HSBC Global Asset Management

Biodiversity policy

January 2021

Introduction

The wealth of plants and animals and their interactions are known as biological diversity, or Biodiversity[1]. Natural ecosystems are under threat as a result of deforestation, land degradation, pollution of the water, air and soil, hunting and harvesting, and climate change. This presents broad challenges for society and a systemic risk from an investment perspective.

The World Economic Forum estimated that $44 trillion of economic value generation – more than half of the world's total GDP – is moderately or highly dependent on nature. Maintaining and restoring biodiversity is crucial for human health, food security and a sustainable global economy, as evidenced by WWF's Living Planet Report 2020 which states that the population sizes of mammals, birds, fish, amphibians and reptiles have reduced on average by 68% since 1970. Separately, the landmark Global Assessment Report on Biodiversity and Ecosystem Services (IPBES, 2019) has warned that a million plant and animal species are threatened by extinction.

Note:
1. Biodiversity is the variability among living organisms from all sources, including terrestrial, marine, and other aquatic ecosystems and the ecological complexes of which they are part; this includes diversity within species, between species, and of ecosystems.

Our approach

In September 2020, HSBC Global Asset Management joined a group of 26 global financial Institutions to launch the Finance for Biodiversity Pledge committing to protect and restore biodiversity through our investments in the run-up to the Conference of the Parties (COP15) to the Convention on Biological Diversity (CBD) in May 2021.

Our consideration of biodiversity is part of our overarching approach to responsible investment, covering how we make investment decisions and the investment solutions we provide to our clients.

We are committed to:

1. **Collaborate and share knowledge** on assessment methodologies, biodiversity-related metrics, targets and financing approaches for positive impact – we actively participate in industry groups including Club B4B+, led by CDC Biodiversité, France, which is focusing on a developing a Global Biodiversity Score (GBSTM) and the Cambridge Institute for Sustainability Leadership Steering Group on Financial Risks arising from Biodiversity Loss and Land Degradation. We also collaborate on specific biodiversity-related engagement and investor statements, such as the one in 2019 on deforestation and forest fires in the Amazon

2. **Engage with companies** to reduce their negative and increase positive impacts on biodiversity. In particular, we encourage our investee companies to:

   - avoid or minimise impacts on biodiversity and ecosystem services
   - manage living natural resources, such as forests, in a sustainable manner
   - improve efficiency in the consumption of energy, water, and other resources
   - avoid or minimise the release of pollutants to air, water, and land
   - use independent certification systems such as FSC and PEFC for timber and RSPO for palm oil, which evidence a reduced risk to biodiversity in forestry and agricultural commodity supply chains
   - commit to ‘No Deforestation, No Peat and No Exploitation’ policies

We engage on a collaborative basis, for example the UN Principles for Responsible Investment (UNPRI) engagement on deforestation and encourage better disclosure through our support for the CDP Forests programme. We also use our votes to escalate engagement where we consider this appropriate.

Our approach (cont'd)

3 **Integrate biodiversity risk into our investment process** – we assess our investments for significant positive and negative impacts on biodiversity and identify drivers of its loss. We integrate biodiversity metrics from multiple research providers where we consider this is a material issue and actively address through our collaborations the limitations of existing biodiversity metrics.

Where engagement with investee companies is not delivering sufficient progress in reducing the risk of biodiversity loss, we apply selective exclusions which are reviewed on an ongoing basis. Unless otherwise stated, these are applied across our active listed equity and listed corporate debt portfolios where we have full discretion or where these are acceptable to our client.

In line with our wider policy of integration of environmental, social and governance factors we prioritise the following areas of exclusions where the risks to biodiversity may be highest:

- **Mountaintop removal** – companies using mountaintop removal techniques
- **World Heritage Sites** – companies endangering the status of UNESCO World Heritage Sites protected by the World Heritage Convention
- **UN Global Compact breaches** relating to the Rio Declaration on Environment and Development

4 **Develop investment products that deliver positive biodiversity outcomes** – we are aiming to build one of the world's largest natural capital managers through our joint venture called HSBC Pollination Climate Asset Management, creating funds that invest in activities that preserve, protect and enhance nature over the long-term.

5 **Reporting and target setting** – We will report annually on our progress and be transparent about our biodiversity impact. We expect this reporting to improve over time as the guidelines and metrics evolve. We will also set and disclose targets, by 2024 at the latest, based on the best available science to increase significant positive and reduce significant negative impact on biodiversity.

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