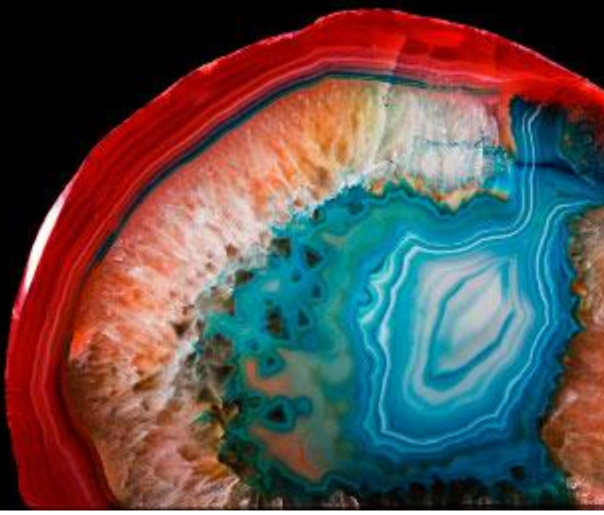
HSBC Asset Management



Securitised Credit and approach to ESG

August 2026

For Professional Clients only. Marketing communication.

Securitised Credit is very different to other asset classes. Within Securitised Credit, there is no independent third party ESG data provider or a standardised methodology on how ESG factors should be assessed. According to Fitch's[1] study of approximately 4,800 transactions, E, S and G factors have a direct impact on just over 2% of all transactions, while S and G are the main contributors within this universe.

There are challenges faced in our engagements, which range from the lack of awareness by the Sponsors/Originators to absence of standardisation around ESG analysis or disclosure requirements. Further engagement with the industry bodies (rating agencies, SFA, ESMA and AFME) is therefore needed. We have held a rating from the PRI[2] in Securitised Credit since September 2020, as per our Fixed Income credit research platform.

In 2023, we have also embarked upon a new level of credit assessment to bring us in line with the wider Fixed Income platform and clients' decarbonisation requirements. Specifically, that of measuring Carbon Intensity within our individual Securitised Credit investments and at an aggregate portfolio level.

Focus on ESG in the Securitised Credit Analysis Process:

The process can be split into three distinct areas:

1. Relevance to credit:
   - E, S and G factor analysis is integrated into the credit process
   - Many factors pose indirect benefit or risk to securitised credit
   - We assess ESG factors with respect to their relevance to credit risk
   - ESG factors are tailored for each ABS asset class to be relevant to the underlying security
2. Process:
   - Rated 'A+' by PRI in September 2020
   - We identify ESG issues most relevant to credit and assign proprietary weightings
   - Each transaction is scored using a proprietary template with a 'Low', 'Medium' or 'High' impact on credit
3. ESG challenges in Securitised Credit:
   - ESG data comes from originator/sponsor and disclosure levels vary
   - No independent third party ESG data provider for Securitised Credit
   - We leverage our in-house ESG research platform where the originator/sponsor is covered by the Fixed Income team
   - Further engagement with the industry bodies (rating agencies, SFA and ESMA) is needed

1. Introducing ESG Relevance Scores for Structured Finance and Covered Bonds. Fitch, Oct 2019.
2. PRI Assessment Report available on request from HSBC AM

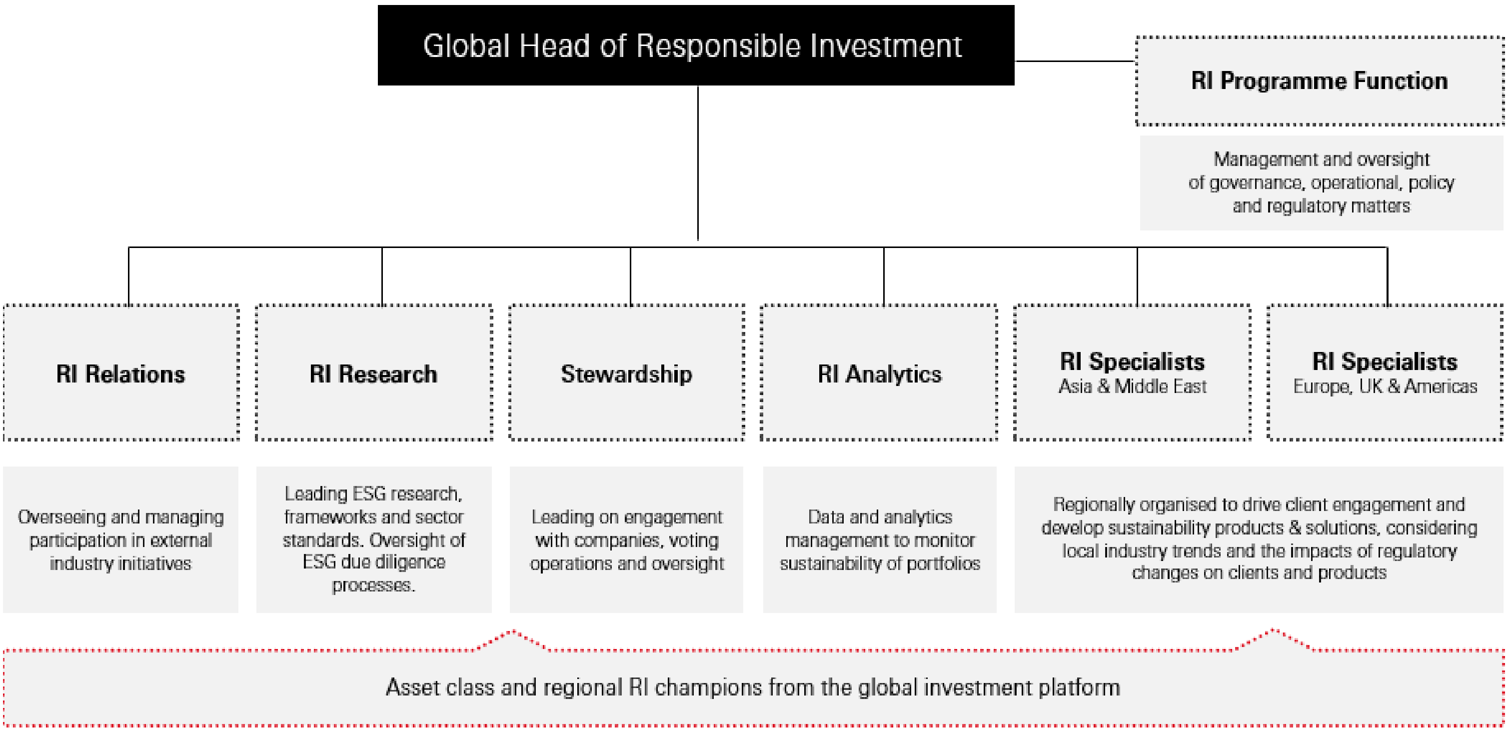
The views expressed above were held at the time of preparation and are subject to change without notice.

ESG resources across the asset management business: The Responsible Investment (RI) team

The RI team is responsible for ESG integration (standards, best practices and implementation) throughout our investment activity for traditional asset classes, developing new ESG, climate and thematic products and solutions, and for stewardship activities as well as research and innovation. Although spanning across different areas of expertise, the RI team operates as a single collaborative team.

The RI team works hand in hand with asset class teams in integrating ESG into investment processes and in product development. Another key role of this team is to establish sustainable investment frameworks and analyse applicable regulatory regimes. This includes Sustainable Finance Disclosure Regulation (SFDR), impact analysis of sustainability policies on investment strategies, creation of proprietary sustainability and ESG scoring, product design standards, sustainable product approval and monitoring of these against sustainable objectives and targets.

The RI Team is segmented into four distinct areas:



Source: HSBC Asset Management, as at July 2026. The views expressed above were held at the time of preparation and are subject to change without notice.

Sample ESG risk assessment for Prime UK RMBS:

Each transaction is scored with a ‘low’, ‘medium’ or ‘high’ impact on credit. Any transaction with ‘high’ impact requires mitigating factors to be thoroughly documented – if no mitigating factors are identified and the transaction is deemed ineligible, it will not be submitted to the Investment Forum

RMBS

Transaction:		ESG Factor Weighting	ESG Score
Environmental (20%)	Sustainable building practices including Green certificate credentials	15.0%	5
	Asset and/or cashflow exposure to extreme weather events and other catastrophe risks	5.0%	7
Social (40%)	Fair lending practices	10.0%	6
	Fair servicing practices	10.0%	6
	Accessibility to affordable housing	10.0%	4
	Social impact of collateral characteristics (i.e, refi risk for IO loans, Libor replacement for legacy mortgages)	10.0%	6
Governance (40%)	Originator's/Sponsor's ownership structure and corporate governance, internal controls and financial disclosure	10.0%	5
	Originator's/Sponsor's management experience and strategy	5.0%	5
	Compliance with Code of Conduct, litigation and reputation	5.0%	5
	Originator, servicer, sponsor, counterparty risk	5.0%	4
	Legal structure and bankruptcy remoteness	5.0%	6
	Transaction data and periodic reporting	5.0%	6
	Jurisdictional legal risk, foreclosure laws, government intervention	5.0%	4
	Combined ESG Risk Score	Medium	5.3

Key:

Assign an ESG Risk Assessment Score (0-10, with 10 being the lowest level of risk) to each category for the borrower using the Qualitative Grid framework for its sector specific criteria. A score of 0 corresponds to High, 5 to medium and 10 to Irrelevant

0 – 1	2 – 3	4 – 5	6	7 – 8	9 – 10
Highly relevant, significant impact on credit on an individual basis	Relevant to credit, may have impact in combination with other factors	Somewhat relevant to credit	Minimally relevant to credit	Irrelevant to the transaction, relevant to sector	Irrelevant to the transaction, irrelevant to sector

HSBC Combined ESG Score

High	Medium	Low
High ESG Risk-relevance to Transaction	Neutral	Low ESG Risk-relevant to Transaction

Source: HSBC Asset Management, as at June 2026.

Sample ESG risk assessment for Consumer ABS:

Transaction:		ESG Factor Weighting	ESG Score
Environmental (10%)	Asset and/or cashflow exposure to extreme weather events and other catastrophe risks	10%	7
Social (50%)	Fair lending practices	10%	1
	Fair servicing practices	10%	3
	Risk-based pricing, serving of underbanked customers	20%	1
	Social impact and structural shifts affecting consumer behavior, persistent debt	10%	0
Governance (40%)	Originator's/Sponsor's ownership structure and corporate governance, internal controls, financial disclosure. Management experience and strategy	10%	5
	Originator's/Sponsor's ESG policy	10%	3
	Compliance with Code of Conduct, litigation and reputation. Representations and warranties	10%	2
	Transaction data and periodic reporting	5%	5
	Jurisdictional legal risk, foreclosure laws, government intervention	5%	2
ESG Risk Assessment Rating and Score		high	2.7

Key:

Assign an ESG Risk Assessment Score (0-10, with 10 being the lowest level of risk) to each category using the Qualitative Grid framework for its sector specific criteria

0 – 1	2 – 3	4 – 5	6	7 – 8	9 – 10
Very high risk, significant impact on investment decision on an individual basis	High risk, may have an impact on investment decision in combination with other factors	Medium ESG Risk	Medium-Low ESG risk	Low ESG risk	Very low ESG risk

HSBC Combined ESG Score

HIGH	Medium	Low
High ESG Risk	Neutral ESG Risk	Low ESG Risk

Source: HSBC Asset Management, as at June 2026

Each transaction is scored with a ‘low’, ‘medium’ or ‘high’ impact on credit. Any transaction with ‘high’ impact requires mitigating factors to be thoroughly documented – if no mitigating factors are identified and the transaction is deemed ineligible, it will not be submitted to the Investment Forum for review.

- Credit Card transaction rejected based on low Social and Governance scoring
- Excessive APRs: average retail APR 43% with 10% of pool over 55% (UK-wide average for lower credit scores is 35.4%). From a social impact perspective excessive APRs directly impact on repayment and affordability
- Originator refunded over GBP4m to 180,000 customers after FCA disclosures of unfair practices involving excessive fees and charges in 2016
- FCA persistent debt regulation a potential risk as monthly only 5% of borrowers clear balance and 24% pay min balance. We would need to see these metrics improve through better product offering

ESG factors are assessed with respect to their relevance to credit risk, as opposed to considering ESG opportunities, by a credit analyst based on information provided by the Originator/Sponsor of the transaction or the sell side. For each securitised credit sector, we identify ESG issues most relevant to credit, and in absence of third-party data or standardised methodology, we assign proprietary weightings according to the nature of issues and securitised credit sector. Governance is typically allocated a substantial weighting; however, each asset class may have a different skew towards environmental or social factors given their importance within the respective asset class.

As an example, for auto ABS transactions we establish the proportion of diesel vehicles in the pool, and for European Autos, we focus on those engines not compliant with the Euro 6 emissions standards. For originators involved in emissions scandal, we check the proportion of vehicles fitted with a specific engine.

For CMBS and Whole Business transactions we consider building efficiency including Green building certificate credentials and focus on environmental site risk and associated remediation and liability costs.

For RMBS and Single-Family Rental (SFR) we consider sustainable building practices and improving green credentials of houses in terms of energy efficiency, following Leadership in Energy and Environmental Design (LEED) standards at time of major renovations (SFR) and reducing carbon footprint through use of innovative technology. For the CLOs we evaluate sponsors' ESG policy and portfolio selection criteria to establish presence of industries that may have environmental or social impact.

Example of ESG negotiation success for CLOs:

- The HSBC CLO team has a robust track record of negotiating and implementing ESG related investment restrictions across US and European CLOs.
- We've consistently used our position as an investor to help shape market practice, setting precedents in CLO documentation, encouraging managers to adapt their investment processes, and raising awareness of ESG expectations across the broader CLO ecosystem.
- This topic arises frequently across documentation negotiations, new manager due diligence and existing manager meetings.
- Market standards are moving in the right direction, but we see further room for progress. We'll continue to push for clearer, firmer and more consistent inclusions in transaction documents, with the aim of strengthening transparency, improving comparability across deals, and supporting more resilient portfolios over the long term.

Source: HSBC Asset Management. For illustrative purposes only.

Case Study

- We engaged with a large, institutional-quality investment manager ($550bn+ AUM) in connection with the purchase of a US bond.
- During our review of the transaction documentation, we identified that the governing documents did not include any ESG-related restrictions. In practice, this meant the manager had full discretion to allocate proceeds and/or invest across issuers and sectors, including those that could present negative ESG outcomes.
- The absence of explicit constraints reduced our ability to evidence alignment with our ESG expectations and increased the risk of unintended exposure to activities inconsistent with our sustainability priorities.
- In response, we raised the point early and clearly as part of the commercial negotiation. We asked for appropriate ESG-related restrictions incorporated into the documentation to provide clearer guardrails around eligible investments and to improve transparency and accountability over how capital would be deployed.

The manager subsequently added the following restrictions in the documentation:

- i) tobacco production such as cigars, cigarettes, e-cigarettes, smokeless tobacco, dissolvable and chewing tobacco and trading of these products
- (ii) the manufacture of anti-personnel mines, cluster weapons, depleted uranium, nuclear weapons, white phosphorus, biological and chemical weapons
- (iii) mining of thermal coal
- (iv) palm oil refining and palm plantations
- (v) deforestation in emerging countries
- (vi) oil/natural gas drilling or oil sands drilling/refining in the Arctic region,
- (vii) businesses involving in child labor and forced labor
- (viii) businesses involving land expropriation leading to involuntary resettlement
- (ix) businesses involving human trafficking or human rights violations
  - (x) the generation of electricity using coal, based on information in the possession of the Collateral Manager

ESG Integration at a portfolio level

E, S and G factor analysis is integrated into the credit process and are assessed with respect to their relevance to credit risk as opposed to considering ESG opportunities. Each of the E, S and G factors are evaluated by a credit analyst based on the information provided by the Originator/Sponsor of the transaction or the sell side. ESG factors are tailored for each ABS asset class to be relevant to the underlying security.

At a Luxembourg fund level, the Securitised Credit portfolios aim to provide a long-term total return while promoting ESG characteristics within the meaning of Article 8 of SFDR.

For each Securitised Credit sector, we identify ESG issues most relevant to credit, and in absence of third-party data or standardised methodology, we assign proprietary weightings according to the nature of issues and the sector.

Each transaction under review will be scored with a resultant ‘Low’, ‘Medium’ or ‘High’ impact on credit. Any transaction with ‘High’ impact on credit will require mitigating factors to be thoroughly documented otherwise it will be deemed ineligible.

Using our proprietary scoring system, each securitisation is assigned an ESG score from 0 (low) to 10 (high). An objective of the Funds is to have score of 5.5 or more on a scale of 0-10. Additionally, the Funds will limit investments with high ESG impact to 10% of funds. At the current date there are no investments with a score of 3.0 or lower.

Key risks

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

- **Interest rate risk:** As interest rates rise debt securities will fall in value. The value of debt is inversely proportional to interest rate movements.
- **Counterparty risk:** The possibility that the counterparty to a transaction may be unwilling or unable to meet its obligations.
- **Credit risk:** Issuers of debt securities may fail to meet their regular interest and/or capital repayment obligation. All credit instruments therefore have the potential for default. Higher yielding securities are more likely to default.
- **Default risk:** The issuers of certain bonds could become unwilling or unable to make payments on their bonds.
- **Emerging markets risk:** Emerging markets are less established, and often more volatile, than developed markets and involve higher risks, particularly market, liquidity and currency risks.
- **Exchange rate risk:** Investing in assets denominated in a currency other than that of the investor's own currency perspective exposes the value of the investment to exchange rate fluctuations.
- **Investment leverage risk:** Investment Leverage occurs when the economic exposure is greater than the amount invested, such as when derivatives are used. A Fund that employs leverage may experience greater gains and/or losses due to the amplification effect from a movement in the price of the reference source.
- **Asset Backed Securities (ABS) risk:** ABS are typically constructed from pools of assets (e.g. mortgages) that individually have an option for early settlement or extension and have potential for default. Cash flow terms of the ABS may change and significantly impact both the value and liquidity of the contract.
- **Derivatives risk:** The value of derivative contracts is dependent upon the performance of an underlying asset. A small movement in the value of the underlying can cause a large movement in the value of the derivative. Unlike exchange traded derivatives, over-the-counter (OTC) derivatives have credit risk associated with the counterparty or institution facilitating the trade.
- **High yield risk:** Higher yielding debt securities characteristically bear greater credit risk than investment grade and/or government securities.
- **Liquidity risk:** Liquidity is a measure of how easily an investment can be converted to cash without a loss of capital and/or income in the process. The value of assets may be significantly impacted by liquidity risk during adverse markets conditions.
- **Operational risk:** The main risks are related to systems and process failures. Investment processes are overseen by independent risk functions which are subject to independent audit and supervised by regulators.

Further information on the potential risks can be found in the governing documents.

Important information

For Professional Clients only and should not be distributed to or relied upon by Retail Clients.

The material contained herein is for marketing purposes and is for your information only. This document is not contractually binding nor are we required to provide this to you by any legislative provision. It does not constitute legal, tax or investment advice or a recommendation to any reader of this material to buy or sell investments. You must not, therefore, rely on the content of this document when making any investment decisions.

This document is not intended for distribution to or use by any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation. This document is not and should not be construed as an offer to sell or the solicitation of an offer to purchase or subscribe to any investment.

The contents are confidential and may not be reproduced or further distributed to any person or entity, whether in whole or in part, for any purpose. This presentation is intended for discussion only and shall not be capable of creating any contractual or other legal obligations on the part of HSBC Global Asset Management (UK) Limited or any other HSBC Group company.

The document is based on information obtained from sources believed to be reliable but which have not been independently verified. HSBC Global Asset Management (UK) Limited and HSBC Group accept no responsibility as to its accuracy or completeness. Care has been taken to ensure the accuracy of this presentation but HSBC Global Asset Management (UK) Limited accepts no responsibility for any errors or omissions contained therein.

This document and any issues or disputes arising out of or in connection with it (whether such disputes are contractual or non-contractual in nature, such as claims in tort, for breach of statute or regulation or otherwise) shall be governed by and construed in accordance with English law.

Any views expressed were held at the time of preparation and are subject to change without notice. While any forecast, projection or target where provided is indicative only and not guaranteed in any way. HSBC Global Asset Management (UK) Limited accepts no liability for any failure to meet such forecast, projection or target.

This document provides a high level overview of the recent economic environment. It is for marketing purposes and does not constitute investment research, investment advice nor a recommendation to any reader of this content to buy or sell investments. 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 value of investments and any income from them can go down as well as up and investors may not get back the amount originally invested. Where overseas investments are held the rate of currency exchange may also cause the value of such investments to fluctuate. Investments in emerging markets are by their nature higher risk and potentially more volatile than those inherent in some established markets. Stock market investments should be viewed as a medium to long term investment and should be held for at least five years. Any performance information shown refers to the past and should not be seen as an indication of future returns.

To help improve our service and in the interests of security we may record and/or monitor your communication with us. HSBC Global Asset Management (UK) Limited provides information to Institutions, Professional Advisers and their clients on the investment products and services of the HSBC Group.

Approved for issue in the UK by HSBC Global Asset Management (UK) Limited, who are authorised and regulated by the Financial Conduct Authority.

HSBC Asset Management is the brand name for the asset management business of HSBC Group, which includes the investment activities provided through our local regulated entity, HSBC Global Asset Management (UK) Limited.

www.assetmanagement.hsbc.co.uk

Content ID: D008979_V4.0 ; Expiry Date: 31.07.2027

Follow us on:

Linkedin:
HSBC Asset Management

Website:
assetmanagement.hsbc.com