We are also playing an important role in shaping the development of new asset classes. In August 2020, **HSBC Pollination Climate Asset Management** was formed. This exciting joint venture with the Pollination Group, a specialist climate change advisory and investment firm, aims to create the world's largest natural capital asset manager. Further, our firm is a leading participant in FAST-Infra, a partnership with the IFC and World Bank to develop a label qualifying sustainable infrastructure as a new asset class in emerging markets and mobilising capital to fund sustainable projects.

Finally, we continued to engage with our investee companies, Policy makers and peers. We joined the **Finance for Biodiversity Pledge** which aims to protect and restore

"We again played an active role in the Climate Action 100+ initiative, the five-year collective engagement led by investors to drive the clean energy transition."

biodiversity via our investing activities. And we again played an active role in the Climate Action 100+ initiative, the five-year collective engagement led by investors to drive the clean energy transition and help achieve the goals of the Paris Agreement. We chaired the global steering committee and became the lead or support investor for eleven companies, as well as joining further engagements.

2021 and beyond

As we emerge from the Covid-19 crisis, we support the call to build back a better, more inclusive and sustainable world. There is much to be done to achieve these goals, and we are committed to playing our part. We will continue to incorporate ESG factors in our investment process and deliver innovative solutions, creating long term value for our clients, whilst supporting the transition to a more sustainable economy and society.

Nicolas Moreau
Chief Executive Officer
HSBC Asset Management

A Year in Review

A sustainable 2020

Raised

$474m

of new financing for climate-risk mitigation investments through our Real Economy Green Investment Opportunity (REGIO) bond fund

Launched HSBC Pollination Climate Asset Management,

aims to be the world's largest natural capital manager

$537.7bn

managed in ESG-integrated strategies

Over

86,000

resolutions voted

11

collaborative engagements led or supported through Climate Action 100+

Awarded

Best-in-Class Corporate Governance and Outstanding Achiever of ESG Integration

at the Benchmark Fund of the Year Awards

over

2,300

issuer engagements conducted

Source: HSBC Asset Management as at December 31, 2020

A+ PRI rating recognising us as a leader in ESG integration

Joined the

Finance for Biodiversity Pledge

aiming to protect and restore biodiversity through our investments

11

sustainable funds launched

Over

1,200

hours of ESG-related training undertaken

11 years

average ESG experience of our specialists

Awarded

Best Gender Representation and Asia Regional Leader

at the CityWire Gender Diversity Awards

$12.2bn

managed in Sustainable Investment strategies

ESG Outlook

ESG Outlook

In the lead up to the 26th United Nations Conference of the Parties (COP26), environmental factors are expected to retake centre stage, after taking a back seat to social factors in 2020. Social factors will likely remain high on the agenda for 2021 however, as the devastation of Covid-19 on people's livelihoods will no doubt empower investors to hold companies accountable for the welfare of their employees, and others in their supply chains. Investors will also be expecting companies to turn pledges made during last summer's social reckoning into credible action plans.

Climate Action

The geo-political background is more positive towards action on climate change than it has been for a while. US President Joe Biden acted quickly to re-join the Paris climate accord that his predecessor had exited, and followed this with strong pledges of action to tackle the growing climate crisis, including reducing emissions to net-zero by 2050. Although President Biden's actions so far are positive, it is worth noting that he does not have the senate majority needed to pass legislation without support from republicans, and he has Senator Manchin from West Virginia, a known supporter of the coal industry, in his own party to deal with.

The pandemic delayed the highly-anticipated COP 26 summit, but it is now set for November 2021. We will finally see governments from across the world update their long-term climate action commitments, and outline, hopefully, tougher climate strategies to help reduce global greenhouse gas emissions (GHG) by 2030. Many issues first raised in Madrid in 2019, at COP 25, are yet to be resolved, with carbon market mechanisms and funding for loss and damage once again essential to negotiations this year. With the failure of the wealthy nations to deliver the $100bn Green Climate Fund for less developed countries targeted for 2020, attention will now turn to new targets set in Glasgow for 2025, with growing pressure for these to be ambitious, but most importantly for them to be delivered on by governments across the globe.

Biodiversity

We also expect a continued focus on nature in 2021. Despite Covid-19 delaying the Biodiversity COP 15 summit (Convention on Biological Diversity) in 2020, there was a growing realisation from investors that nature-based solutions have an important role to play in tackling climate change. The delayed summit is now scheduled for May 2021 in Kunming, China and should underscore the interdependence between humanity and the vital ecosystems that sustain us. The UN General Assembly President, Volkan Bozkir, expressed the importance of the coming negotiations, and hopes that COP 15 will "do for biodiversity what Paris did for climate change in 2015".

Regulation

Achieving global climate ambitions and stopping biodiversity loss will require significant reallocations of capital towards more sustainable investments. With the immense growth of investment products, there is a risk that some products may not be as sustainable as they claim ("greenwashing"), undermining investor confidence. The Sustainable Finance Disclosure Regulation (SFDR), part of the EU's Sustainable Finance Action Plan, comes into force in March 2021, and is the first major piece of regulation that aims to mitigate greenwashing. Policy disclosure on the integration of sustainability risks into decision making, including the likely impact on returns, and any corresponding remuneration policies will be expected, and social or environmental characteristics of financial products will also have to be highlighted, and accompanied by the careful measuring and monitoring of the impacts and objectives.

A Year of Action?

The UN has called 2020 to 2030 the 'decade of delivery', and although the Covid-19 pandemic did slow the emissions of GHGs in 2020, it did not slow down the high-profile climate pledges made by governments, banks and other corporates. Turning these pledges into credible action plans in 2021 will be essential to counteract surging emissions as V-shape recoveries begin to materialise. It is vitally important that we see recovery plans emerge with strong links to a sustainable, green transition as we push to limit temperature rises to two degrees Celsius.

Our Approach to Responsible Investment

Our Approach to Responsible Investment

As part of our fiduciary duty to clients, we have a long-term commitment to delivering solutions that support their financial ambitions while transitioning to a more sustainable future through:

1

ESG integration

Integrating ESG analysis as part of our investment process to develop solutions based on client need, designed to mitigate risk and capture opportunities.

Integrating ESG considerations

- Material ESG considerations are an integral part of our security analysis alongside fundamental financial considerations, across all asset classes
- We have our own in-house ESG ratings for issuers and create sector-specific weightings that reflect the materiality of ESG factors
- 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 reduce risk and enhance return
- Companies held in the portfolio are monitored constantly, and market events can change the risk profile over time

2

Active ownership

Engaging with companies through both engagement and voting, improving market transparency and sustainability disclosure.

Our active ownership approach

- We use our influence to engage directly with the companies we invest to protect these interests
- Our voting aims to support and encourage companies to principles of good governance, and environmental sustainability
- We actively engage in investor-led collaborative engagement initiatives including: Principles of Responsible Investment, Climate Action 100+, CDP

3

Leadership

Engaging with policymakers and industry leaders to support the transition to a low-carbon economy and supporting behaviour change through engagement with clients and stakeholders.

Leadership

- We are committed to playing an active and constructive role in supporting the development of a more sustainable financial system. We engage with regulators and policymakers, both indirectly and through industry networks, to advocate for progressive public policy development action on sustainable investment
- ESG is rapidly evolving. The range of opportunities and risks make it even more important to educate our investors and our employees. We aim to be at the forefront of ESG thought leadership, developing insights into critical topics that move the market forward and advance our collective investment and sustainability goals

Integrating ESG Considerations

Our ESG Integration Approach

Our philosophy

At HSBC Asset Management, we believe that Environmental, Social and Governance (ESG) issues can have a material effect on company fundamentals and performance over the longer term. Evaluating how companies manage their impact on the environment, their relationships with stakeholders, and their operations enables us to identify potential risks and opportunities which financial markets may not price appropriately.

Despite our ESG integration process being highly rated by PRI, we are always looking to improve our approach as best practices evolve to exceed the demands from clients, consultants, regulators and other stakeholders. In 2020, we conducted a review of our ESG integration process and began work to strengthen any asset class or geographic specific gaps. For the active management of equities and fixed income, this meant an increased emphasis on record keeping and a more formalised oversight process through our committees detailed below and also the creation of an ESG Integration Working Group with representatives from all asset classes and geographies, enabling exchange of best practices.

For the alternative asset classes, where ESG integration is less established, we took steps to include ESG factors into the investment process more formally. This is leading to the development of specific scorecards. Real Estate, Hedge funds of funds and Private Debt are very different but will benefit from a dedicated ESG analytical framework, enabling the investment team to take more informed investment decisions.

Examples of ESG issues we consider within our analysis

Environment

- Greenhouse gas emissions
- Resource depletion
- Water use
- Waste and pollution
- Deforestation

Social

- Regard for human rights
- Development and treatment of staff
- Oversight of supply chain
- Health and safety of stakeholders

Governance

- Executive pay
- Business ethics and culture
- Political lobbying and donations
- Diversity and structure of board
- Regard for shareholder rights

"ESG factors are integrated across all our equity, fixed income, multi-asset and liquidity portfolios."

Governance

The HSBC Asset Management Global Management Committee – comprising the senior leadership team globally – is responsible for overseeing the implementation of our strategy and ensuring an appropriate control framework and culture is operating effectively. While continually balancing the needs of various stakeholders, the Committee and its members give precedence to client and regulatory needs, including our stewardship obligations.

Asset class specific ESG Forums

To facilitate continuous discussion and awareness of ESG issues and the impact on portfolios, we have global forums for each asset class. These forums comprise investment analysts, portfolio managers and members of the Responsible Investment team including ESG research and engagement specialists.

ESG Investment Oversight Committee

This committee strives to promote best practice in ESG integration within asset class research and portfolio management processes. The members of the ESG Investment Oversight Committee are all senior members from the investment function and have responsibility for ESG integration implementation.

Responsible Investment & Stewardship Forum

This committee comprising the Global CEO, CIO and Chief Risk Officer as well as the Head of Responsible Investment and Head of Compliance, oversees our policies including conflicts of interest in voting, PRI submission, as well as monitoring of stewardship activity and industry initiative approvals.

Framework for Incorporating ESG Factors into the Investment Process

We integrate the identification and analysis of ESG factors in our process to reduce risk and enhance returns for our clients. In order to do this effectively, we've implemented a multi-faceted framework which systematically incorporates ESG issues throughout the investment process. This ensures we take a holistic view of all companies we invest in on behalf of our clients and make informed and sustainable investment decisions.

"The materiality of ESG issues varies significantly from one sector to another. This is why we believe that, through developing bespoke sector-specific frameworks, we are better able to focus on the most relevant ESG issues for our investments and deliver better investment outcomes."

Xavier Desmadyrl
Head of ESG Research

RI normative screening

We do not knowingly invest in companies with exposure to banned weapons including anti-personnel mines, cluster munitions, biological weapons, chemical weapons, non-detectible fragments and blinding laser weapons. These exclusions apply to all strategies whether active, systematic or passive.

Proprietary ESG analysis

We start by identifying the most financially material E, S and G issues for each sector. Our proprietary scores are informed by our qualitative research and third party data.

Deep fundamental research

Portfolio managers and analysts conduct a thorough assessment of the ESG risks and opportunities associated with their investments.

ESG reports and tools

Investment teams are supported by a number of tools developed by our dedicated ESG research team.

Active ownership

Portfolio managers, analysts and the stewardship team exercise close oversight of active holdings, including regular meetings with company management. Passive strategies benefit from a thematic engagement overlay performed by our stewardship team.

Enhanced due diligence

Higher risk issuers trigger our Enhanced Due Diligence (EDD) process. This could result in continued engagement with the issuer, restrictions on new purchases, or the divestment of an existing holding. It is an integral part of our investment process for both equities and fixed income.

ESG Toolkit

How our ESG research team support analysts to incorporate ESG factors into their fundamental research.

ESG database

All investment teams have access to our internal ESG database combining a comprehensive third party research library with in-house ratings covering 17,000+ financial instruments.

For each name under coverage, there is an executive summary of the company's ESG credentials including the risk level (High, Medium or Low) and carbon footprint.

ESG sector checklists

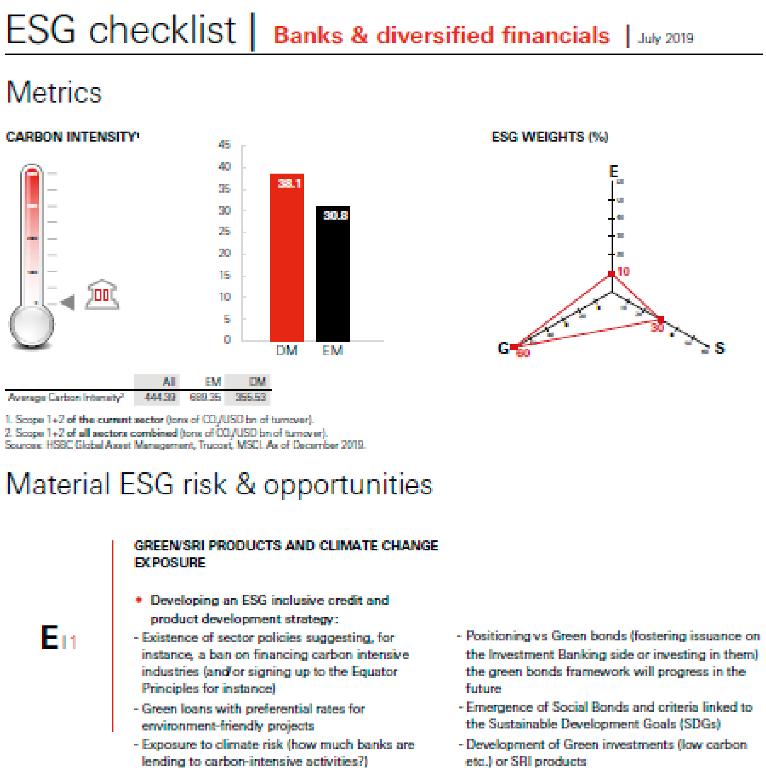
The ESG sector checklists summarise the most relevant ESG issues – those with the highest degree of potential financial materiality – and suggested engagement approaches.

Sector specific checklists incorporate ESG trends, regulatory changes and applicable industry guidelines.

Thematic reports

The thematic reports help investment teams embed cross-sector themes in their investment thinking. For example, the following topics have been published.

- The impact of water intensity on the business model and financial returns of commodities companies
- Impact of extreme working conditions in the technology and fast fashion sectors, and the risk of brand damage and/or production disruptions
- Impact investing strategies and how to align asset classes to the UN SDGs



ESG checklist | Banks & diversified financials | July 2019

Metrics

	All	EM	DM
Average Carbon Intensity[2]	444.39	689.35	355.53

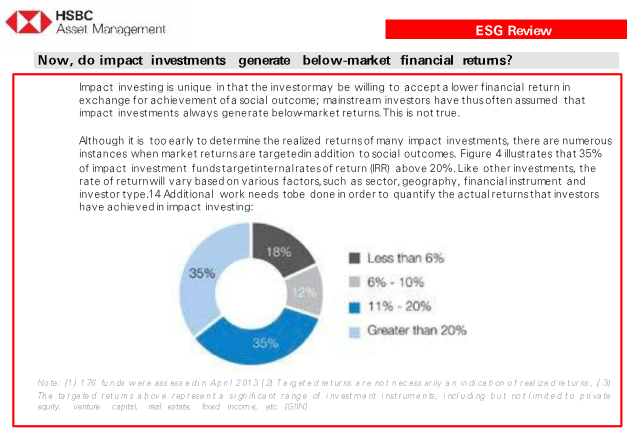
1. Scope 1+2 of the current sector (tons of CO_2/USD bn of turnover).
2. Scope 1+2 of all sectors combined (tons of CO_2/USD bn of turnover).
Sources: HSBC Global Asset Management, Trucost, MSCI. As of December 2019.

Material ESG risk & opportunities

E1

GREEN/SRI PRODUCTS AND CLIMATE CHANGE EXPOSURE

- Developing an ESG inclusive credit and product development strategy:
  - Existence of sector policies suggesting, for instance, a ban on financing carbon intensive industries (and/or signing up to the Equator Principles for instance)
  - Green loans with preferential rates for environment-friendly projects
  - Exposure to climate risk (how much banks are lending to carbon-intensive activities?)
  - Positioning vs Green bonds (fostering issuance on the Investment Banking side or investing in them) the green bonds framework will progress in the future
  - Emergence of Social Bonds and criteria linked to the Sustainable Development Goals (SDGs)
  - Development of Green investments (low carbon etc.) or SRI products



HSBC Asset Management

ESG Review

Now, do impact investments generate below-market financial returns?

Impact investing is unique in that the investor may be willing to accept a lower financial return in exchange for achievement of a social outcome; mainstream investors have thus often assumed that impact investments always generate below-market returns. This is not true.

Although it is too early to determine the realized returns of many impact investments, there are numerous instances when market returns are targeted in addition to social outcomes. Figure 4 illustrates that 35% of impact investment funds target internal rates of return (IRR) above 20%. Like other investments, the rate of return will vary based on various factors, such as sector, geography, financial instrument and investor type.14 Additional work needs to be done in order to quantify the actual returns that investors have achieved in impact investing:

Note: (1) 176 funds were assessed in April 2013 (2) Targeted returns are not necessarily an indication of realized returns, (3) The targeted returns above represent a significant range of investment instruments, including but not limited to private equity, venture capital, real estate, fixed income, etc. (GIIN)

ESG Integration in Practice

Verisk Analytics

Global Equities team

What was the issue?

Verisk is an American data analytics and risk assessment firm working across the insurance, financial and energy sectors to help to identify, assess and mitigate risks. Given their work in energy, we believe Verisk has a substantial opportunity to create the 'Bloomberg' of renewable energy data in the future. This would be a strong new growth driver for the firm's revenue, and also an impactful climate change mitigation enabler. We wanted to understand better how likely this optimistic scenario was to occur in the medium term.

Why is it material?

In our view, Verisk's core business can grow revenue at high single digits annually. Our analysis suggests that success in the energy transition sector could move this growth rate higher for multiple years. We did not feel that this opportunity was reflected in the share price.

What did we do?

We held calls with Verisk Investor Relations team (IR) to understand their opportunity in the energy transition space. With the help of the IR, we were able to estimate the energy transition opportunity relative to the whole business and by making some assumptions of its future growth rates, determine its materiality on the Group growth. We encouraged the company to focus resources on this opportunity and also to disclose the positive impact that the product can have over time for clients looking to better understand the energy transition. We also researched the potential customers of the renewable energy data platform business to understand what their needs were, and what information gaps were currently creating challenges for them. One means of learning about the challenges was speaking to senior leaders across the renewable energy sector.

How did it influence our investment decision?

The engagements with Verisk and industry research allowed us to better understand the thrust of the energy transition data opportunity. The energy transition business is small relative to the Group, but the market has not priced in the future growth opportunity in this business, and thus we saw an opportunity. This view, combined with our conviction in the core insurance technology business led us to initiate a position in Verisk for the Global Equity Climate Change fund.

ESG Integration in Practice

New World Development

Asian Equities team

What was the issue?

New World Development is one of Hong Kong's largest developers, with a strong presence in China, controlled and managed by the founding family. The founding family has 45% holding in the company, and had previously adopted practices that could be considered unfavourable to minority shareholders leading to the risk of poor corporate governance. For example, issuing large numbers of employee share options with a lack of challenging performance criteria and meaningful vesting periods. However, currently the company has three projects that are green certified, and hence eligible for green bonds and green loans, which can be acquired at lower interest rates than comparable loans. This could lead to favourable environmental impacts and improved returns for the company if the use of proceeds are well directed.

Why is it material?

These previous poor governance practices had led to the company receiving low scores for S and G from some third party research providers due to the perceived risk of poor management.

What did we do?

We studied the research reports produced by these vendors, annual shareholder reports, and sustainability reports for the company, and used this information to compare the company against peers in the sector. We also engaged with the Head of Sustainability and Head of Investor Relations and they provided more details around the use of funds for their green bonds, as well as additional data on the calculations of key metrics in their sustainability reports. They noted that their ESG team is aware of some of the historical governance issues and is actively engaging with data vendors to improve their public ESG scores.

How did it influence our investment decision?

We decided to maintain exposure to the company. Our ESG analysis and engagement showed that the low public scores for S and G are not justified, and perhaps were more as a result of the company's historical practices, prior to the Vice Chairman/CEO (third generation of family owner) having more control of the business. Since then the number of employee share options which had been a concern for investors has reduced. Given the changes to the governance structure, we believe the risk of poor governance on the company's share price is much lower today and the benefits of having a higher proportion of green projects will provide financial benefits for the company in the future.

Deep dive

ESG Integration within Fixed Income

ESG analysis in this asset class is primarily (but not exclusively) a question of risk. We believe that companies and governments that do not strive today to move towards ESG best practices face a number of looming dangers including credit rating downgrades, higher refinancing costs and, ultimately bond impairment.

This is why we believe, in addition to our default risk analysis, the integration of ESG in the research process can enhance our analysts' ability to identify risks to our holdings, including changing market trends and reputation. ESG due diligence plays a central role in the assessment of all bonds, and therefore, issuers can be removed from the eligible fixed income investment universe on ESG considerations.

For credit, ESG is considered in all fundamental research specifically within the issuer's business profile detailing components of management, governance and strategy and liabilities (legal, social and environmental). This analysis highlights potential negative impacts on the operating profile of the company as well as financial metrics. This analysis is supplemented with issuer meetings undertaken by the credit research team where ESG questions can be raised. Our dedicated Stewardship team also initiates ESG specific meetings.

For sovereign issues, in addition to our default risk analysis, we take other ESG issues into consideration. Our sovereign analysts assess sovereign policies separately on E, S, G and carbon transition themes including each country's compliance with National Determined Contribution (NDC) commitments under the Paris Agreement. The analysts also engage directly with emerging market issuers, keeping a log of all questions and engagements on governments' ESG policies.

Q&A with Rachida Mourahib Head of fixed income ESG and green research

How are ESG issues embedded into the credit scoring process?

Sustainability risks, especially corporate governance, have long been incorporated in our traditional credit rating methodology. As such, including ESG factors in our internal credit rating does not represent a change of philosophy. Nonetheless, the incorporation of E and S factors enhances transparency of other material issues and impacts our internal rating. This internal credit rating methodology applies to all asset classes from non-financial to financial corporates. We have defined key industry-specific ESG risks factors and identified 225 ESG data points, each weighted according to materiality to generate our overall rating. For instance, our financials holdings there is an emphasis on governance – including risk monitoring, audits and controls, corruption and bribery, contribution to financial instability – which we view as the most material factor in the overall ESG assessment. In contrast, for healthcare and pharmaceutical issues, our focus is on social dimensions such as access to medicines, prevention and control of medicines' potential misuse.

How does the process differ for government bonds?

Philosophically, there are similarities with corporate bonds, in identifying material ESG factors and then applying those to the analysis. We believe that strong management of ESG issues positively impact the attractiveness of a country's bonds; conversely, poor ESG policies can cause us to reduce our investments. Our research has shown that the impacts can be particularly pronounced in emerging markets. Countries with higher ESG scores and improving ESG scores have generated better returns with lower volatility historically. Our sovereign engagements directly with governments aim to assess the forward-looking ESG policy trajectory in order to capture this performance rationale.

What part do green bonds have to play?

Green bonds play an important role in transitioning to a lower carbon economy and increase the robustness of the overall portfolio. Our approach is to invest in labelled green bonds that satisfy both our bottom up analysis to ensure that the bond finances projects that provide clear environmental benefits eligible under the Climate Bonds Initiative taxonomy and a more granular top-down green assessment at the issuer level to ensure that the green bond issue is the result of a broader environmental strategy. We exclude companies exposed to substantial environmental risks that do not have a clear strategy to reduce this exposure or manage the associated climate risk.

Deep dive

ESG Integration within Fixed Income

Engagement in practice

FirstEnergy Corp.

ESG risk

What was the issue?

FirstEnergy Corp, a fully regulated utility operator in the U.S, was accused of paying up to $60 million in bribes to state and local officials in order to influence energy legislation in the state of Ohio. The legislation in question specifically granted subsidies to two nuclear power plants owned by a subsidiary of FirstEnergy. The announcement of the charges raised serious questions concerning the company's governance practices, especially as it relates to dealing with local regulators and how the company works with officials when it comes to shaping energy legislation.

Why is it material?

Relationships between regulated utilities and local regulators and politicians are an important dynamic in the sector and can significantly impact a utility's credit quality. Local regulators have oversight on setting electrical rates and making decisions concerning the utility company's ability to surcharge customers in order to get reimbursed for certain capital expenditures and unforeseen costs. When that relationship sours, it normally has a negative impact on the utility's credit quality and can result in downgrades; it is a key consideration by rating agencies when they assign ratings.

The charges are also material because they imply senior management, including the CEO of the organisation, authorised the payments. This raises serious questions about the lack of controls at FirstEnergy and the overall governance standards of senior management.

What did we do?

When the initial news broke concerning the investigation, we downgraded our recommendation on the issuer from neutral to underweight. We also lowered our internal ratings score from BBB- to BB+. We viewed the risks as too large and at that time we were concerned more negative news would follow.
The change in our recommendation and ratings proved helpful. FirstEnergy's bonds continued to underperform and both Moody's and S&P downgraded the issuer to high yield 4 months after our internal downgrade. Although we attempted to engage with the company, they were reluctant to discuss the charges as it was an ongoing investigation. FirstEnergy has since removed individuals linked with the payments, including the CEO. Unfortunately, they have promoted from within which raises concerns about how much change investors should expect from a governance perspective.

How did it influence our investment decision?

As noted, the governance issues at the company had a material influence from an investment standpoint.
We will continue to engage with the company and look for clear evidence from management on the plan to address the internal procedures lapses that these events highlighted. In addition, it has helped reinforce our focus on how regulated utilities interact with local officials and regulators, and the procedures utility companies should have in place to avoid similar situations.

Deep dive

ESG Integration in Fixed Income

Engagement in practice

Drax

ESG opportunity

What was the issue?

Last October, Drax came to the market to issue an inaugural Euro-denominated High Yield (HY) bond. We had some knowledge of the company as it already had two outstanding bonds (in USD and GBP), but it was not part of our investment universe. There are limited EUR HY issuers from the Utilities sector. As a renewables electricity generator, Drax stands out from peers such Bulgarian Energy Holding and ContourGlobal that have large coal generation capacities. Over the last 8 years, Drax has transformed itself from the largest coal power plant in the UK into a mainly biomass fuelled generator company using compressed wood pellets. We wanted to ensure the company is planning to exit fully the coal generation business and to assess the sustainability of the new business model as deforestation is a concern when it comes to using wood as a renewable fuel.

Why is it material?

We believe that it is vital for Drax to source from forests that are properly managed, so the company can transform to a credible renewables generator with negligible carbon emissions (biomass emissions being offset by its own forest replacement). Indeed, Drax cash flow generation will depend on subsidies for the biomass units that will end at the end of 2026. Drax's ability to reimburse the bond at maturity will depend on the UK government plans for biomass support post 2026. As the UK aims to be a leader in tackling climate change, we believe that further support to biomass should be given based on their track record, in particular in terms of sustainable forest biomass sourcing.

We also noted that Drax wants to reduce the cost of biomass supplied to its power units, and would like to expand the biomass sourcing to make it a source of third-party revenues. This is an important aspect of its commercial viability post 2026; we wanted to assess whether this could be done in a sustainable manner.

What did we do?

We held calls with Drax management and IR to better understand their biomass sourcing activities. Where do their wood pellets come from? How do they get to Yorkshire? And what role do they play in ensuring more productive, healthy forests and a decarbonised economy? Drax source wood from forests in Southern USA where more carbon is absorbed than removed. Although the area of many of their source forests has remained around the same size for years, active management of these resources increases growth and carbon storage. For example, thinning operations increase the growth of the biggest and best trees, ensuring more carbon is stored in longer term, solid wood products such as those used in furniture and construction (sustainable biomass is largely made up of low grade wood and low value residues produced as a bi-product of the production and processing of higher value solid wood products). Responsible active management boosts carbon stocks as the stands of younger, faster-growing trees that are re-established after felling absorb even more carbon dioxide than stands of older, over-mature trees. Drax is also committed to protecting biodiversity and playing an active role in habitat enhancement, which we view as very important. We were therefore, very reassured that Drax biomass sourcing is certified and sustainable, and will remain so even with increased volumes.

The company also confirmed that coal-fire electricity generation at Drax Power Station is expected to come to an end in March 2021, well ahead of the UK deadline.

How did it influence our investment decision?

ESG integration in our analysis of a new issuer led us to question the sustainability of Drax business model. But, our engagements with Drax convinced us that the company is key to the UK electric system, providing not only 12% of the country's renewable power thanks to sustainable biomass, but also system stability as biomass is flexible and not intermittent (unlike wind and solar). We strongly believe therefore that Drax will continue to receive government support (also for carbon negative projects thanks to carbon capture and storage) and we recently initiated a position.

Active Ownership

What Active Ownership Means to Us

Philosophy

Active ownership is an integral part of our long-term responsible investment approach, and is central to our philosophy, beliefs and processes. Through voting and engagement, we aim to protect and ultimately enhance value in the companies and other issuers in which we invest, and increase the climate-resilience of our clients' investments.

Developing an understanding of the way in which companies and other issuers manage their impact on the environment, their relationships with stakeholders, and their operations helps us highlight key ESG risks and opportunities. We can then use our influence as investors to encourage positive behaviour, promote high standards, and ensure that the interests of all stakeholders are considered.

Stewardship codes

We are signatories to investor stewardship codes in markets where we undertake significant investment activities, including:

- UK Stewardship Code
- Hong Kong Principles of Responsible Ownership
- Taiwan Stewardship Principles for Institutional Investors

Key documents

We have developed a set of policies and documents outlining our commitment to stewardship within our investment practices:

- Engagement Policy
- Voting Guidelines
- Stewardship Statements
- Voting Disclosure

"Our stewardship activity is part of our commitment to securing sustainable returns for our investors. We seek an open and constructive dialogue with investee companies, which can inform their strategic development and our own investment insights."

Thomas O'Malley
Global Head of Corporate Governance

over **2,300** issuer engagements conducted

over **86,000** resolutions voted

over **8,900** votes against management

over **1,600** shareholder resolutions supported

11 collaborative engagements led or supported through Climate Action 100+

Source: HSBC Asset Management as at December 31, 2020

Our Stewardship Approach

Our stewardship approach, overseen by our team of ESG specialists, consists of four key stages:

1 Analysis and research

- Perform issuer- and sector-specific fundamental ESG analysis
- Identify possible areas of concern
- Undertake stakeholder due diligence

2 Company engagement

- Meet with companies to understand issues
- Raise concerns and encourage action
- Seek commitments from companies to address concerns
- Follow up meetings with board members
- Monitor issues and company progress

3 Voting

- Communicate voting intentions
- Vote against management where necessary
- Support shareholder resolutions
- Attend selected AGMs

4 Further escalation

- Engage and collaborate with other investors
- Communicate publicly
- File shareholder resolutions

Analysis and Research

Annual engagement plan

Each year our team of ESG specialists construct an engagement plan in consultation with investment teams and senior management.

Holdings information and ESG ratings are used to evaluate our portfolios' weighted exposure to different ESG risks, with those most salient, on either a sector or global basis, identified as a key focus for the year. We also poll investment teams' and client-facing colleagues to identify client engagement priorities, which are then incorporated into our plan.

Our engagement activities are not restricted to this plan, and may be informed throughout the year by emerging events and collaborative investor initiatives not previously foreseen.

Issues prioritised for our 2020 engagement plan included:

Prioritising companies for engagement

Once our annual engagement plan has been created we identify and prioritise specific companies across both our equity and fixed income holdings for engagement on these topics. This can happen in a number of ways, including:

- Where the company is rated poorly on our internal ESG scoring system
- Where we have a significant holding, either by value or as a proportion of share issues
- Where one of our analysts has identified serious concerns

We have developed a clear process for engagement, based on setting defined company-specific objectives, tracking progress, measuring company action, and recording this in a central database.

Environment

- Use of plastics in packaging
- Water usage by beverage companies
- CDP emissions & climate risk disclosure campaign

Social

- Cobalt supply chain labour standards
- Low-rated emerging markets issuers
- Gender diversity

Governance

- US remuneration practices
- Independence ratio on Japanese boards
- Communist party committees in inese companies

Company Engagement

Why we engage

Engagement is integral to our fundamental research process. As a global asset manager, we engage with issuers from across the world to protect and enhance the long-term value of our clients' investments.

Meeting and engaging with companies on a range of issues such as delivery of corporate strategy, financial and non-financial performance and risk, allocation of capital and management of ESG issues helps us ensure that these are being carefully managed, and to encourage changes in practice where they are not.

We have a clear set of general engagement objectives:

- Improving our understanding of a company's business and strategy
- Monitoring performance
- Signalling support or raising concerns about company management, performance or direction
- Promoting good practice

Some companies may decide to address investor concerns after one interaction, while others require a multitude of engagements. Not all engagements result in an outcome, although this in turn is likely to impact our view of a company.

How we engage

We engage across both our equity and fixed income holdings, leveraging our strong research capabilities across both asset classes. Our ESG specialists, active equity and credit analysts, and portfolio managers engage with issuers through the investment process, covering important ESG issues in their research and discussions.

Where we have identified company specific or systemic risks we will raise these concerns through meetings, conference calls or correspondence with senior management and board members, often on more than one occasion. We may also visit production sites, and talk to suppliers, service providers and competitors to inform our views.

Collaborative engagement

Collaborative engagement has become an increasingly important tool in achieving our objectives, especially given the systemic nature of many of the challenges we face. Global investor initiatives provide us with a greater ability to build support on critical issues, influence companies, and promote change.

Collaborative engagements are central to investor action on climate-related issues, and we have again played an active role in the Climate Action 100+ initiative, as chair of its global steering committee and as lead or support investor for eleven companies.

We have also participated in a number of engagements through the UK Investor Forum, and are lead investor for a small number of companies across two collaborative engagements through the UNPRI.

As part of CDP we continue to encourage improved disclosure by the companies in which we invest on behalf of our clients in areas including climate change, deforestation and water security.

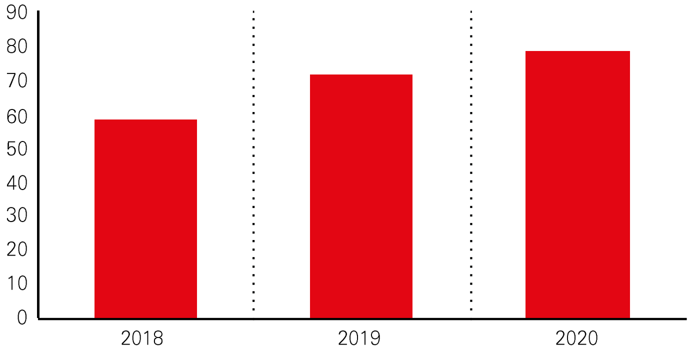
Engagement in numbers

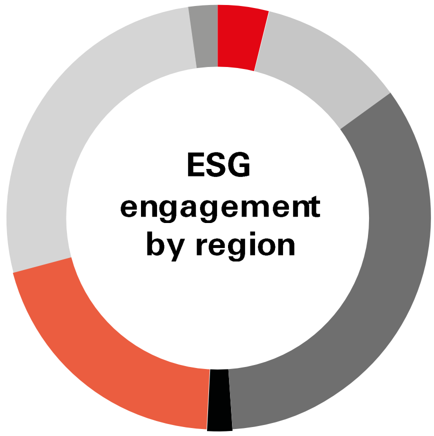
ESG issues were raised in engagements with over 2,300 companies and other issuers in 78 markets during 2020. ESG issues arose in equity team meetings with 977 companies, 59 per cent of all equity meetings with companies. For our fixed income teams, ESG issues arose at 998 issuer meetings, 87 per cent of all their engagements. In addition to this, our stewardship team engaged with 769 companies and other issuers seeking improvements in ESG practice and reporting*.

Over

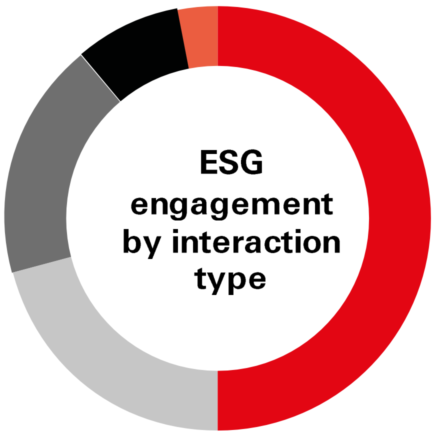
2300 ESG issues raised

Number of markets where ESG engagements took place





- Americas – Emerging Market (4%)
- Asia Pacific – Developed Market (11%)
- Europe & Middle East – Developed Market (34%)
- Frontier & Others (2%)
- North America – Developed Market (20%)
- Asia Pacific – Emerging Market (27%)
- Europe & Middle East – Emerging Market (2%)



- Group call (50%)
- Letter (21%)
- One-to-one call (18%)
- Group meeting (8%)
- One-to-one meeting (3%)

*These figures include some engagement with the same companies. Source: HSBC Asset Management as at 31 December 2020. Totals may not add up to 100% due to rounding.

Covid-19 impact

Covid-19 had a drastic impact on both companies and their stakeholders in 2020, and the scale and topics of many of our engagements were adjusted accordingly. The more intense communications which companies were having with their shareholders throughout the crisis period of lockdowns is demonstrated by our increased engagement in the second quarter of this year, where we engaged with 1,682 companies, up by 11 per cent from the same period in 2019, before seeing engagement stabilise in Q3.

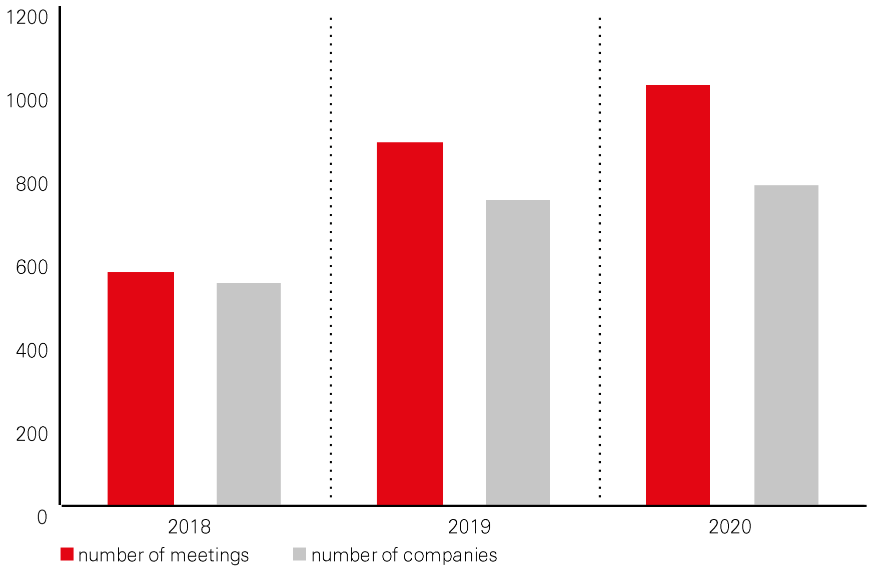
Covid-19-related issues were recorded as a specific element in 306 engagements in Q2 of this year, considerably more than any other quarter (136 in Q1, 224 in Q3 and 106 in Q4) – though clearly wider business conditions would have been a factor throughout. ESG continued to be a crucial element, featuring in around 75 per cent of our engagements.

The most marked difference was an increased focus on social issues. In particular, supply chain & production issues (labour, suppliers and supply chain safety) arose in 304 engagements (22 per cent of our Q2 total), compared with 131 (9 per cent) during the same period in 2019. This reflected the challenges in maintaining supply sources during lockdown, as well as scrutiny of staff protection, labour and safety.

Capital raising by companies in the sectors most challenged by the crisis clearly required close assessment of capital strength and requirements. We were generally sympathetic to companies seeking shareholder authority to raise capital and participated in some share issues. We were generally unsympathetic towards companies proposing executive remuneration increases or amendments out of line with staff and shareholder experience of the crisis, voting against some remuneration reports.

Despite the challenges faced with Covid-19, our Stewardship team has again increased its engagement outreach this year.

Stewardship team ESG engagements

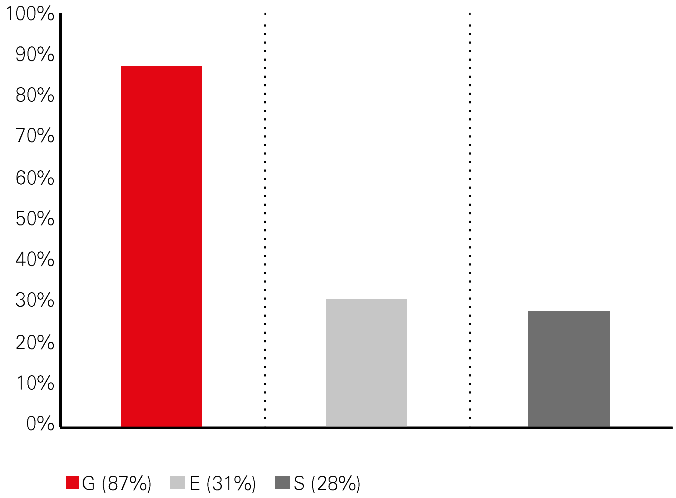


Source: HSBC Asset Management as at December 31, 2020

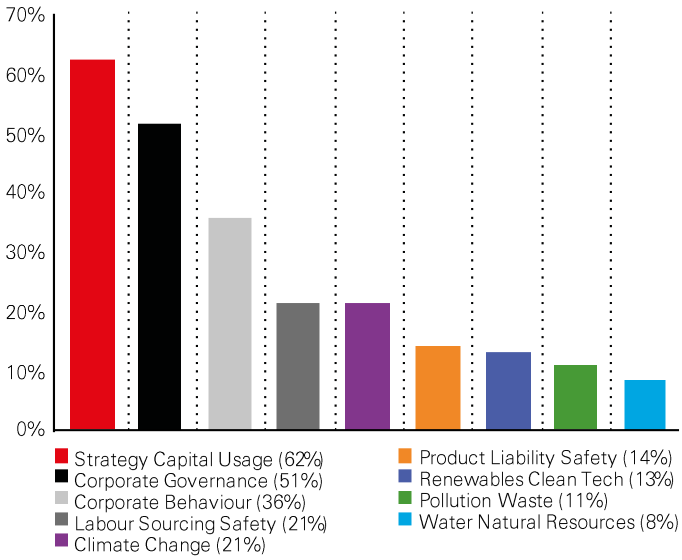
Engagement by theme

In 2020, we engaged on a range of environmental, social and governance issues. We often raised more than one concern – such as climate change and supply chain labour standards, during an engagement. The breakdown of ESG issues which arose when engaging with companies and other institutions is illustrated below.

Engaging on ESG*



ESG themes discussed during company engagements



*Percentage of meetings in which ESG-related topics arose. Percentages do not add up to 100% due to multiple pillars being engaged on during the same meetings. Source: HSBC Asset Management as at 31 December 2020.

Thematic engagement

Gender Diversity

Engagement in practice

Emerging market board gender diversity

Issue

In emerging markets, it is quite common for 40% or more of the workforce to be female, yet the average emerging market company board of directors has just 10% female directors. We believe this gap needs to be closed with significantly more female representation on company boards.

The strongest markets for board gender diversity are South Africa (25% Large Cap average), Malaysia (22%), and Turkey (18%). The weakest markets are Qatar (0%), Saudi Arabia (1%), and South Korea (3%).

What we did

We researched the emerging market companies where we have our largest holdings, and concentrated our engagement efforts on two groups. The first group of 60 companies were those with the least female board members (either none or 1), or those that fell substantially short of their local market average (more than 10% below the market average). We wrote to these companies encouraging them to add female board members over the medium term.

The second group was 33 companies close to achieving one third female board directors. Evidence shows that the benefits of gender diversity are greater once more than a third of the board is female. We encouraged these companies to add female directors to move well beyond the 33% threshold, and tried to determine how they had been successful in adding female executives. We shared insights from these discussions with the first group of companies.

We held calls with responding companies across both groups, as well as receiving written replies. We shared our research on successful change with all of the responders. Beyond this, some stock exchanges are encouraging gender diversity through their listing rules, so engaged with three stock exchange companies to support their encouragement for gender diversity on boards.

Outcomes & companies

Since our initial letters and calls, four companies have added another female director. We expect more to increase gender diversity, based on indications given during our engagement.

Two companies particularly impressed us with their response to our engagements:

Aramex (UAE based logistics firm): The company has developed a detailed board gender diversity policy which creates mentoring opportunities for promising future female leaders, and mandates unconscious bias training for all board officers. There are also detailed gender diversity guidelines in the nomination and remuneration committee charters. Within the organisation there is strong monitoring and promotion of diversity & inclusion, leading to the company being consulted by the national government on improvements to pro-diversity employment rules.

B3 (Brazilian Stock Exchange Group): This company has an annual diversity assessment of the board and a strong track record of finding and adding females. The board chair is very supportive of change. Beyond the board, they are mapping gender diversity gaps across the company and working to add balance in their technology department. They have 50% higher maternity leave provision than the average in the Brazilian market. The company is also using its position as a stock exchange to push for gender diversity amongst all listed companies.

Source: HSBC Asset Management as at December 31, 2020

Thematic engagement

Packaging Waste

Engagement in practice

Post-consumer waste within consumer staples

Issue

We share increasing concern in society at the level of post-consumer packaging waste that is produced, and how this finds its way into environments that cause damage to animal ecosystems and human health. Companies in the consumer staples sector such as supermarkets and fast moving consumer goods brands are particularly exposed. In some cases, more than 50% of these companies' revenue is linked to the sale of products with high levels of packaging waste. We are concerned about the long term regulatory and reputational risks to these companies if packaging waste is not managed appropriately. We also believe that the market is unduly focused on recycling based solutions, when recyclable products are not often recycled, recycling is resource intensive, and countries that recycle more tend to generate more waste. We think absolute waste reduction through reusable product packaging and new reuse business models are more sustainable solutions.

What we did

We analysed the largest 12 holdings in the consumer staples sector where we considered consumer packaging waste risk to be most acute. We developed a framework to assess good and bad practices across a number of areas, including governance, risk management, disclosures, actions, and internal product development. We used ideas from the Ellen MacArthur Foundation and TearFund sustainable packaging campaign to develop our framework, as well as input from the public disclosures of packaging leaders.

We then wrote to the companies and highlighted where we felt they were doing well, and where they were falling short of best practice. Our principal request was the development of absolute waste reduction targets, and increased zero packaging waste product initiatives. We followed up responses to our letters with meetings with Chief Sustainability Officers and/or packaging development managers.

Findings

In our one to one calls, the companies agreed with our assessment of the risks, and the problems with focusing on recycling. We were encouraged to hear that the underlying objective of some companies' waste initiatives is absolute waste reduction, even where a target is not yet stated publicly.

Looking forward, we will continue to research best practices by attending industry conferences, speaking with solution companies, and meeting industry and packaging waste issue experts; and this will inform our review of companies' progress. We will then re-engage with all target companies to discuss their progress and perspectives, re-emphasise our expectations, and share our evolving thinking. We expect to see more substantive change in this coming year.

Source: HSBC Asset Management as at December 31, 2020

Thematic engagement
Water

Engagement in practice

Water stress issues in the Asian food and beverage industry

Issue

The food and beverage industry relies on a safe and reliable agricultural supply chain, of which water is an essential component. Globally, the agricultural sector accounts for 69% of all water withdrawals (compared with 19% for industrial use), and an average of 80% for Southern and Eastern Asia (10% for industrial use). Apart from their dependency on water in the upstream supply chain, food and beverage companies also rely on clean and abundant water resources for their factory operations (e.g. brewing, bottling).

Water-related issues may arise in several ways:

Water scarcity: where local availability is becoming insufficient, leading to more regulations on water use, increased costs, and potentially operation disruptions. We have seen a tightening of regulations capping water usage and improving efficiency in recent years.

Declining water quality: if water sources are contaminated, additional capital expenditure and costs for sanitation are likely to be required to meet health and safety standards.

Supply of agricultural raw materials may become more volatile, or may increase in costs.

Mismanagement of wastewater discharges may lead to fines, litigation, reputational damage and a loss of social license to operate. In China, agriculture is the largest water polluter due to excessive use of pesticides and fertilisers. Environmental regulations and pollution prevention controls continue to develop and tighten.

Water stress risks may also be exacerbated by the effects of climate change.

We invest in a number of food and beverage manufacturers and processors operating in China and India. With many parts of northern China and north-western and southern India exposed to high or extremely high water stress, which is expected to be exacerbated by climate change, we are concerned that this could impact the sustainability of companies in the medium to long term. Wineries and vineyards in Australia are similarly expected to experience high water stress in the medium term, and we were also keen to understand the impact of climate change and bushfires on their vines and wine quality.

What we did

We met 5 companies and wrote letters to a further 5 across China, India and Australia, sharing our concerns about water stress, climate change and supply chain risks in the medium term and asking about the companies' response. These companies included China Resources Beer Company Limited (CR Beer), United Breweries and Budweiser APAC.

Outcomes

Overall, the results of our engagement were positive and led to improved understanding of how companies are dealing with water issues. CR Beer is open to engaging on ESG issues in the future and although they currently appear to be motivated primarily by regulatory compliance, they recognise they are on a journey with ESG, and were receptive to feedback. Their commitment to follow up on the issues raised, including water stress risks, sourcing and supplier engagement, and to improve their ESG disclosures were encouraging. United Breweries signalled their commitment to water stewardship and have committed to be water neutral by 2025, although there were few details. We were concerned by this lack of meaningful disclosures or milestones to track progress and will engage further with the company. Budweiser APAC's ESG report was of a higher standard, with a range of ESG metrics and water-related information. The company was receptive and open to engagement and we anticipate further improvements in the quantity and quality of ESG disclosures this year.

Source: HSBC Asset Management as at December 31, 2020

Company Specific Engagements

Engagement in practice: equity

Sea Limited

Singaporean online IT service provider

Issue

There is limited coverage of this stock by third-party data providers; engagement was therefore key to improving our understanding of the ESG issues the company faces and the need for better disclosures. Alongside our concern regarding the negative physical and psychological impacts of gaming addiction, we were aware of Sea's exposure to regulatory limits on gambling across markets in which it operates (e.g. curfews, censorship, and spending limits) and potential negative reputational risks from gaming addiction and violence associated with its products.

Action taken

We contacted Sea seeking a meeting on these issues. After two months of multiple follow-ups their investor relations team agreed to talk. We met with company representatives to raise concerns on gaming addiction, gaming violence and their talent management.

Outcome

Despite being able to only cover a couple of the points we wanted to discuss, Sea's team appeared unwilling to provide follow-up responses to our remaining questions. Overall, there was little evidence that the company would be addressing the identified issues adequately, as its representatives played down the risks throughout the call. Indeed, we questioned how far ESG issues such as video game addiction and violence were being monitored and managed within Sea. We encouraged Sea to publish more ESG data through a sustainability report, however, no commitment was given on this. We shall continue to seek updates to their ESG management and disclosures during our routine management meetings as well as monitoring closely the ESG risks associated with this company.

Engagement in practice: equity

UltraTech Cement

Indian cement producer

Issue

Cement is a carbon-intensive industry, from both the chemical process of producing the base product clinker from limestone, and the need to heat kilns to up to 1500°C. The production of cement contributes to around 10% of the world's carbon dioxide emissions, whilst the cement itself can cause chemical burns and irritation, with the dust increasing lung cancer risks. Other emissions are also a concern with the release of dioxin, nitrogen oxides, sulphur dioxide and particulates (dust) during the production, transport and end-use of cement.

Action taken

We engaged with UltraTech Cement on the environmental, health and safety issues outlined opposite. We highlighted our concerns regarding their contribution of GHG emissions in the long-term, and their exposure to climate transition risks.

Outcome

UltraTech committed to set science based targets and has aligned its business plans to the Paris Agreement. They also committed to increasing their use of renewable energy, and usage of fly ash/slag – recycled material – in clinker production. We will continue to monitor the company, benchmark them against local and international peers, and engage.

Company Specific Engagements

Engagement in practice: fixed income

Lippo Karawaci

Indonesian property company

Issue

Project Meikarta, developed by Lippo Karawaci (LPKR)'s listed subsidiary LPCK, made headlines in 2018 when Indonesia's anti-corruption regulator arrested several LPKR staff on corruption and bribery charges. This has led to reputational damage to the company and changes to the board over the past 1-2 years. An investigation into whether LPKR/LPCK has liability is still open. As such, we wanted to understand the company's position on the corruption case and how it ensures there are no similar issues in future that could have material financial, legal and reputational risks.

Action taken

We met the company to discuss the corporate governance issues, health and safety, climate change and green buildings. We also encouraged LPKR to set a clearly defined scope and boundary for ESG reporting, e.g. use of Global Reporting Initiative (GRI) Standards as a framework, and be clear in what should be included/excluded in metrics such as injuries and fatalities.

Outcome

We had a productive discussion with LPKR across various issues. The tone was positive and they were open to engaging with investors and receiving feedback. They were forthcoming with information, which informed existing ESG disclosures, but they were also unafraid to admit shortcomings or areas that require more work (e.g. whistleblowing). We achieved our objectives of obtaining clarifications on the corruption case and gaining further insights into key issues such as health and safety, climate change and a range of ESG quantitative data (waste, energy etc). We also shared our views and expectations on ESG disclosures (e.g. use of an international standard such as GRI), best practices in whistleblowing mechanisms, and climate scenario analysis.

Engagement in practice: equity

Samsung Electronics Co.

South Korean electronic equipment manufacturer

Issue

Samsung had been historically associated with poor labour relations, safety issues and controversies both in its own operations and its supply chain. We were concerned about these issues facing employees, and were also anxious that they could be increasingly damaging to the company's reputation with customers, impacting growth opportunities.

Action taken

In our regular half-yearly meeting with the company's ESG & Communications team, we informed them of our concerns and expectations for change. We also arranged a call with the newly appointed Head of Human Rights, repeating our concerns and pressing for change.

Outcome

Samsung's child labour policy coverage has been extended to all markets as we requested. The right to form a union has been introduced and all management staff have been trained to identify and prevent union busting activities. We also were assured that the victims of a long-standing chemical incident will be adequately compensated.

Collaborative engagement

Climate Action 100+

According to the World Economic Forum, extreme weather and climate action failure remain the top two long-term investment risks society is currently facing. Investors and businesses alike will need to work together to reduce emission levels to a sustainable level and help transition countries to a lower carbon economy.

Our collaborative engagement as part of Climate Action 100+ plays a crucial role in engaging in dialogue with the largest corporate emitters of greenhouse gases to encourage them to commit to stronger governance frameworks, GHG emissions reduction target and climate-related disclosures. In 2020 we continued this work, leading and co-leading eleven engagements with a number of companies and below are a few examples of the changes we have seen.

Engagement in practice

BHP Group

Global resource mining company

Issue

BHP is one of the world's largest producers of iron ore, mining a range of other minerals, including metallurgical and thermal coal, as well as maintaining oil & gas production. The company had been a leader in its sector in addressing the challenges of carbon transition, but needed to make new commitments to meet rising investor expectations.

Action taken

We are the European lead investor with the company under Climate Action 100+ and met the company more than a dozen times over the course of the year, providing feedback on various aspects of its climate strategy, as well as co-ordinating support investors and engaging with other listed members of the controversial Minerals Council of Australia lobby group.

Outcome

During the year, the company added to its existing net zero operational emissions commitment with a 2030 target to reduce operational emissions by 30 per cent, announced work to explore reductions in scope 3 emissions in its use of shipping and in steel production, strengthened the link between executive remuneration and the climate plan and improved its analysis of the impact of a 1.5 degree scenario on its portfolio. It also committed to sell its thermal coal business.

Source: HSBC Asset Management as at December 31, 2020

Engagement in practice

Equinor

Norway's main producer of oil & gas

Issue

As a major upstream producer of oil & gas, the company needed to build on its existing commitments and strategy for the low-carbon transition.

Action taken

We are joint lead investor with the company under Climate Action 100+ and met the company several times during the year, encouraging the development of its climate strategy, as well as co-ordinating support investors.

Outcome

The company made a commitment to become net zero by 2050, including scope 1, 2 & 3 emissions (based on indirect emissions of customers' use of Equinor's equity production). It also committed to carbon neutral global operations by 2030, with net zero and no offsets by 2050. It enhanced its ambition as a renewable energy provider, planning to quadruple capacity by 2035.

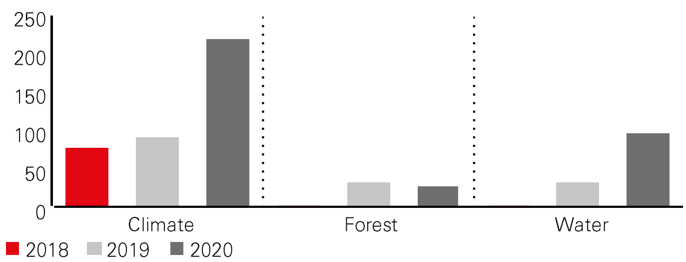
Collaborative engagement

CDP

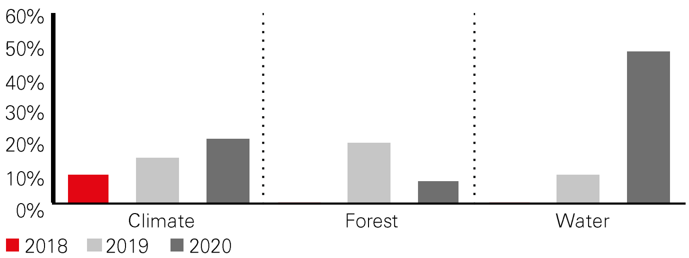
We believe that greater disclosure on environmental issues is needed from companies, especially those in the highest emitting sectors, for investors to assess and manage climate risk within their portfolios and to encourage companies to reduce emissions across their value chain. Since 2014, we have participated in the CDPs non-disclosure campaign which involves drafting and sending letters to companies to encourage them to disclose meaningfully on the most important environmental risk metrics.

Due to the success of the campaign, we have increased the number of companies we have written to each year; in 2020 we wrote to 342 companies, up from 155 in 2019. Despite the impact of the Covid-19 pandemic in 2020, we saw a rise in the positive response rate from companies for both climate and water disclosures which is encouraging; we are hopeful response rates will continue to rise in the future.

CDP questionnaires sent



Positive response rate from companies written to



Voting

Our voting approach

Exercising voting rights at company meetings is an important part of stewardship. We believe that high standards of corporate governance deliver sustainable returns to shareholders, and our voting aims to support and encourage adherence to international and local best practice standards of governance, social practice and environmental sustainability. We aim to vote on all equities for which clients have given us voting authority.

As global investors, we recognise that governance codes, standards and practices vary across different regions and markets. We look to company directors to ensure that governance good practice is applied in line with their market of listing, and that actions are taken in the long-term interests of all stakeholders. For larger companies, we expect to see globally-recognised good practice standards being met.

Our global voting guidelines

Our voting guidelines help us to hold companies demonstrating poor corporate governance standards to account. These guidelines prioritise the following issues:

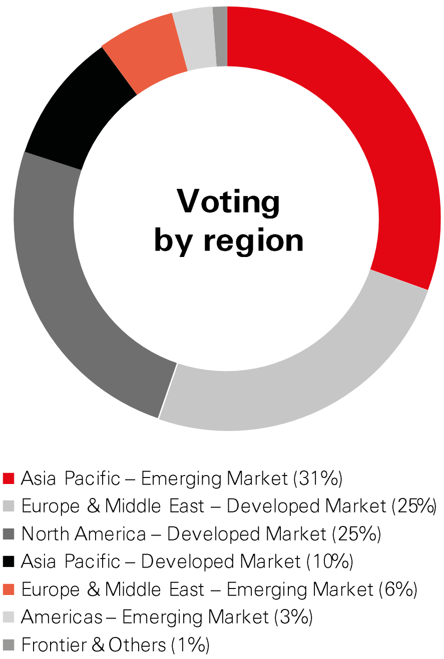
- Independent and diverse representation on the board, and in board committees
- Remuneration linked to challenging performance criteria with full disclosure
- Dilution of existing shareholders
- 'Poison Pills' and reductions in equal voting
- Auditor independence
- Transparency through shareholder proposals

We have more specific criteria on remuneration arrangements and board balance in Europe where disclosure and good practice standards are more developed.

Voting in practice

In 2020, we voted on more than 86,000 resolutions at over 8,200 company meetings across 70 markets, representing 96% of the ballots which we were entitled to vote.

We supported management on 90% of resolutions, abstaining or voting against on 10%. The issues we most frequently opposed were director re-elections (31% of votes against management) predominantly for reasons of lack of independence, followed by remuneration (24% of votes against management), followed by capitalisation issues (21%). This included voting against management on at least one resolution at 43% of meetings.



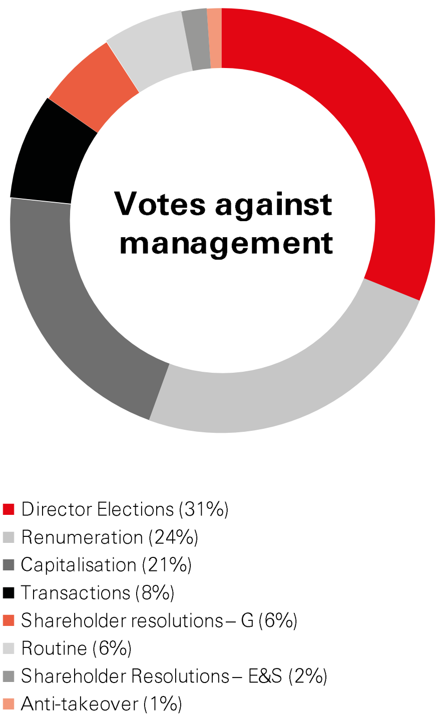
43 %

of meetings included voting against management

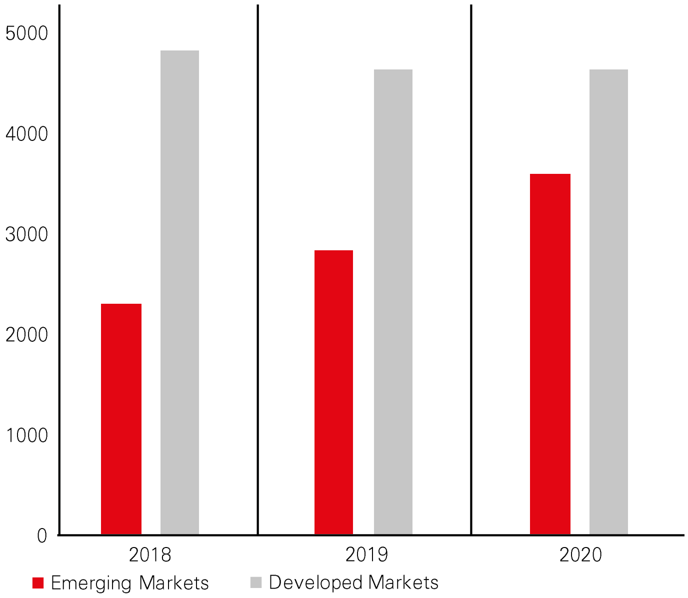
Our votes differed from the ISS standard policy recommendation on more than 7000 votes (8%). More than half of these votes were against management, with capitalisation and director elections in China, and compensation in the US, predominantly where we had voted against management more often than ISS.

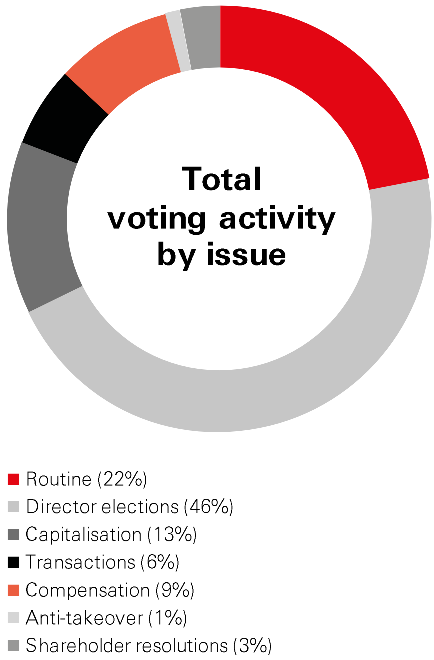
All of our votes are disclosed at:

www.assetmanagement.hsbc.co.uk/en/institutional-investor/about-us/responsible-investing/stewardship



Meetings by market





Voting in practice

Emissions disclosure at energy-intensive companies

Issue

As mentioned previously in this report, we have participated for a number of years in the CDP disclosure campaign encouraging companies likely to have relatively high emissions to disclose their emissions and transition strategy in a standard framework now aligned with the TCFD. Many of these companies have started to report, but a few have not, or have since stopped doing so.

Action taken

We followed up our engagements by writing to companies in energy intensive sectors in our portfolios that have not responded positively to our CDP engagement to explain the importance which investors attach to understanding companies' exposure to climate risk and to warn them of our intention to vote against the re-election of their company chair if they do not make such disclosures. We voted against nine company chairs for this reason in 2020.

Source: HSBC Asset Management as at December 31, 2020

Shareholder resolutions

Shareholder resolutions are used as an engagement tool to encourage changes in corporate behaviour, promoting greater disclosure and the introduction of appropriate policies.

We support shareholder resolutions on ESG issues where these are in line with the principles of good corporate governance outlined in our voting guidelines, or where we consider the issue to be material to financial performance or sustainability, and thus where we believe the proposal is in the best long-term interest of our clients.

In 2020, we supported 1,633 shareholder resolutions, 67% of the 2,434 resolutions on which we could vote. We supported 95% of the shareholder resolutions in the US which received more than 50 per cent support.

We supported 157 resolutions on environmental and social issues. On climate change, we typically support resolutions asking for the adoption of climate change policies, two-degree transition plans and/or quantitative greenhouse gas emission reduction targets, and resolutions asking for annual assessments of portfolio resilience.

Shareholder resolutions have been used under the Climate Action 100+ initiative as a means of promoting better management of climate risks. In the coming year, we shall be supporting the move by Climate Action 100+ and others to encourage companies to put their climate transition plans to a vote.

1,633

shareholder resolutions were supported in 2020

- Director Related (67%)
- Routine Business (15%)
- Corporate Governance (6%)
- Other – Environmental/Social (5%)
- Compensation (2%)
- Social/human rights (2%)
- Environment (2%)

Co-filing shareholder resolutions

ExxonMobil

Towards the end of the year we co-filed a resolution at US oil company ExxonMobil, calling on the company to publish its scope 3 emissions (indirect emissions associated with the production and use of its products).

We have previously co-filed two other resolutions at ExxonMobil, calling for improved disclosure and emission reduction targets.

We were very pleased when the company announced early in 2021 that it would publish scope 3 emissions for the first time. The resolution was withdrawn in recognition of this new commitment.

Source: HSBC Asset Management as at December 31, 2020

Voting-related engagement

In 2020, we engaged with 310 companies to communicate the reasons for voting against management. These companies were prioritised based on our largest holdings and markets and represented just over 30% of our global equity AUM.

A large proportion of these companies were in the UK, where we engaged with 127 companies in advance of voting at their shareholder meetings. Issues discussed included compensation (46%), director elections (27%), capitalisation (16%), routine (9%) and transactions (2%).

Outside the UK, we communicated our votes to 183 companies after their shareholder meetings to express our concerns and views inviting companies to further discuss them.

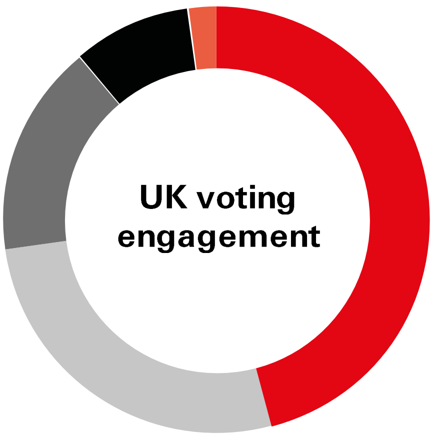
Issues covered included director elections (34%), shareholder resolutions (33%), compensation (22%), routine (3%), capitalisation (2%), transactions (2%) and anti-takeover (>1%).

127

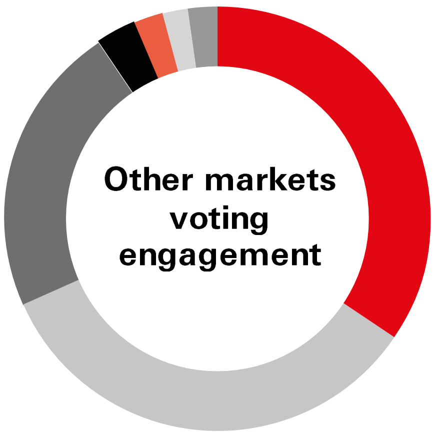
companies we engaged with in advance of voting at their shareholder meetings

34%

of issues covered included director elections



- Compensation (46%)
- Director elections (27%)
- Capitalisation (16%)
- Routine (9%)
- Transactions (2%)



- Director Elections (34%)
- Shareholder Resolutions (33%)
- Compensation (22%)
- Routine (3%)
- Capitalisation (2%)
- Transactions (2%)
- Other (2%)

Source: HSBC Asset Management as at December 31, 2020

Escalation

Our approach

Escalation is an essential part of our active ownership strategy. Whilst we would like companies to respond positively to every engagement, they often have competing entrenched interests or simply take time to be persuaded of the need for change. Appropriate escalation is the means to continue to press our case.

How we decide to escalate an engagement may vary according to issue, fund, assets and geographies. We consider the time a company has had to address a concern, the scope of our engagement and voting to date, a company's responsiveness, as well as the likelihood of a particular approach actually being successful.

Initial escalations may include raising the concerns with the company Chair and/or independent board directors, or using our votes to express our concern over inaction, if not already actioned. Where these fail to yield results we may engage collectively with other investors and consider more public interventions such as statements, AGM attendance, filing shareholder resolutions or requisitioning general meetings.

Escalated engagement in practice

A collection of large Japanese companies

Issue

Many Japanese companies have very few independent directors. The market requirement is for two outside directors who may not be independent. We believe that larger companies with international investors should be held to a higher standard and seek at least one third board independence.

Action taken

We write every year to companies in the TOPIX100 index with independent directors making up fewer than one-third of their board, asking them to indicate if they will improve their balance – 43 companies in 2020. We escalated this issue last year for companies which still did not meet the one third standard by voting against all non-independent directors, other than the CEO and founder/President.

Outcome

There has been a steady increase in the number of companies meeting the one third independence standard. Out of 71 companies we have written to since 2017, 27 now have at least one third independent directors on the board.

Tackling Climate Change

The Climate Challenge

Climate change is one of the most complex issues facing us today. The impacts include more extreme weather and natural disasters, accelerating biodiversity loss and economic instability. Leading climate scientists have warned that urgent action is needed to curb emissions to avoid catastrophic environmental breakdown resulting in material financial impact on investments.

The landmark Paris Climate Agreement was created to mobilise a global response to the treat of climate change. As a fiduciary, we have a responsibility to understand how climate change impacts the value of our client's investments. Indeed, five years on from the Paris Agreement, regulators increasingly require asset managers to consider climate risks in investment decision-making.

We are supporters of the Task Force on Climate-Related Financial Disclosures (TCFD) framework, a best-practice industry standard for disclosing the risks and opportunities related to climate change and how these are managed. The TCFD's Status Report in 2020 showed the adoption of climate-related disclosures by large companies has steadily increased, however, it also highlighted the continuing need for progress.

Low-carbon transition scenarios

In 2020, we published our second report on climate scenarios; The roads to low carbon transition: what it means for investors. This expanded on the 2018 framework we developed alongside Vivid Economics to better understand company-level climate-related transition risks to help investors make better-informed decisions. In our report, we identified 10 scenarios that represent a broad range of low-carbon futures, influenced by two primary factors: climate policy and regulation; and, the cost and performance of technology options available to reduce emissions. We built these updated scenarios by looking at increased policy stringency, varying policy timing and updated technology scenarios as well as implications for credit ratings.

Climate solutions

As part of our commitment to developing solutions to support the transition to a lower carbon future, we

- launched the HSBC REGIO Fund which invests in emerging market green bonds and other similar bonds,
- created HSBC Pollination Climate Asset Management with the aim to create the world's largest capital manager
- expanded our suite of low carbon funds with the launch of seven Sustainable ETFs.

Our strategic response

Our climate change policy is aimed at increasing the climate resilience of our clients' investments, as well as contributing towards financing the transition to a low-carbon economy. We aim to:

Deliver lower-carbon investment solutions and opportunities that meet our clients' investment criteria while meeting their risk and return objectives.

Identify and integrate the climate-related risks and opportunities presented by climate change and climate policy in our investment portfolios, using relevant data and analysis – including scenario analysis – to inform our investment decisions.

Engage with investee companies to better understand and support their disclosure and management of the risks and opportunities presented by climate change and climate policy. We engage directly and collaboratively, using our voting decisions to escalate issues where appropriate.

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.

Advocate for a supportive policy framework, working with policymakers to support their efforts to implement measures that encourage capital deployment at scale to finance the transition to a low-carbon economy and encourage investment in climate- change adaptation.

Further details of our activities in each of these areas are outlined throughout this report.

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

We will continue to integrate climate-related risks and opportunities into our investment decisions, alongside all material ESG considerations. Accountability for all investment activities, including the integration of ESG considerations, lies with our Global Chief Investment Officer (CIO). Investment teams are responsible for integrating ESG issues into their respective investment decisions, supported by ESG specialists.

Risk management

We will continue to integrate climate-risk management as part of company/issuer-specific assessment and portfolio level assessment of climate-related issues through the fundamental inclusion of ESG criteria as part of investment decisions. Our research on scenario analysis informs our macro/sector risk management on climate-related issues.

Strategy

Transition and physical risks from climate change, and climate opportunities will remain key areas for investment analysis. These are risks and opportunities resulting from the structural changes required for a transition to a low-carbon economy or due to more frequent and severe climate events, as well as longer-term shifts in climate patterns. Incorporation of these risks and opportunities into our investment process leads to better decisions and outcomes for our clients.

We also offer a number of active and passive solutions to enable clients to invest in the low carbon transition.

Metrics and targets

As signatories to the Montreal Pledge since 2015, we have reported 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.

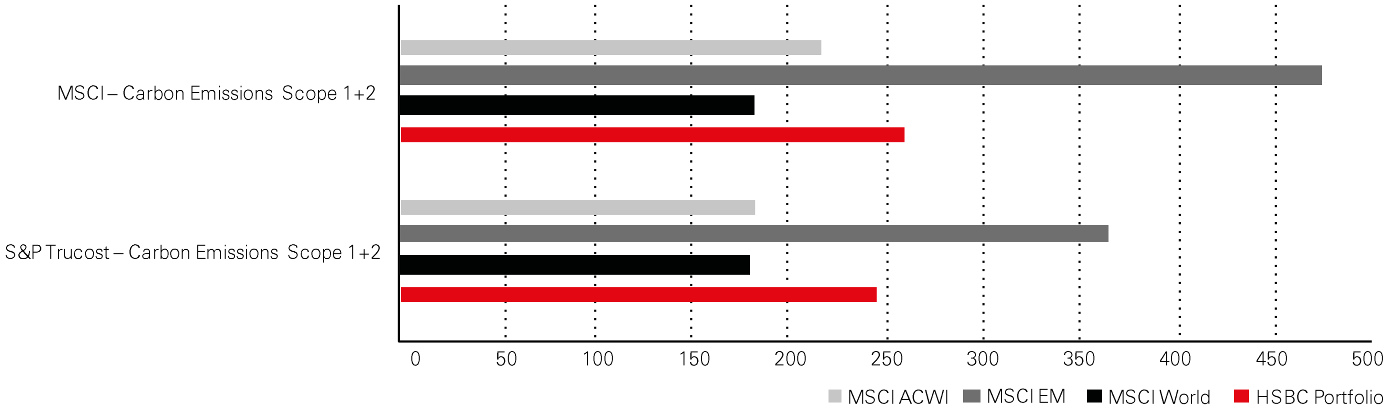
As mentioned previously in this report, engagement with investee companies, to better understand management of the risks and opportunities presented by climate change and climate policy, is an important part of our process.

Metrics and targets

In 2020, we reported on all equity portfolios and on corporate fixed-income portfolios managed in five major locations – the USA, the UK, France, Hong Kong and Germany.

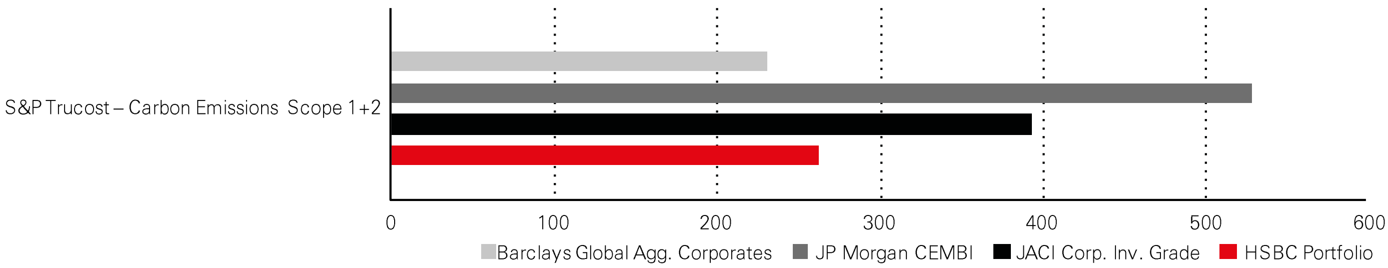
Equity portfolio

Weighted average carbon intensity (tons CO_2e/USDm revenue)



Corporate fixed income portfolio

Weighted average carbon intensity (tons CO_2e/USDm revenue)



Source: HSBC Asset Management using data sources specified. Data as at 31 December 2019.

Our Perspectives

COP26: Great Expectations

It might seem forgivable, mid-pandemic as we are, to downplay – even dismiss altogether – the significance of another intergovernmental meeting on climate change. After all, this year's UN 'Conference of the Parties' will be the 26th occasion that the world's sovereign nations, including the host, the UK will have met, together with the EU and many other regional blocs and ad hoc and progressive alliances, to negotiate a road map that will hopefully put us on a new climate trajectory. These negotiations will play out in Glasgow next November under the watchful gaze of some anticipated 30,000 attendees, including a myriad groups of official observers, from IGOs and NGOs to numerous faith-based organisations.

The world has, of course, observed such impressively staged spectacles before and waited anxiously for salvation…and waited. But what is different now, what really matters, is that time has, effectively, run out. Some windows of opportunity to take preventative action have already shut tight, others are closing fast. The promises made in Glasgow must go further than ever before and must be acted upon. They must reverberate around the globe and galvanise action. Put simply, the importance of the outcome of COP26 cannot be downplayed. There is far, far too much at stake.

Back in 2015, the COP21 Paris Agreement urgently adopted the key target of restricting the increase in the global average temperature to well below 2°C above pre- industrial levels, with a stretch target of below 1.5°C above pre- industrial levels, while bringing about peak emissions 'as soon as possible'. An important breakthrough in Paris was the effective introduction of a new 'bottom-up' approach, that is, use of Nationally Declared Commitments (NDCs), where each country brought to the table their own targets for emissions reductions, to be reviewed and, ambitiously, ratcheted up every five years.

Other positive takeaways from Paris that have paved the way for COP26 include political resilience (the agreement stayed on its feet despite the U.S. withdrawal under Donald Trump, and even Brazil's President Bolsonaro has so far remained on board), the normalisation and international acceptance of the 1.5°C and net zero targets (which have since consciously

$210bn

was the cost of climate change disasters in 2020 alone

$100bn

was pledged to contribute to Green Climate Fund by 2020

begun to shape behaviour among governments and across legal, financial and trade institutions), the pledge to contribute $100 billion annually to the Green Climate Fund by 2020 (to support climate mitigation and adaptation within Less Developed Countries (LDCs)) and, last but not least, the game-changing clean energy investment shift.

Despite these successes, the ground-breaking bottom-up approach of COP21 has not yet delivered on the key top-down 1.5°C or associated carbon neutrality targets. 2020 was among the top three hottest years ever recorded, despite La Nina's cooling influence. According to the World Disasters Report, the average number of climate and weather-related disasters per decade has increased more than a third since the 1990s, and in the last ten years 80% of all disasters were caused by extreme weather and climate-related events, such as floods, storms, and heatwaves (the single biggest killer). Together, these disasters affected a staggering 1.7 billion people.

Last year alone, a record number of hurricanes, wildfires and floods, exacerbated by climate change, cost the world some $210 billion in damage. The six costliest disasters of 2020 occurred in America, topped by Hurricane Laura's devastation in August, which caused damages amounting to over $13 billion, a sum matched earlier in May by Cyclone Amphan in the Bay of Bengal.

Nor yet are we collectively on track for net zero emissions any time soon. Since 2015, an extra one billion tonnes of carbon dioxide have been emitted. China's emissions (some 30% of the global total), which plateaued briefly but have been rising again since 2016, account for nearly half of this increase.

Source: HSBC Asset Management as at December 31, 2020

Advanced economies, though generally moving in the right direction, are not cutting emissions fast or consistently enough to offset the overall trend dominated by China and emerging economies in Asia.

The scale and growth of climate-related disasters and the lack of progress made towards carbon neutrality has rapidly moved the dialogue from the hypothetical to the frighteningly real in the space of five years. Politicians and corporate leaders have been universally mandated to tackle what is undeniably an anthropogenic existential threat.

35%

climate and weather-related disasters per decade has increased

So what outcomes should we hope for from COP26?

At the very least, bold action is necessary to achieve the all-important 1.5°C target and accelerate global net zero emissions. This will require consensus and successful action in the following highly contentious areas:

- Agreement upon and rapid implementation of carbon market mechanisms to allow the buying and selling of credits (reductions) between countries. This should incentivise and increase both climate adaptation and mitigation but may be particularly challenging given the many entrenched and opposing views. Success is critical.
- Funding for loss and damage. While this is a core part of the Paris Agreement there is, alarmingly, no mechanism as yet within the UNFCCC to fund responses when vulnerable countries experience loss and damage. This is viewed as a critical factor by LDCs to unlock the negotiations but is resisted by many wealthy nations. An acceptable deal has to be struck.
- Failure of the wealthy parties to deliver by 2020 the $100 Billion Green Climate Fund target for less developed countries. Pledges so far total just a tenth of the target. COP26 must set and deliver the next ambitious target for climate finance to be achieved by 2025 if LDCs are to really buy in.

"In the last ten years 83% of all disasters were caused by extreme weather and climate-related events, such as floods, storms, and heatwaves."

- An increasingly important aspect of the climate debate centres on 'nature-based solutions' (NBS). That is how nature (forests, agriculture and ecosystems) can become a climate solution for absorbing carbon and for protecting against climate impacts. COP26 needs to set out and deliver a plan to integrate NBS into the Paris implementation strategy.

The agreements struck in Glasgow, or the lack thereof, may determine the path humanity prescribes for our planet. Global climate change intervention thus far has solicited an intent to reduce – but, crucially, has not yet ensured the reduction of – emissions necessary to prevent significant increases in the risk of drought, floods, heat mortality, food insecurity, water stress, ecosystem extinctions and poverty for hundreds of millions of people.

A final wish, then, from one born in Glasgow and who desperately wants breakthrough at COP26: may the parties not play to domestic audiences or appease special groups of personal interest. May they not shy from their collective responsibilities or for one second hold anything back. I want to see defiance and bravery against all odds. In short, I want them to do what many a self-respecting Glaswegian does on any given Friday night: give it absolutely everything, dance like nobody's watching and live to regret nothing. As they say in Scotland, '*Gie it laldy COP26! Gaun yersel!*'

Melissa McDonald
Global Head of Responsible Investment

Source: HSBC Asset Management as at December 31, 2020

ESG in a Covid World

Resiliency among uncertainty

"Unprecedented, disruptive, game-changing": these are commonly heard words describing the Covid-19 pandemic and the shock it created for businesses, economies and governments, testing the fabric of our society and culture.
Undoubtedly, this has meant significant changes for the world, the way we do business and interact with each other.

The silver lining is that the effects of this disruption should accelerate the analysis of potential future system shocks, differentiating companies that build resiliency across their value chain and those that do not.

We believe companies dealing adequately with climate change, taking care of their employees and other stakeholders, and implementing sound governance systems should be resilient during market volatility and deliver long-term shareholder value. According to S&P Global, their ESG Index outperformed the broad index both during 2020 and also during the March 2020 drawdown. But one should be cautious about drawing conclusions on short time periods.

Despite numerous studies supporting the case for ESG investing, the debate continues about whether the incorporation of ESG helps or hurts performance. The Arabesque-Oxford meta study in March 2015, "From the stockholder to the stakeholder" reviewed the academic literature on sustainability and corporate performance and found that 90% of 200 studies analysed conclude that good ESG standards led to lower the cost of capital; 88% showed good ESG practices resulted in better operational performance; and 80% showed stock price performances were positively correlated with sustainability practices.

In 2020, investors seemed untroubled by the debate, and invested record amounts into sustainable strategies. According to Morningstar, assets in sustainable funds hit a record high in the third-quarter, while Europe surpassed the $1 trillion mark for the first time.

Social: from the back seat to the front row

Many responsible investors prefer companies with long-term resilience planning in their supply chains and labour forces. Investors have been encouraging companies to conduct more scenario planning related to climate, water stress and social issues, to name a few. Companies that embraced scenario analysis should be better equipped to manage the Covid-19 pandemic impact.

Covid-19 may well accelerate interest in creating solutions that contribute to making economies and societies more sustainable, resilient and equitable. For many stakeholders this focus is very welcomed. We believe companies that align with the sustainable future framed by the SDGs will attract more capital, in contrast to the short-term-oriented and exploitive business models.

The following themes are likely to define future ways of working and business models

Working from home and social distance:

- Half of the world population is locked down, with people working or studying from home. This is negative for airlines and transportation since on average, 35-40% of an airline's revenue is business travel. There is also downside risk for office providers, as corporate demand falls, and some co- working providers may not recover. In contrast, this could prove beneficial for tech and telecoms.

Gig-economy and precariousness:

- "Gig economy" describes a free market system where organisations and independent workers engage in short-term work arrangements. US Bureau of Labour statistics suggest 36% of US workers were taking part in the gig economy and 33% of companies extensively use gig workers in 2017. Covid-19 has impacted this population of low-paid, temporary workers hardest, and the fear of resulting social unrest, sparked a renewed debate on improving labour rights.

Securing supply and questioning systematic offshoring:

- The pandemic added to existing pressure for companies to on-shore and shorten supply chains, and benefited those that had already done so. The thesis for "re on-shoring" was bolstered with the steep increases of labour costs in offshoring centres such as China. The Covid-19 crisis also highlighted the need to master the supply chain in critical industries such as healthcare and pharma.

Responsible investors accelerated the push for companies to amend their practices to protect employees, shareholders and the overall society from the worst consequences of the pandemics. We supported the Interfaith Centre on Corporate Responsibility (ICCR) "Investors statement on coronavirus response" which asked companies to provide paid leave, prioritise health and safety, maintain employment, maintain supplier/customer relationships and financial prudence.

There are a number of other investor initiatives such as the Dutch pension funds encouraging pharmaceutical companies to focus on cooperation to develop medicines and vaccines rather than short-term profits. The statement called for the companies in question to ensure employee safety, to proactively reach out to one another to collaborate, to safeguard global supply chains and also, to ensure long-term research into infectious diseases to prevent similar pandemics and to be understanding towards clients and suppliers who have been hit hard financially. Enforcing patents, excessive price setting, not disclosing relevant findings or securing extended market exclusivity through, for example, orphan drug designation should not run counter to this responsibility.

Environmental issues: delayed but not lost in translation

The current Covid-19 crisis has, in fact, re-emphasised some long standing themes such as the necessity to monitor supply chains which, today, extend around the world, and are vulnerable to natural disasters and civil conflict. Climate change, water scarcity and poor labour conditions in much of the world increase risk to supply chains. For instance, McKinsey reports that the companies' value at risk from sustainability concerns can be as high as 70% of earnings before interest, taxes, depreciation, and amortisation.

33 %

of companies extensively use gig workers

Climate mitigation and energy transition remain topical and are expected to form a core part of governments' multibillion growth recovery plans; for example, the EU Green Deal, a "new growth strategy aims to transform the EU into a fair and prosperous society, with a modern, resource efficient and competitive economy where there are no net emissions of greenhouse gases in 2050 and where economic growth is decoupled from resource use." There was some fear that this ambitious plan might be delayed in the aftermath of Covid-19, but planned GHG emission cuts remain on the agenda. Ironically, emissions have been enormously helped by the economic growth slowdown resulting from the lockdown, but will likely be challenged by the expected V-shaped recovery, unless the recovery plan is quintessentially green.

Xavier Desmadryl
Global Head of ESG Research

Natural Capital: The New Asset Class

Our new commitments to natural capital investing

HSBC Asset Management has for many years offered clients the opportunity to invest to help combat climate change. But the world is facing dual threats, not just climate change but also significant bio-diversity loss. Natural capitalis being destroyed at an unprecedented rate, with significant negative consequences such as bio-diversity collapse, climate change, localised temperature rise, soil loss, and the spread of diseases: indeed the covid-19 global recession may be due to our encroachment on the natural world.[1]

As a global investor, we have a key role to play in tackling climate change. In August 2020, as part of our commitment to developing solutions to support the transition to a lower carbon economy, we created HSBC Pollination Climate Asset Management. This partnership with Pollination, a climate advisory firm, aims to create the world's largest natural capital manager and is the first large-scale venture to mainstream natural capital as an asset class.

"The heavy tilling and chemical use associated with industrialised agriculture denudes soil and lead to significant carbon loss."

We were also one of the founding signatories of the 'Finance for Biodiversity Pledge in December 2020. Committing by 2024 at the latest, to:

- Collaborate and share knowledge on assessment methodologies, bio-diversity related metrics, targets and financing approaches for positive impact;
- Incorporate biodiversity into their ESG criteria and engage with companies to reduce their negative and increase their positive impacts on biodiversity;
- Assess their investments for biodiversity impact and identify drivers for its loss;
- Set and disclose targets based on the best available science;
- Report on an annual basis and be transparent about the significant positive and negative contribution to global biodiversity goals linked to our financial activities and investments.

But what after all is natural capital, why is it being destroyed at such a rapid rate, and can it indeed represent the next asset class?

Natural capital is, in its simplest terms, the assets of nature. This includes the land and sea, along with the biodiversity of ecosystems within them. Natural capital provides a string of services to mankind, which together are essential to the preservation of life on earth; and nature has great beauty and is central to our culture and well-being.

So in preserving and enhancing natural capital we help to preserve the life giving and life enhancing services it provides us and all types of life on earth. Acting to enhance natural capital is also crucial if we are to combat climate change, given that deforestation and soil tilling is responsible for 18% of CO_2 emissions, a share greater than transport; and given that climate change is likely to be a major contributor to biodiversity loss.

We believe protecting natural capital can therefore achieve a double win: protecting biodiversity and combating climate change. But we do not only combat climate change by protecting forests. Healthy soils capture and store significant amounts of carbon, moisture and microbial life. The heavy tilling and chemical use associated with industrialised agriculture denudes soil and lead to significant carbon loss. But this can be reversed through restorative agriculture.

[1] Zoonotic diseases like Covid-19 are a "very significant threat to global health, security and economies", Dr K Jones, UCL. 'Paradise Lose', HSBC, June 2020.

Developments

Fortunately, a number of advances are being achieved side by side today that we think will rekindle 'natural capital' as an asset class, allowing for some restoration and enhancement of these assets.

For much of the last one hundred years, economists, policy makers and asset managers have ignored natural capital, leading to under-investment and value destruction. Today though economists are assigning high values to the services that natural capital delivers. Costanza et al valued the ecosystem services supplied globally by natural capital in 2011 at USD125 trillion/year (in 2007 US dollars); while land use changes between 1997 and 2011 destroyed eco-system services worth from $4.3 trillion/year to $20.2 trillion/year.

Metrics are being developed to measure biodiversity. The Mean Species Abundance (MSA) metric quantifies the impact of humans on biodiversity: 100% represents a pristine original nature state, 0% means wholly depleted. Such metrics allow investors to monitor the quality of their asset. The metrics will also help businesses identify, measure, value and prioritise their impacts and dependencies on biodiversity and the ecosystem, which ultimately give businesses new insight into their risks and opportunities.

Natural capital owners are learning to 'stack' the cash flows derived from their assets; this involves monetising several natural capital services from a single site. Land owners enjoy sustainable timber or regenerative agriculture cash flows. But in addition they may secure funds from 'informal' carbon markets and nascent biodiversity credit market. Sites may also benefit from eco-tourism. For agricultural assets, input costs can fall as fertilisers and pesticides are dispensed with, and water is used more efficiently.

The rising number of firms and states making net zero carbon commitments may also see funds flow to projects capturing carbon and projects nurturing natural capital too (Shell aims to be 'net zero carbon' by 2050; Japan by 2050; China by 2060). 'Net zero' planning will likely combine emissions cuts with nature based solutions (or carbon capture and storage).

And if restorative projects are profitable today, when biodiversity is afforded limited value, the potential upsize is significant if we eventually see appropriate pricing for carbon, biodiversity, water and appropriate fines for pollution. For investors who move into this asset class early, the upside potential should be significant.

Michael Ridley
Senior Responsible Investment Specialist

Find out more

Further information on our commitments to natural capital can be found in our thought-leadership article "Natural Capital: Re-Birth of an Asset Class", available on our website.

Ecosystem services supplied globally by natural capital in 2011

$125 trillion/year

while land use changes between 1997 and 2011 destroyed eco-system services worth from $4.3 trillion/year to

$20.2 trillion/year

[3] 'Change in the global value of ecosystem services', Global Environmental Change, 26, 2014, Costanza R., et al
[4] 'Mobilising private finance for nature – World Bank Group', 25 September 2020.
[5] Biodiversity offsets are being tested in the UK and Australia: 'Natural England Biodiversity Credits Scheme Pilot – call for Projects', CIEEM, 6 July 2020; 'Biodiversity credits', New South Wales Environment, Energy and Science, 21 April 2020.

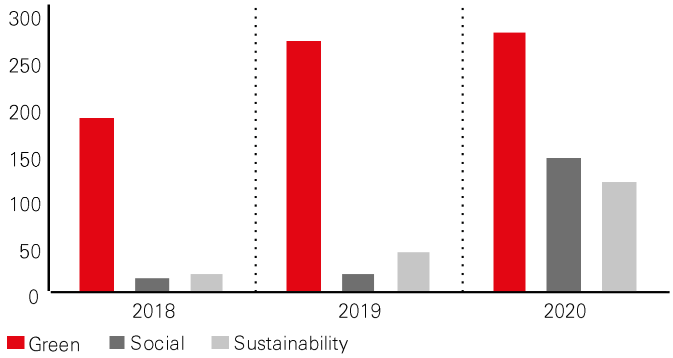
Green Bonds

Green bonds have rapidly developed into a sizeable and important fixed income sub-asset class. Green bonds can offer compelling financial returns and play an important role in the fight to tackle climate change. The first green bond was issued in 2007. For a few years afterwards supply was dominated by multi-lateral development bank, but subsequent issuance broadened to include corporates, financials and sovereigns.

Green bonds were created to fund environmental projects. Green bond issuers commit to spending all of the bond proceeds on environmental projects and to report annually on how the bond proceeds have been put to work. Buyers of green bonds are able to achieve an attractive economic return, while knowing that their bonds' proceeds are being spent on pollution emission reduction, technical innovation and climate change resiliency.

We believe there are benefits to the issuer as well. When a firm issues its first green bond, this can be a signal that the firm is embarking on a transition to a lower carbon future; such a trajectory may put the issuer in a better position with regards to impending green legislation or consumer boycotts against polluters. The process of issuing the green bond itself can be a positive thing too, as it involves conversations between the CEO's office, the Treasury department and Operations, which allow the issuer to consider its mid and long term future: conversations which we think are positive.

Green, social and sustainability bond supply, 2018 to 2020, in USD billion



"One reason we are attracted to emerging market green bonds is the large positive impact that green bonds can have."

At HSBC Asset Management, we believe that green bonds have an important role to play in the transition to a lower carbon economy and therefore, we are an active participant in the green bond market, not least through our highly innovative HSBC Real Economy Green Investment Opportunity Global Emerging Markets Fund (REGIO) bond fund, which invest in emerging market issued green bonds and other similar bonds. One reason we are attracted to emerging market green bonds is the particularly large positive impact that green bonds funding of environmental projects in the developing world can have; greater than in the developed world. For example, if you build a wind farm in China or India, the renewable energy created is likely to replace coal-fired power generation. This can be more impactful in terms of carbon dioxide emission reduction than a new wind farm built in, say Denmark, where the new renewable energy is likely to replace gas fired power generation or renewable energy.

Covid-19 and green bonds

How then has the green bond market fared in the light of the Covid -19 crisis? Green bond supply fell slightly in first half of 2020 compared to the previous year[1], as issuers sold social or sustainability bonds to capitalise on investor interest in social considerations; issuance bounced back in the latter half of the year, as real economy green capex continued to rise. Given the rapid rise in social and sustainability bond supply in 2020, green bond supply fell to 51.5% of the total issuance of green, social and sustainability bonds, from 81.6% in 2019.

[1] 'Green bond issuance falls 13% in first half of year', Bloomberg, 1 July 2020.

Outlook for green bonds

Post the covid-19 crisis, we expect a rise in green bond supply led by multi-laterals, sovereigns and corporates. Why are we so confident that green bonds supply will rise? The EU has signalled its intention to issue green bonds for the first time in 2021; it intends to issue 30% of its EUR750bn NextGeneration recovery fund in green bond format between 2021 and 2026.

Other sovereigns are also expected to be active. The UK and Italy are expected to issue green bonds for the first time in 2021. Indeed, the UK aims to create a sovereign green bond curve. France and Germany should be repeat issuers in 2021. We may also see an increase in developing world sovereign supply after Egypt issued the first sovereign green bond from the Middle East and North Africa in October 2020.

In addition, we believe the geo-political background is more positive towards action on climate change than for a long time, and should also be supportive of the green bond market. For the first time since the 2015 Paris climate change agreement, the EU, China and the US aim to cut CO_2 emissions. Biden pledged to spend $2tn on clean energy, re-join the Paris Agreement and achieve net-zero emissions by 2050[2]. China aims to be net zero by 2060.

The European carbon price recently rose to its highest ever level at over EUR30/tCO_2; this may prompt firms in the EU carbon regime[3] to fund emission reduction projects, rather than buying permits. This real economy green capex could lead to further green bonds supply.

Pricing dynamics could also be supportive to green bond issuance. Some green bonds are being priced more attractively than non-green bonds at new issue[4]. This may make more entities wish to issue green bonds.

Portfolio implications

We suspect that demand for green bonds will continue to grow not just from impact investors looking to combine a good return with an environmental impact, but due to many investors who are keen to integrate wider ESG concerns into their investment philosophy. We think that green bonds can play a role in funds adopting an 'ESG integration' strategy, particularly when green bond issuance signals the entity issuing the bond genuinely is transitioning to a low carbon future.

If some green bonds become expensive versus their non-green counterparts, what might be the remedy? We would recommend buying quality EM green bonds. These bonds may offer more attractive spread valuations, as currently there are few dedicated buyers of EM green bonds. But EM green bonds also can have very positive environmental impacts, through achieving significant CO_2 emission reduction and building resiliency to climate change damage.

Michael Ridley
Senior Responsible Investment Specialist

Find out more

Further information on green, social and sustainable bonds can be found in our thought-leadership article "Green Bonds 2021: Bounce Back", available on our website.

$2tn **was pledged by Biden to spend on clean energy**

The EU plan to issue

€225bn **in green bonds**

[2] 'US election: climate experts react to Joe Biden's victory', Carbon Brief; Clear on Climate, 9 November 2020

[3] The EU ETS covers power and heat generation; oil refineries, steel works and production of iron, aluminium, metals, cement, lime, glass, ceramics, pulp, paper, cardboard, acids and bulk organic chemicals; plus, intra-EU commercial aviation

[4] 'Sovereign green bonds now 'attractive' for debt offices, says UK debt chief', Environmental Finance, 8 December 2020.

Diversity: Beyond the Boardroom

At HSBC Asset Management, we strongly believe that there is power in diversity. We have found that diversity within our teams leads to more robust discussion, decision making and effective outcomes. It is not difficult to see why so many studies have proven that a more diverse leadership team leads to higher returns for a company.

This is particularly true with gender diversity. When women make up more than one in three executive roles, the benefits of gender diversity become most apparent. By having more women in the decision-making room, companies are better equipped to unlock different perspectives and understand the needs of their customers.

Gender diversity and inclusion, therefore, are important to us and in our approach to the companies in which we invest. In 2019, we strengthened our engagement policy for women on boards to vote against the Chair of the Nomination Committee if there are no women on the board.

The inclusion of women is also an important part of the 'S' in our ESG evaluation and engagement with companies. We look at a company's gender pay gap, the percentage of women in leadership positions and the policies around diversity and inclusion. In 2020, we took this a step further and focused on gender diversity within our largest holdings in emerging market companies.

"For boards to be truly representative of society, companies must do more to ensure an appropriate pipeline of diverse leaders."

We found that the lack of female representation in senior positions is even more pronounced – females make up only 10% of the average company board compared to 20% plus in Western countries. To address this, we engaged with nearly 100 companies to strengthen female senior representation at the senior decision making level and a number of them have added additional female directors as a result.

We recognise that diversity must not be limited to gender. For boards to be truly representative of society, companies must do more to ensure an appropriate pipeline of diverse leaders. Whilst gender diversity at entry levels in organisations are typically robust, the gender balance significantly declines at higher levels. The numbers are even more stark when it comes to ethnic diversity.

We believe companies can benefit from diverse perspectives, experiences and talents throughout the organisation. We believe this is especially important in order to thrive in today's complex, interconnected world. Creating mentoring programmes, enhanced flexible working arrangements and sponsorship opportunities can go some way to unlocking these benefits, resulting in more effective teamwork and decision-making leading to better results for clients and ultimately more sustainable businesses.

Diversity in the spotlight:

HSBC Asset Management

Our CIO's journey

Joanna Munro became the Global CIO for HSBC Asset Management in 2019. She joined the asset management industry in '80s. At that time, Joanna assumed that by the turn of the century, being female would be nothing special. At the inception of the Diversity Project in 2015, she along with its founder, Helene Morrissey, and six or seven females, reflected on how women were still a minority in investments. This was a real call to action.

Joanna took a leadership role in the Diversity Project, Early Career Workstream. The workstream aimed to broaden the appeal of a career in asset management to all graduates from different socio-economic backgrounds, subject choices and ethnicities. She also encouraged her colleagues to participate in workstreams about Returning to the workforce, Flexibility in working and Neurodiversity. The Diversity Project provided the forum for asset managers, consultants and asset owners to openly discuss the common challenges and exchange ideas and experiences.

Joanna also became a sponsor in our 'Accelerating Female Leadership' programme. This meant supporting women
to reach leadership roles through toolkits, networking opportunities and specific leadership training. HSBC was recently awarded the Citywire Gender Diversity Awards for Asia Regional Leader and Best Gender Representation. It was great to be recognised as a leader in our industry, with 21% female portfolio managers. But there is more to done.

21%

of HSBC portfolio managers are female

10%

of the average emerging market company board are females compared to 20% plus in Western countries

Joanna co-sponsored a project to examine the barriers for women in Investments. One theme that came out of this project, was the real and perceived challenges of taking maternity leave as a portfolio manager. This is an industry wide challenge. Building on some earlier work sponsored by the Diversity Project, we've now expanded this to consider parental leave and sabbaticals.

In Joanna's own career, she felt supported by HSBC Asset Management's flexible working policy and worked from home one day a week in order to stay in touch with her younger children. Later on, she decided to work part-time for a number of years to pursue educational opportunities. It was important to her that line managers were encouraging and positive about flexibility and this enabled an understanding environment.

She is a champion for diversity, and believes with zoom, every function – including Investments – can operate largely from home. We're now able to extend that flexibility to portfolio managers which is very positive for both women and men.

As Global CIO, Joanna has become a lead role model for other females. She has demonstrated that women can be senior leaders while also being there for their families.

Michelle Hilliman, CFA
Global CIO Office

Source: HSBC Asset Management as at December 31, 2020

Public Policy and Advocacy

Public Policy and Advocacy

Supporting a sustainable finance system

We are committed to playing an active and constructive role in supporting the development of a well-functioning and more sustainable financial system. This involves engaging with regulators and policymakers directly and through our work and participation in industry bodies. We focus on three main areas:

1

Addressing the key risk of climate change through supporting policy and action to expedite the transition to a low-carbon economy. We therefore join public investor statements and participate in industry body working groups where we believe this will signal support for policy measures and frameworks that support the low-carbon transition and develop relevant insights.

2

Directing capital to deliver on the Paris Climate Agreement and UN Sustainable Development Goals. Collaboration is central to making progress in this area and we leverage our global relationships with development finance institutions, investors, regulators and relevant organisations and initiatives to innovate.

3

Improving market standards and transparency to help markets operate more efficiently and to strengthen the ability of investors to identify material ESG risks and opportunities to support the two above areas. Standards and transparency are central to providing the appropriate information for us as investors, as well as for our clients. Given that ESG factors are embedded in our investment decision-making, the quality and availability of this data is critical. We therefore support voluntary and, where appropriate, regulatory frameworks to enhance company disclosure on material sustainability issues.

We are active members of a variety of industry bodies, initiatives and networks that advocate for progressive public policy development and action on sustainable investment. These include the IIGCC Policy Group, the UK Investment Association Sustainable and Responsible Investment Committee, Impact Investing Institute and UKSIF. We also work closely with our HSBC Group Public Affairs colleagues to respond directly to consultations and discussion papers that contribute to shaping a more sustainable financial system.

Over the past year we have been part of various consultations and workings groups and a selection of those are outlined below:

- Financial Conduct Authority's consultation paper on climate-related disclosures;
- World Economic Forum's consultation on common metrics and consistent reporting of sustained value creation;
- Hong Kong Securities and Futures Commission (SFC) consultation on management and disclosure of climate-related risks by fund managers;
- Member of European Fund and Asset Management Association (EFAMA)'s ESG & Stewardship Standing Committee;
- Member of British Standards Institution (BSI)'s Strategic Advisory Group;
- Member of The Investment Association (IA)'s Stewardship Reporting Framework Working Group;
- Participant in ICMA (International Capital Markets Association)'s Sustainability-linked bond working group and Climate transition finance working group.

As global investors, we are aware of the risks and opportunities climate change presents to the investments we make on behalf of our clients and as such we are committed to playing our full part in addressing this challenge. To support a sustainable financial system we participate and contribute to various working groups and collaborative initiatives. We take part in both regional and global initiatives, a few of which are further outlined below:

As a founding member of the **One Planet Asset Manager Initiative (OPAM)**, we were pleased to see it expand from its original eight asset manager members in 2020 with the addition of six new asset managers. There was other considerable progress made in 2020 in supporting sovereign wealth funds implementing Principles of the One Planet Sovereign Wealth Fund (OPSWF) Framework. During the 3rd OPSWF CEO Summit on the 20th November 2020 a series of concrete actions were approved and announced, including a commitment from the OPAM members to support the recommendations of Task Force on Climate-related Disclosures (TCFD) and call for alignment to TCFD among investee companies.

Finance to Accelerate the Sustainable Transition – Infrastructure (FAST-Infra) was borne out of One Planet and is a President Macron initiative. We are a founding member of FAST-Infra with the goal to develop sustainable infrastructure into a deep and liquid asset class and scale-up private investment in sustainable infrastructure in emerging and developing countries. The group is working towards these goals by creating a sustainable infrastructure label with underlying standards, governance and reporting rules and terms by which the label is awarded.

Biodiversity was a key theme for us in 2020. We continued as lead investor for two collaborative engagements through the **UNPRI**. Limiting deforestation was the focus of our discussions with Nike on policies and disclosure in sourcing leather, and Costco on its policies on meat sourcing.

We continued our participation in the **Investors Leaders Group (ILG) of the Cambridge Institute for Sustainability Leadership** and also joined the steering group for Financial Risks for Biodiversity loss and Land use degradation. Incorporating the assessment of biodiversity as part of investing decision-making is a key emerging focus for us. We aim to be a leader in natural capital as evidenced by the creation of HSBC Pollination Climate Asset Management and our new Biodiversity Policy. Our participation in this working group expands on the SDG-aligned investment measurement framework and Environmental Scenario Analysis (ESA) work completed as part of the ILG.

“As a founding member of the One Planet Asset Manager Initiative (OPAM), we were pleased to see it expand from its original eight asset manager members in 2020.”

To further develop biodiversity investment tools and expertise, we are part of **Club B4B + (Business for Positive Biodiversity, the Club des Enterprises pour une Biodiversité Positive)** which aims to create a database with company level data. We are participating alongside other asset managers and financial institutions on data requirements from third-party providers and to test the Global Biodiversity Score (GBS™) and the methodology of associated biodiversity footprint.

Looking forward, as part of the EU's Sustainable Finance Action Plan, the **Sustainable Finance Disclosure Regulation (SFDR)** will come into force in March 2021. This will see us disclosing policies on the integration of sustainability risk into our decision making, including the likely impact on returns, and any corresponding remuneration policies. We will also be highlighting any social or environmental characteristics of our products and disclosing relevant information, which may include methodologies and metrics used to assess, measure and monitor the product's impacts and objectives.

Appendix: Demystifying Responsible Investment Terms

Responsible Investment and Sustainable Investment Overview

Responsible Investment: Refers to the overarching framework for how investment analysis and portfolio construction consider environmental, social, and governance (ESG) factors as part of decision-making.

Sustainable Investment: Refers to the specific styles of sustainable strategies that can be implemented for funds as part of the investment process. Within these strategies multiple different ESG issues may be analysed and used to support investment objectives, from water use, to health and safety policies, to executive pay structures.

ESG integration: As per the PRI, ESG integration involves the explicit and systematic inclusion of ESG issues in investment analysis and investment decisions.

Positive/best-in-class screening: Leverages third-party or in-house ratings or metrics to develop an investment universe comprised of “top performing” ESG companies/issuers, providing lower or limited exposure to the “worst performers”.

Sustainability themed investing: Focuses on identifying themes or assets specifically related to sustainability that are likely to be relevant in the future and may expand to be applicable to other markets, sectors and geographies.

Impact investing: Allows investors to invest in targeted solutions with a clear social, environmental or social purpose shown via measurable metrics (e.g. activities, outcomes, impacts).

Active ownership: The use of shareholder power to influence corporate behaviour, including through direct corporate engagement, filing or co-filing shareholder proposals, and proxy voting.

Negative screening/exclusionary screening: Excluding specific industries or companies with negative ESG impact, allowing investors to remove specific sectors or companies which they ethically or morally object to.

Norms-based screening/exclusions: Excluding specific companies that breach international conventions, such as the 10 United Nations Global Compact principles, which focus on human rights, labour, anti-corruption and environmental standards.

Stewardship: Voting and engagement activities that focus on protecting and enhancing value in investee companies, with the expectation that directors of companies provide effective management and ensure that the company acts in the interests of all shareholders and other stakeholders.

Corporate governance: A company’s leadership, executive pay, internal controls and shareholder rights are encompassed by corporate governance, and this may be set out in specific national codes such as the UK Corporate Governance Code.

Biodiversity: The variety of life on Earth at all its levels, from genes to ecosystems, and can encompass the evolutionary, ecological, and cultural processes that sustain life.

Natural capital: The world’s stocks of natural assets which include geology, soil, air, water and all living things. It is from this natural capital that humans derive a wide range of services, often called ecosystem services, which make human life possible.

Climate Analysis and Risks

Climate risk: Climate change is a long-term investment risk, and this refers to the challenges that companies may face in mitigating physical or transition risks caused by climate change. Transition risks refer to those associated with the transition to a lower-carbon economy, such as policy changes and shifts in market norms.

Climate scenario analysis: Models the possible business implications of climate-related risks and opportunities to different sectors across different potential climate-related scenarios, for example a 2 degree or lower scenario, in order to inform stakeholders on which businesses are most or least resilient to climate risks.

Climate transition themes: These themes are likely to generate investment opportunities in response to climate challenges. These include renewable energy, energy efficiency, clean transport, green energy, sustainable water and wastewater management, climate change adaptation, pollution and waste prevention and control, circular economy and resource efficiency and natural capital and ecosystems.

Carbon intensity: Volume of carbon emissions per million dollars of revenue (carbon efficiency of a portfolio), expressed in tons CO2e / $M revenue or other normalising denominators. This metric takes into account differences in the size of companies (e.g. considers the carbon efficiency of companies).

Carbon footprint: Total carbon emissions for a portfolio normalized by the market value of the portfolio, expressed in million tonnes of CO2e per USD1 million in company revenue.

Scope 1 emissions: Direct emissions from owned or controlled sources, such as company vehicles.

Scope 2 emissions: Indirect emissions coming from purchased electricity and heating used by a company.

Scope 3 emissions: All other indirect emissions that arise from activities such as employee commuting and business travel. Material Scope 3 emissions will differ depending on a company's activities.

Net-zero: The balance between the amount of greenhouse gases produced by society and the amount removed from the earth's atmosphere, such as through reforestation or wetland restoration that helps absorb carbon dioxide. Net zero is reached when the amount added to the atmosphere is no more than the amount taken away.

Low-carbon transition: The process of transitioning to a more climate-resilient and low-carbon economy through the development of technologically innovative solutions and new operations.

Industry Initiatives, Pledges and Principles

Principles for Responsible Investment: An international network of investors supported by the UN and established in 2006, dedicated to demonstrating commitment to Responsible Investment.

UK Sustainable and Finance Association (UKSIF): A UK-based membership organisation for sustainable and responsible financial services.

International Corporate Governance Network (ICGN): An investor-led organisation that promotes good governance and stewardship from their investor-signatories, contributing to growing sustainable economies worldwide.

Institutional Investor Group on Climate Change (IIGCC): A European membership group for investor collaboration on climate change.

Montreal Carbon Pledge: Supported by the Principles for Responsible Investment (PRI) and the United Nations Environment Programme Finance Initiative (UNEP FI), this is a voluntary initiative, committing investor signatories to measure and publicly disclose the carbon footprint of their investment portfolios on an annual basis.

Climate Action 100+: A collaborative investment initiative aligned with the Paris Agreement, signatories work with the companies in which they invest to ensure that they are minimising and disclosing the risks and maximizing the opportunities presented by climate change and climate policy, in particular targeting the 100 largest greenhouse gas emitters.

CDP: Previously referred to as the Carbon Disclosure Project, the CDP was created to drive further corporate transparency around climate change, deforestation and water security, by encouraging companies to respond to CDP’s disclosure request.

UN Global Compact: A set of 10 principles designed to encourage companies to adopt socially responsible practices and to report on their implementation, covering human rights, labour, anti-corruption and the environment.

Taskforce on Climate-related Financial Disclosures (TCFD): The TCFD was established to develop recommendations for better climate-related disclosures that could promote more informed financial decisions. It supports the disclosure of companies’ data on their carbonfootprint, governance, strategy, risk management, and metrics and targets.

The Paris Agreement: Also referred to as the Paris Climate Agreement or the Paris Accord, this is a historic agreement within the United Nations Framework Convention on Climate Change signed by 197 countries in December 2015. The Paris Agreement’s long-term goal is to keep the increase in global average temperature to well below 2 °C above pre-industrial levels; and to limit the increase to 1.5 °C, since this would substantially reduce the risks and effects of climate change.

EU Action Plan on Sustainable Finance: The European Commission released an action plan in 2018 for financing sustainable growth to reorder capital flows towards sustainable investment. The goal is to achieve sustainable and inclusive growth, mainstream sustainability into risk management

and foster transparency and long-termism in financial and economic activity.

UN Sustainable Development Goals: 17 Global Goals for action by all countries – developed and developing – in a global partnership to achieve the 2030 Agenda for Sustainable Development, adopted by all United Nations Member States in 2015. The Goals provide a shared blueprint for peace and prosperity for people and the planet, now and into the future.

Important Information

Important Information

This document can be distributed to non-professional investors as defined by the Markets in Financial Instruments Directive within countries set out below.

The value of investments and the income from them can go down as well as up and investors may not get back the amount originally invested. Past performance contained in this document is not a reliable indicator of future performance whilst any forecasts, projections and simulations contained herein should not be relied upon as an indication of future results. Where overseas investments are held the rate of currency exchange may cause the value of such investments to go down as well as up. Investments in emerging markets are by their nature higher risk and potentially more volatile than those inherent in some established markets. Economies in Emerging Markets generally are heavily dependent upon international trade and, accordingly, have been and may continue to be affected adversely by trade barriers, exchange controls, managed adjustments in relative currency values and other protectionist measures imposed or negotiated by the countries with which they trade. These economies also have been and may continue to be affected adversely by economic conditions in the countries in which they trade. Mutual fund investments are subject to market risks, read all scheme related documents carefully.

This document provides a high level overview of the recent economic environment, and is for information purposes only. It is a marketing communication and does not constitute investment advice or a recommendation to any reader of this content to buy or sell investments nor should it be regarded as investment research. It has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of its dissemination.

The contents of this document may not be reproduced or further distributed to any person or entity, whether in whole or in part, for any purpose. All non-authorised reproduction or use of this document will be the responsibility of the user and may lead to legal proceedings. The material contained in this document is for general information purposes only and does not constitute advice or a recommendation to buy or sell investments. Some of the statements contained in this document may be considered forward looking statements which provide current expectations or forecasts of future events. Such forward looking statements are not guarantees of future performance or events and involve risks and uncertainties. Actual results may differ materially from those described in such forward-looking statements as a result of various factors. We do not undertake any obligation to update the forward-looking statements contained herein, or to update the reasons why actual results could differ from those projected in the forward-looking statements. This document has no contractual value and is not by any means intended as a solicitation, nor a recommendation for the purchase or sale of any financial instrument in any jurisdiction in which such an offer is not lawful. The views and opinions expressed herein are those of HSBC Asset Management at the time of preparation, and are subject to change at any time.

All data from HSBC Group unless otherwise specified. We accept no responsibility for the accuracy and/or completeness of any third party information obtained from sources we believe to be reliable but which have not been independently verified.

HSBC Asset Management is a group of companies in many countries and territories throughout the world that are engaged in investment advisory and fund management activities, which are ultimately owned by HSBC Holdings Plc. HSBC Asset Management is the brand name for the asset management business of HSBC Group.

The above communication is distributed by the following entities:

In Bermuda by HSBC Global Asset Management (Bermuda) Limited, of 37 Front Street, Hamilton, Bermuda which is licensed to conduct investment business by the Bermuda Monetary Authority; in France by HSBC Global Asset Management (France), a Portfolio Management Company authorised by the French regulatory authority AMF (no. GP99026); in Hong Kong by HSBC Global Asset Management (Hong Kong) Limited, which is regulated by the Securities and Futures Commission. This document has not been reviewed by the Securities and Futures Commission.; in India by HSBC Asset Management (India) Pvt. Ltd, 16 V. N. Road, 3rd Floor, Fort, Mumbai 400001, which is registered to conduct investment management business with SEBI; in Switzerland by HSBC Global Asset Management (Switzerland) Ltd whose activities are regulated in Switzerland and which activities are, where applicable, duly authorised by the Swiss Financial Market Supervisory Authority. Intended exclusively towards qualified investors in the meaning of Art. 10 para 3, 3bis and 3ter of the Federal Collective Investment Schemes Act (CISA); in Malta by HSBC Global Asset Management (Malta) Limited, Business Banking Centre, Mill Street, Qormi QRM 3101 Company Reg No C20653, which is licensed to provide investment services in Malta by the Malta Financial Services Authority under the Investment Services Act'; in Singapore by HSBC Global Asset Management (Singapore) Limited (AMSG), which is regulated by the Monetary Authority of Singapore. Recipients in Singapore are to contact AMSG in respect of any matter arising from, or in connection with, this document; in the US by HSBC Global Asset Management (USA) Inc. is an investment advisor registered with the US Securities and Exchange Commission; and in the UK by HSBC Global Asset Management (UK) Limited, who are authorised and regulated by the Financial Conduct Authority.

INVESTMENT PRODUCTS:

Are not a deposit or other obligation of the bank or any of its affiliates;

Not FDIC insured or insured by any federal government agency of the United States;

Not guaranteed by the bank or any of its affiliates; and

Are subject to investment risk, including possible loss of principal invested.

HSBC
Asset Management

Together we thrive