Climate change policy

Fulfilling our fiduciary duties on climate

As a global investor, we are aware of the risks climate change presents to our investments and as such we are committed to playing our full part in addressing the issue of climate change. This 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 see this as consistent with our fiduciary duties to our clients.

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HSBC Global Asset Management

There is a growing international consensus that climate change is unequivocal. The prospect of increased frequency and severity of extreme weather events, increased morbidity and mortality from diseases and the resulting displacement of populations, damage to infrastructure and political and economic instability led to 196 countries to agree to limit the increase in global average temperature to below 2 degrees above pre-industrial levels. This ambitious but achievable target implies significant changes to the current structure of the global economy.

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

There are three areas of downside risks:

Physical

- A devaluation of assets resulting from physical damage to property, disrupted global supply chains and reduced access to natural resources.

Transition

- The structural changes that economies will need to make to transition to a low-carbon economy, that could result in a reassessment of the value of a large range of assets and leave investors exposed to stranded assets.

Liability

- Large carbon extractors and emitters could in the future be found liable for compensating those that have suffered the negative effects of climate change.

We recognise that climate related risks are a function of cumulative emissions, therefore earlier action will mean less costly adjustment. We believe the risk to our clients' assets will be minimised if the transition begins early, follows a predictable path and allows the market to anticipate the transition to a 2 degree world.

HSBC Global Asset Management commits to continue to:

1. **Identify low-carbon investment opportunities** that meet our clients' investment criteria and are subject to their risk and return objectives.

2. **Further develop our capacity to assess the risks and opportunities** presented by climate change and climate policy to our investment portfolios and integrate, where relevant, this information into our investment decisions.

3. **Engage with investee companies** to ensure that they are minimising and disclosing the risks and maximising the opportunities presented by climate change and climate policy.

4. **Report on the actions** we have taken and the progress we have made in addressing climate risk and investing in areas such as renewable energy, energy efficiency and climate change adaptation.

5. **Work with policymakers** to support their efforts to implement policy measures that encourage capital deployment at scale to finance the transition to a low carbon economy and encourage investment in climate change adaptation.

Putting our climate change commitments into practice

Low-carbon investment

There is much discussion about how the transition to a low carbon economy will be financed. It is obvious to us that some industries will present good investment opportunities as their innovation and leadership drive the transition to a low carbon economy. The range of investment products and low-carbon indices in the market is growing and, whilst we have some investment options available to clients, we will continue to work closely with clients to meet their investment requirements, expanding our offering as appropriate.

Integration

From an investment perspective, resilience begins with an understanding that climate change risk can have an impact at investment strategy, industry and company level. ESG (Environmental, Social and Governance) issues are integral to our security selection and on-going portfolio monitoring. Carbon-intensive industry sectors are the primary focus, as they will be significantly affected in certain scenarios.

Active Stewardship

Shareholders have an important role to play in the stewardship of companies in which they invest. We will continue to engage with carbon-intensive companies in our portfolio to encourage climate-resilient business strategies and associated reporting. This is part of our fiduciary duty to protect and enhance our clients' assets. This engagement will focus on the following areas:

1. **Governance** – to ensure senior accountability to manage climate risk and opportunities
2. **Long term decarbonisation plan** – to understand how their strategies are aligned with the global agreement and the rationale for capital spending
3. **Operational efficiency including quantified efficiency targets** – to ensure efficient management of natural resources
4. **Public policy positions** – to understand how lobbying activities and political spending support cost-effective measures to mitigate climate change risks and support low-carbon investments
5. **Transparency and disclosure** – to allow investors to evaluate the climate resilience of business strategies

We engage directly and collectively with other investors, in particular through the Institutional Investors Group on Climate Change (IIGCC) and the United Nations (UN) backed Principles for Responsible Investment (PRI).

We will continue to use our vote to support our engagement efforts and, where we consider that companies are not making sufficient progress towards the engagement goals, or that material sustainability issues have not been addressed, we will consider voting against the annual report and accounts, specific directors and remuneration reports. Over the last five years we have witnessed a steady growth in the number of climate-related shareholder proposals put forward at company AGMs. We have supported many of these to date and will continue to support shareholder resolutions that request additional disclosure or action in line with our view of the company.

Reporting

As an advocate for increased transparency in this area, we are committed to reporting our efforts to clients as part of our regular ESG reporting and to the public on an annual basis. As signatories to the Montreal Carbon Pledge we are committed to measuring and publicly disclosing the carbon footprint of our clients' investment portfolios on an annual basis.

Putting our climate change commitments into practice

Public Policy

Should the global average temperature rise above 2 degrees, the assets in which our clients are invested could be adversely affected. It is in all of our interests that the transition to a low carbon global economy is smooth rather than disruptive. For this reason we engage with policymakers both independently and collectively with other investors through the IIGCC to support a global agreement and achieve the required policy changes. Our public policy efforts set out to encourage governments to:

- Provide stable, reliable and economically meaningful carbon pricing that helps redirect investment commensurate with the scale of the climate change challenge
- Strengthen regulatory support for energy efficiency and renewable energy, where this is needed to facilitate deployment
- Support innovation in and deployment of low carbon technologies, including financing clean energy research and development
- Develop plans to phase out subsidies for fossil fuels
- Ensure that national adaptation strategies are structured to deliver investment
- Consider the effect of unintended constraints from financial regulations on investments in low carbon technologies and in climate resilience

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