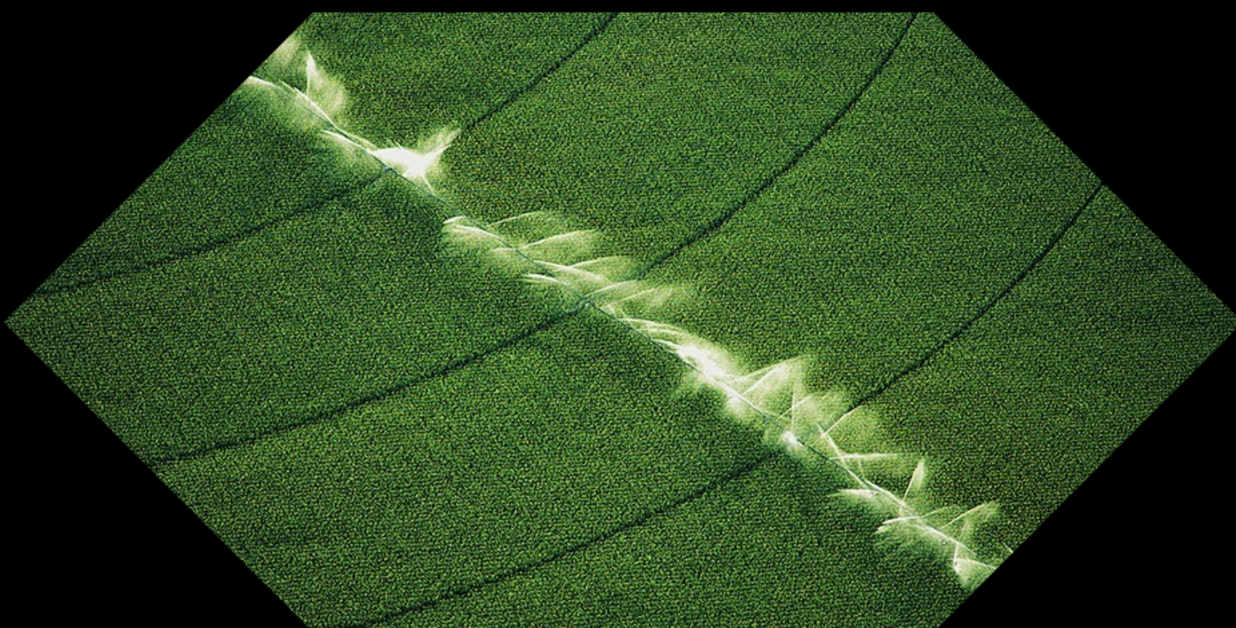
Taskforce on Climate-Related Financial Disclosure (TCFD) Annual Report 2023

HSBC Global Asset Management (UK) Limited

June 2024



HSBC Asset Management

Contents

This is an updated version of the Taskforce on Climate-Related Financial Disclosure (TCFD) Annual Report 2023 issued by HSBC Global Asset Management on 17 September 2024 – to amend footnote 2 on ESG and SI AuM on page 4 of the report.

A message from the CEO of HSBC Global Asset Management (UK) Limited

Stuart White
Chief Executive Officer

Welcome to the second HSBC Global Asset Management (UK) Limited's (HSBC AMUK) Task Force on Climate-related Financial Disclosures (TCFD) Entity report.

Over the course of 2023, we made enhancements in our approach to climate-risk management, including:

- The publication of our new Energy Policy and the revision of our existing Thermal Coal Policy, both of which are aimed at supporting our transition commitments.
- Further investment in specialist resources supporting our climate-risk response, including a new Global Head of Responsible Investment
- Further investment in in-house software solutions, supporting our ability to identify climate risks and opportunities
- Work to enhance our disclosures, many of which are included within this report, including the publication of Scope 3 Greenhouse Gas (GHG) emissions and Implied Temperature Rise (ITR) datapoints amongst others

We are pleased to share details on all the above and more within this year's report.

Compliance Statement

I can confirm under the FCA rules ESG 2.2.7 and ESG 4.3.1 that the disclosures in this report, including any third party or group disclosures cross-referenced in it, comply with the requirements stated in the FCA's ESG Environmental, Social and Governance sourcebook.

Reflection

Throughout the last 12 months since our last TCFD publication, the industry has been evolving to meet increasing Environmental, Social and Governance (ESG) and Sustainable regulatory developments. HSBC AMUK has been committed to working in collaboration with regulators, our peers and our clients to navigate this transition. We remain focused on addressing the issue of climate change and how we as an asset manager have a significant role in managing climate risk.

Our asset management business continues to make progress improving the quality and disclosure of our climate data, with the objective of assisting clients to achieve their investment and sustainability ambitions.

Best wishes,

Stuart White

Introduction

This report is intended to provide information about the climate impact and risks of the assets managed by HSBC Global Asset Management (UK) Limited (HSBC AMUK), for the reporting period 1 January 2023 to 31 December 2023. Its content is based on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and the Financial Conduct Authority's (FCA) ESG sourcebook. Reports are also published for products where HSBC AMUK is the Authorised Corporate Director and available where it is the investment manager.

TCFD is an important framework for understanding and analysing climate-related risks, and HSBC AMUK is committed to regular, transparent reporting to help communicate and track our progress. We continue to make progress on developing our related investment management and metrics capabilities.

This report sets out how we take climate-related risks and opportunities into account in managing or administering investments on behalf of clients. As set out below, this approach is guided inter alia by our parent HSBC Global Asset Management Limited (HSBC AM)'s Net Zero Asset Managers (NZAM) commitments and by our responsible investment policies.

These are aligned with HSBC Group's net zero ambition, although the application of our commitment and policies is determined by our obligations to clients and our role as an investor on their behalf in public markets.

These may differ from the approach taken by HSBC Group in its financing and advisory activities, which involve different client obligations and information availability. For example, whilst HSBC AM's thermal coal policy is in support of the HSBC Group policy, its phase out commitment does not apply to pre-existing index funds.

HSBC AM is a signatory to the NZAM initiative with a 2050 net zero objective across all assets. It has set an interim target of reducing scope 1 and 2 carbon emissions intensity by 58%[1] by 2030 for 38% of HSBC Asset Management's assets under management ("AuM"). The AuM in scope for this target consist of listed equity and corporate fixed income managed within its major investment hubs in UK, Hong Kong SAR, France, Germany and US, which amounted to USD193.9bn at 31st December 2019. Implementation of the net zero targets remains subject to consultation with stakeholders including investors and fund boards on whose behalf we manage the assets. Where we refer in this report to our NZAM commitments, it is to the commitments set out in this paragraph.

Figures as at December 2023

HSBC AMUK – AuM

USD 161 bn

USD28bn (17.4%) of HSBC AMUK's AuM, was in Sustainable Investments ("SI")[2]

HSBC AM – AuM

USD 684 bn

HSBC AMUK's SI AuM represented 38.4% of HSBC AM's total SI AuM

1. Projection based on assumptions for financial markets and other data; carbon emissions intensity measured as tCO_2e/USD m invested and based on point in time valuation at 31/12/19.
2. The definition of sustainable investment strategies is based on HSBC ESG and Sustainable Investing Framework. This approach is an HSBC internal classification approach used to establish our own ESG and sustainable investing criteria (recognising the subjectivity inherent in such approach and the variables involved) and promote consistency across asset classes and business lines where relevant and should not be relied on externally to assess the sustainability characteristics of any given product. There is no single global standard definition of, or measurement criteria for, ESG and sustainable investing or the impact of ESG and sustainable strategy. SI AuM can be read in synonymous with SI and ESG AuM.

HSBC AMUK shares policies and principles with the wider HSBC AM business, while respecting local regulatory requirements. HSBC AMUK acts as investment manager for UK and Non-UK domiciled funds, Exchange Traded Funds (ETFs), discretionary portfolios and investment advisory roles for both active and passive strategies across multiple asset classes, including alternatives. We are also investment manager for institutional clients.

Throughout this report we refer to HSBC AMUK and HSBC AM activities, both of which form part of HSBC AMUK's approach to climate and sustainability. Depending on the context, 'we' means either or both HSBC AMUK or HSBC AM.

Cautionary statements regarding ESG data, metrics and forward-looking statements

In preparing the ESG-related information contained in this report, we have made a number of key judgements, estimations and assumptions, and the processes and issues involved are complex. We have used ESG (including climate) data, models and methodologies that we consider, as of the date on which they were used, to be appropriate and suitable to understand and assess climate change risk and its impact, to analyse emissions, to set ESG-related targets and to evaluate the classification of sustainable investments. However, these data, models and methodologies (including third party proprietary estimation models, methodologies, assumptions, techniques and model data inputs that are not made public) are often new, are rapidly evolving and are not of the same standard as those available in the context of other financial information, nor are they subject to the same or equivalent disclosure standards, historical reference points, benchmarks or globally accepted accounting principles. In particular, it is not possible to rely on historical data as a strong indicator of future trajectories in the case of climate change and its evolution.

Outputs of models, processed data and methodologies are also likely to be affected by underlying data quality, which can be hard to assess and we expect industry guidance, market practice, and regulations in this field to continue to evolve. We also face challenges in relation to the lack of consistency and comparability between data that is available and the use of proprietary models, estimates and proxies by data vendors to address gaps in data from issuers. Consequently, the information and ESG metrics disclosed in this report carry an additional degree of inherent risk and uncertainty.

Due to the unpredictable evolution of climate change and its future impact and the uncertainty of future policy and market response to ESG-related issues and the effectiveness of any such response, HSBC AM may have to re-evaluate its progress towards its ESG ambitions, commitments and targets in the future, update the methodologies it uses or alter its approach to ESG (including climate) analysis and may be required to amend, update and recalculate its ESG disclosures and assessments in the future, as market practice and data quality and availability develop.

Cautionary statements regarding ESG data, metrics and forward-looking statements

No assurance can be given by or on behalf of HSBC AMUK as to the likelihood of the achievement or reasonableness of any estimates, targets, commitments or ambitions contained herein. Readers are cautioned that a number of factors, both external and those specific to HSBC AMUK's clients, could cause actual achievements, results, performance or other future events or conditions to differ, in some cases materially, from those stated, implied and/or reflected in any ESG-related forward-looking statement or metric due to a variety of risks, uncertainties and other factors (including without limitation those referred to below):

- **Climate change projection risk**: this includes, for example, the evolution of climate change and its impacts, changes in the scientific assessment of climate change impacts, transition pathways and future risk exposure and limitations of climate scenario forecasts
- **ESG projection risk**: ESG metrics are complex and are still subject to development. In addition, the scenarios employed in relation to them, and the models that analyse them, have limitations that are sensitive to key assumptions and parameters, which are themselves subject to some uncertainty, and cannot fully capture all of the potential effects of climate, policy and technology-driven outcomes
- **Changes in the ESG regulatory landscape**: this involves changes in government approach and regulatory treatment in relation to ESG disclosures and reporting requirements, and the current lack of a single standardised regulatory approach to ESG across all sectors and markets

Cautionary statements regarding ESG data, metrics and forward-looking statements

- **Variation in reporting standards**: ESG reporting standards are still developing and are not standardised or comparable across all sectors and markets, new reporting standards in relation to different ESG metrics are still emerging

- **Data availability, accuracy, verifiability and data gaps**: our disclosures are limited by the availability of high-quality data in some areas and our own ability to timely collect and process such data as required. Even the most recent available data obtainable from vendors may relate to underlying data for periods earlier than the year ended 31 December 2023. Where data is not available for all sectors or consistently year on year, there may be an impact to data quality. While we expect data quality to improve over time, as issuers continue to expand their disclosures to meet growing regulatory and stakeholder expectations, there may be unexpected fluctuations within sectors year on year, and/or differences between the data quality across varied sectors. Any such changes in the availability and quality of data over time, could result in revisions to reported data going forward, meaning that such data may not be reconcilable or comparable year-on year

- **Developing methodologies and scenarios**: the methodologies and scenarios HSBC AMUK uses to assess emissions and set ESG-related targets may develop over time in line with market practice, regulation and/or developments in science, where applicable. Such developments could result in revisions to reported data, including on emissions or the classification of sustainable investments, meaning that data outputs may not be reconcilable or comparable year-on year

Any forward-looking statements made by or on behalf of HSBC AMUK speak only as of the date they are made. HSBC AMUK expressly disclaims any obligation to revise or update these ESG forward-looking statements, other than as expressly required by applicable law.

HSBC AM's sustainability business strategy

HSBC AM's sustainability strategy is to drive growth through investment innovation and a focus on climate, biodiversity and diversity, equity & inclusion (DE&I). We believe that sustainability issues can have a material impact on issuers. Issues including climate change, water scarcity and availability, deforestation, health and safety, and executive pay generate risks and opportunities for issuers which financial markets may not price appropriately. Importantly, attractive new investment opportunities are also created by new technologies and infrastructure projects in climate related areas. We are developing asset classes, repositioning some traditional investment approaches towards sustainability and embedding a Just Transition framework (as detailed in the Risk Management pillar of this report).

HSBC AM has committed to work in partnership with asset owner clients on decarbonisation goals and has begun this work consistent with an ambition to reach net zero emissions by 2050 or sooner across assets under management. Today, we all contribute to greenhouse gas emissions. This is why HSBC AMUK (together with other asset managers) has an important role to play in supporting the transition to a net zero economy. Step by step, as part of the HSBC Group, we are developing strategies to reduce our own emissions and to develop solutions to help our clients invest sustainably.

During 2023

HSBC AM published an Energy Policy in 2023. This policy includes a commitment to engage with and assess transition plans of the largest oil & gas and utility issuers held in our portfolios from amongst the issuers responsible for c.70 per cent of scope 1 & 2 emissions associated with our portfolios. It also includes project finance restrictions related to certain energy-related activities for our Alternatives business, as well as revenue-based investment restrictions for our sustainable named funds for arctic oil & gas, oil sands & shale oil. It follows our Thermal Coal policy, which was published in 2022 and updated in 2023. Phasing out thermal coal is a priority for early action in achieving net zero emissions. We continued to evolve our approach to integrating biodiversity risks and opportunities into our investment process. We developed an Enhanced Due Diligence (EDD) process to review issuers that had been flagged as high risk due to their impact on nature and biodiversity. For more information on this, please refer to our Responsible Investment Review report Responsible Investment Review report.

Governance

HSBC AMUK Board oversight of climate-related risks/opportunities

HSBC AMUK has designed and built its governance structure to meet, and account for, its regulatory responsibilities and industry best practices for an organisation of its scale. Good governance is designed to be at the core of how HSBC AMUK conducts business.

The HSBC AMUK Board is committed to maintaining high standards of corporate governance. The corporate governance framework enables efficient and effective decision making with clear accountabilities.

The Board takes overall responsibility for setting the company's values and standards, including in relation to environmental, social and governance matters, to help ensure that obligations to clients, shareholders and other stakeholders are understood and met.

Board members receive ESG-related training as part of their ongoing development to build skills and experience in this area.

In 2023 the Board reviewed and approved the adoption of the updated HSBC AM Thermal Coal Policy. In addition, as part of the HSBC AM's net zero commitment that supports the HSBC Group's strategic net zero transition ambitions, the Board approved adoption of the HSBC AM Energy Policy.

The governance framework continues to evolve to incorporate changes in regulatory requirements and to improve oversight of climate metrics. HSBC AMUK implemented a Sustainability Assurance Dashboard in 2022, which was designed to provide key committees, including the AMUK Board, with appropriate oversight of sustainability risk. Examples include key regulatory changes and metrics in relation to Sustainability / ESG restriction breaches. The dashboard is reviewed and presented on a quarterly basis to HSBC AMUK's main governance forums for review and challenge.

The CEO of HSBC AMUK is responsible for the management of climate-related risk for HSBC AMUK. Any climate-related issues will be included in sustainability/ESG risks and can be escalated to the Board and the Board Risk Committee on a quarterly basis.

The HSBC AMUK Board Risk Committee

The Board has delegated non-executive responsibility for oversight and advice on risk related matters and risk governance to the HSBC AMUK Board Risk Committee.

The Committee is responsible for overall oversight of HSBC AMUK's risk management framework and for reviewing top and emerging risk and escalations from the HSBC AMUK Risk Management Meeting. This includes both financial risks and non-financial risks (which includes sustainability and climate risk).

The Committee also reviews the effectiveness of the Risk Management Framework and provides strong challenge and input into the Internal Capital Adequacy and Risk Assessment process. The Committee is chaired by an independent Non-Executive Director and includes other Non- Executive Directors.

The permanent attendees include:

- the Chief Executive Officer (CEO),
- Chief Operating Officer (COO),
- Chief Risk Officer (CRO),
- Head of Regulatory Compliance and Internal Audit

The Committee meets as required, or at least quarterly.

HSBC AMUK Board oversight of climate-related risks/opportunities (cont'd)

The HSBC AMUK Risk Management Meeting (RMM)

The HSBC AMUK RMM is a

management forum established to provide recommendations and advice as required by the CRO to assist them in the discharge of their role and responsibilities. The scope and remit of the HSBC AMUK RMM extends to the entire business of HSBC AMUK.

The CRO is responsible for setting, within the context of HSBC AM and HSBC Group direction, the HSBC AMUK risk management strategy and appetite, policies and control standards for HSBC AMUK and to monitor their implementation. In this regard, the CRO reviews the material risks affecting the HSBC AMUK business and is responsible for the oversight of the risk and internal control environment and escalating material issues to the Board Risk Committee and Board.

The RMM reviews the Sustainability Dashboard on a quarterly basis.

The HSBC AMUK Leadership Team (LT)

The LT meeting is a management forum established to provide recommendations and advice as required by the HSBC AMUK CEO to assist them in the discharge of their responsibilities.

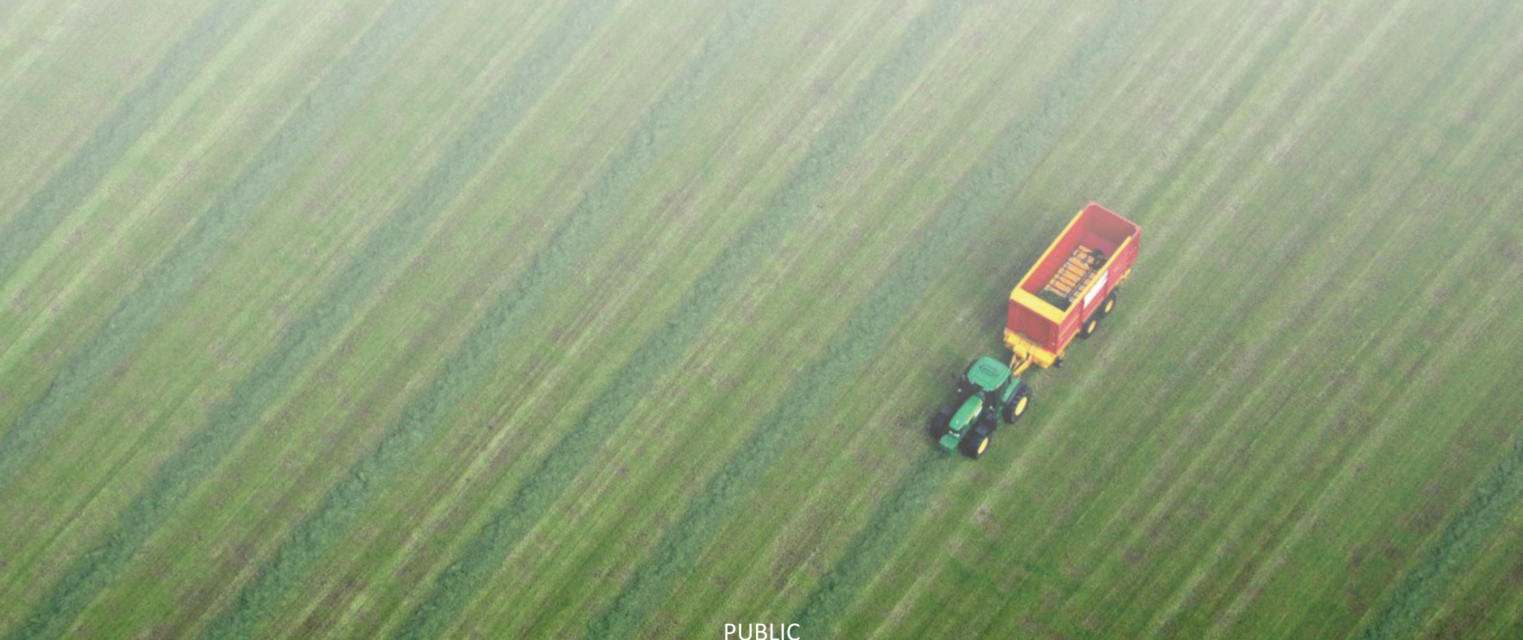
The specific responsibilities and duties delegated to the CEO, and which serve as the areas of attention for the LT are Financials, Distribution, Manufacturing, Operations, Regulatory change, People & Sustainability.

The LT reviews sustainability initiatives and policies, alongside any relevant sustainability risk metrics.

The HSBC AMUK New Business Committee (NBC)

The NBC is a committee responsible for reviewing and approving all product initiatives, including the launch and closure of, and changes to, products and services. This includes ensuring ESG and sustainability risks are considered where relevant.

The scope and remit of the NBC extends to the entire business of HSBC AMUK, hence covering products and services manufactured and/or distributed by HSBC AMUK and products and services domiciled in the United Kingdom where approval authority has been delegated to the NBC.



HSBC AMUK Governance and Accountability Structure

	Mandate	Scope	Key membership (SMF*)	Frequency
1 AMUK Board	Responsible for the long-term success of the Company and delivery of sustainable value to shareholders. The Board sets the strategy and risk appetite for the Company within the context of the HSBC Group's and HSBC AM's direction.	Oversees the operation, governance and risks to help ensure HSBC AMUK is fulfilling its obligations and is acting in the interests of clients at all times.	AMUK CEO (SMF1&3) AMUK CIO (SMF18)	Quarterly
2 AMUK Risk Committee	Responsible for overall oversight of the risk management framework and for reviewing top and emerging risk and escalations.	Oversees and advises the Board on risk-related matters, including both financial and non-financial (operational) risks.	Chaired by an independent NED Also attended by AMUK CEO (SMF1&3), AMUK CRO (SM4) and Head of Regulatory Compliance (SMF16)	Quarterly
3 AMUK Risk Management Meeting (RMM)	Responsible for recommendations and advice to the CRO in order to assess changes in business activities or the markets in which AMUK operates, analysing the possible risk impact and addressing these risks accordingly.	Sets the HSBC AMUK risk management strategy and appetite, policies and control standards and to monitor implementation. The CRO reviews the material risks and is responsible for the oversight of the risk and internal control environment.	AMUK CEO (SMF1&3), AMUK CRO (SMF4), AMUK CFO (SMF2) AMUK CIO (SMF18), AMUK COO (SMF24) Head of Regulatory Compliance (SMF16)	Minimum 6 times a year
4 AMUK Leadership Team (LT)	Responsible for business oversight, monitoring and stewardship for HSBC AMUK and to drive business development and providing due consideration to local board and corporate management.	Where HSBC AMUK acts as the manager and/or distributor to approve proposals with global alignment to sustainability policies (eg Thermal, Coal), helps identify engagement priorities/themes, approve engagement plans, industry involvement, addresses controversial issues.	All AMUK Executive SMFs	Minimum 6 times a year
5 AMUK Local New Business Committee (LNBC)	Responsible for reviewing and approving all product initiatives, including the launch and closure of, and changes to products and services. This includes ensuring ESG and sustainability risks are a consideration where relevant.	The scope is all products and services for which HSBC AMUK is acting as the manager and/or distributor or the Authorised Corporate Director.	AMUK CEO (SMF 1&3) AMUK CRO (SMF4) AMUK CIO (SMF18) AMUK Head of Product (SMF18) Senior Compliance Manager	Every 2 weeks

Associated Bodies

HSBC AM Sustainability Forum (SF)

- Approval of RI strategy, standards, policies. Oversight of assurance and programme delivery
- Members: Global CEO, Sustainability Office, Global CIO, Head of RI, Alternatives CEO, Global Head of Legal, Global Chief Risk & Compliance Office (SMF16 AMUK) – HSBC AMUK CEO (SMF1)

HSBC AM ESG Investment Committee (ESG IC)

- Highest RI approval committee, responsible for alignment with RI policy, ESG integration, escalations, engagement oversight, product sign-off
- Members: Global CIO, HSBC AMUK CIO (SMF18) Asset Class CIOs, Head of Stewardship, Head of RI

* SMF – Senior Manager Function (FCA Senior Managers & Certification Regime)
SMF memberships shown above are as at 31st December 2023

Governance & Accountability

Senior Manager accountability includes the oversight of climate risk and working with the business to ensure that the appropriate climate risk frameworks are embedded whilst providing review and challenge on climate- related activity.

HSBC AM has an ESG and Sustainability Governance framework based around two central bodies:

1. **the Sustainability Forum** and
2. **the ESG Investment Committee**

This framework is designed to ensure depth, consistency and high standards across the investment platform. The framework is structured to avoid conflicts with the Sustainability Forum being functionally separate from Investments. The Forum is a sub-committee of the HSBC AM Risk Management Meeting.

The ESG Investment Committee is responsible for the oversight of all Asset Class specific ESG Committees and for the appropriate execution of the strategy and policies determined by the Sustainability Forum. The ESG Investment Committee assesses issues escalated, validates new sustainability products, and monitors their investments. The ESG Investment Committee also reviews Engagement and Stewardship activity and practices.

The Stewardship Committee is a sub-committee of the ESG Investment Committee. It oversees the implementation and delivery of the Stewardship Plan, Global Voting Guidelines (including the execution of voting instructions via ISS) and stewardship aspects of policies (e.g., thermal coal) across the investment function. It also provides guidance to internal stakeholders on stewardship matters and thematic priorities, sharing market and industry best practices where relevant. This committee was established in late 2023 and meets on a bi-annual basis.

The Climate Investment Committee (CIC) is a sub-committee of the ESG Investment Committee. It is the central point of tracking progress made against our roadmap, with workstreams across climate research and data, product and solutions, and engagement in place to mobilise the plan. Key performance indicators (KPIs) will be used to monitor how closely our actual emission intensity is tracking the target decarbonisation pathway, as well as our progress in increasing the scope of assets covered by our target in time.

Sustainability Governance Structure

A multi-layered governance framework to ensure high standards are consistently applied

Global committees overseeing RI-related activities

ESG Investment Committee

Highest RI approval committee, responsible for alignment with RI policy, ESG integration, escalations, engagement oversight, product sign-off

Members[1]: Global CIO, Asset Class CIOs, Head of Risk, Head of Stewardship, Head of RI, Head of Sustainability

Climate Investment committee

Mandate:

Oversee the development and implementation of our climate change investment strategy, ensuring climate considerations and commitment are embedded across the investment platform

Stewardship Committee

Mandate:

Oversee alignment to sustainability policies and implementation of stewardship commitments across investment function, approve engagement plans, facilitate/address controversial issues

Sustainable Portfolio Review Committee

Mandate:

Oversee alignment of portfolios against SRI Group Definitions and regulatory requirements. Validate compliance to SRI restrictions and tail risk policy

Asset Class ESG Committee(s)

Mandate:

Implement and review ESG Integration, monitor risks and engagement progress, oversight and approvals, engagement coordination

Virtual Sector Teams[2]

Mandate:

Oversee the development of sector materiality checklists and ESG scoring, conduct sector reviews, identify high risk issues, formulate engagement questions, supervise ESG overrides

Sustainability Forum

Approval of RI strategy, standards, policies. Oversight of assurance and programme delivery

Members[1]: Global CEO, Sustainability Office, Global CIO, Head of RI, Alternatives CEO, Head of RI (Alternatives), global heads of Legal, Compliance, Risk and Sales

Alternatives Sustainability Oversight Committee

Oversee ESG practices and alignment with policies. Responsible for alignment with RI policy, escalations and best practices cross-fertilisation.

Members[1]: Alternatives CEO, Capability Heads, Head of RI (Alternatives), Risk and members of Sustainability Office and RI team

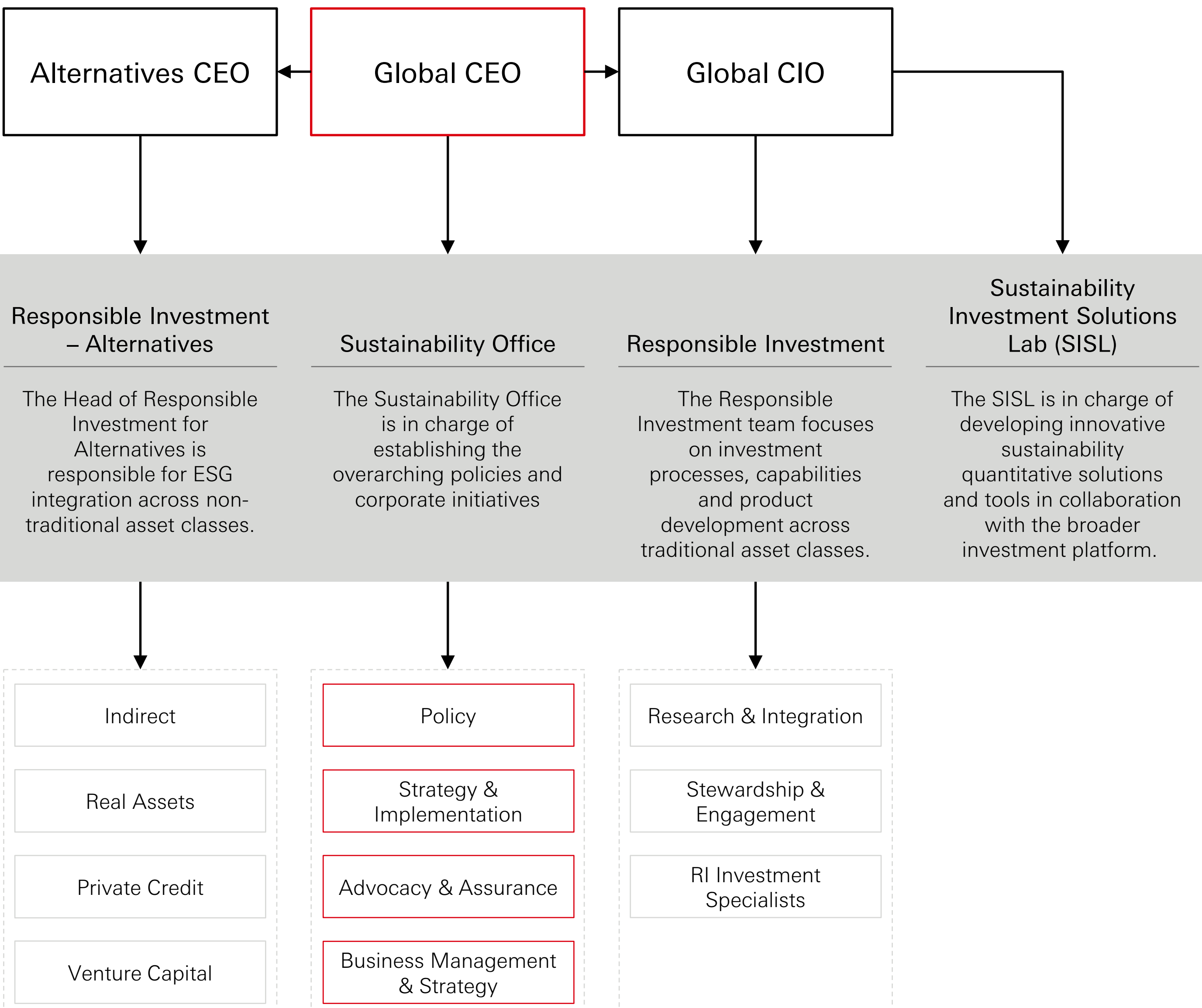
1. Lists of members are non-exhaustive. Additional attendees may be invited depending on the agenda,
2. Specialists from Responsible Investment, portfolio managers and analysts divided into 12 sector teams, representing all asset classes and regions covered.

Source: HSBC Asset Management, as of December 2023. For illustration only. Arrows denote flow of information or reporting

Embedding sustainability across our business and investments

HSBC AM has dedicated teams to support strategy, policies and investments and our global sustainability governance structure aims to strengthen synergies and drive consistency across the global asset management business.

While the Sustainability Office (SO) is in charge of establishing the overarching sustainability policies and corporate initiatives, the Responsible Investment (RI) team focuses on investment processes, capabilities and product development across traditional asset classes. The Head of RI - Alternatives is responsible for ESG integration across non-traditional asset classes and works closely with the SO and RI team to ensure alignment and sharing of best practices. The Sustainability Investment Solutions Lab (SISL) is in charge of developing innovative sustainability quantitative solutions and tools in collaboration with the broader investment teams.



Source: HSBC Asset Management as at December 2023. This chart is representative of inputs and responsibilities and does not represent official reporting lines. For informational purposes only.

Strategy

Climate-related risks and our strategic response

HSBC AM's responsible investment policies set out our approach to key ESG issues in our investment activity. This includes explaining how our approach to climate related risk is based upon our clients' investment interest, as well as meeting their interest in transitioning to a low carbon economy. At the heart of the approach are our commitments under the NZAM initiative. HSBC AM's path to net zero requires action to address sectors with the largest emissions held in our portfolios, starting with thermal coal, oil & gas and other utilities.

TCFD considers two major categories of climate-related risk: risks related to the physical related impacts of climate change ("physical climate risks") and risks related to the transition to a lower-carbon economy. It also considers opportunities related to climate transition ("climate transition risks").

Our categorisation of each risk is as follows:

Physical risks resulting from climate change can be event driven (acute) or longer-term shifts (chronic) in climate patterns. Physical risks may have financial implications for an issuer, such as direct damage to assets and indirect impacts from supply chain disruption. Issuers' financial performance may also be affected by changes in water availability, sourcing, and quality; food security; and extreme temperature changes affecting issuers' premises, operations, supply chain, transport needs, and employee safety.	We acknowledge that physical risk can negatively impact the entities in which we invest either directly (e.g. damage to assets) or indirectly (e.g. via supply chains). Further impacts can arise through changes to the availability of key inputs such as water, food and/or negative impacts to employee safety. This list is not exhaustive.	Transitioning to a lower-carbon economy may entail extensive policy, legal, technology, and market changes to address mitigation and adaptation requirements related to climate change. Depending on the nature, speed, and focus of these changes, transition risks may pose varying levels of financial and reputational risk to issuers.

We recognise that sustainability taxonomies are not consistent globally, and evolving taxonomies and practices could result in revisions in our reporting going forward.

We believe both climate transition risk and physical climate risk will impact society, the operating environment and the value of our investments, if not managed well. These impacts will vary depending on different factors such as location and type of industry.

In considering our climate strategy, we seek to consider these two types of climate-related risks across our strategy and investment platform. We also consider climate related opportunities alongside risks.

Climate opportunities can arise from activities to support climate mitigation and adaptation, as well as from managing climate related risks. Mitigation refers to reducing the cumulative greenhouse gases into the atmosphere, like cutting greenhouse gases from main sources such as power plants, factories, etc as defined by European Economic Area (EEA)[1]. Climate adaptation seeks to reduce risks posed by climate changes, and to benefit from any associated opportunities where possible, as defined by the LSE Grantham Institute[2]. We see mitigation and adaptation manifesting across a range of activities, including the adoption of lower-carbon energy sources, the development of technologies to support resource efficiency and cost-savings, more circular business models, new products and services that support a lower-carbon economy, and activities that support climate resilience across physical infrastructure and supply chains.

1. Climate MItigation
2. What is climate change adaptation? - Grantham Research Institute on climate change and the environment (lse.ac.uk)

Climate-related risks and our strategic response

Identifying transition risk

We believe that if transition is not managed appropriately, issuers could face higher transition risks. Conversely, issuers that manage their transition well could emerge as leaders in their respective industries and as such they could also become attractive value generators.

We recognise that higher carbon industries are a significant contributor to global emissions. As such, their transition activities are particularly critical to enabling the low-carbon transition. Activities undertaken by higher carbon industries can support and accelerate the decarbonisation of downstream industries that use their products – for example, less carbon intensive steel production or energy generation means that products which rely on steel or energy usage are themselves less carbon intensive. We therefore recognise the importance transition risk plays in investment decision making and this is why it is considered across our policies, stewardship activities, sustainable investment processes, relevant investment frameworks and commitments.

Specifically, HSBC AM already identifies and manages transition risk through different means:

1. Business Targets – through the tracking of the flow of our AuM into ESG and sustainability assets through new and existing portfolios. We set global business targets for AuM and revenues in the short to medium-term against sustainability parameters. Our decarbonisation pathway will be assessing the potential impacts under different climate scenarios, something that will help to identify pathways with the greatest transition risk, this will be key to future strategic and financial planning.

2. Disclosures – Our FCA TCFD product reports show each product's carbon intensity and exposure to six of the highest transition risk sectors.

3. Engagement – focuses on specific ESG themes including supporting the transition of high carbon emitters and/or industries where emissions are typically most concentrated. As part of this, our Stewardship team creates an engagement priority list on an annual basis which allows them to ensure they are targeting, among others, companies with high transition risk and/or high emissions. Our engagement focuses on individual company interactions as well as industry wide collective initiatives.

4. Policies and exclusions – set out our beliefs, ambition, and commitments on ESG issues including climate transition. They also help us to identify companies which are considered to have high transition risk. For example, our thermal coal policy aims to phase out actively managed listed holdings exposed to thermal coal mining and power generation by 2030 in EU/ OECD markets and 2040 in other markets. We believe this will help us to manage our transition risk.

5. Product Development – where relevant, assessment of issuers with high transition risk informs our product development and ESG integration process. This is done through our assessment of issuers, portfolio construction and product development where we screen companies, set specific standards and parameters for ESG and climate metrics across sustainable portfolios. For example, our funds with low carbon objectives are managed with active consideration of low carbon intensity investments compared to their benchmark.

Climate-related risks and our strategic response

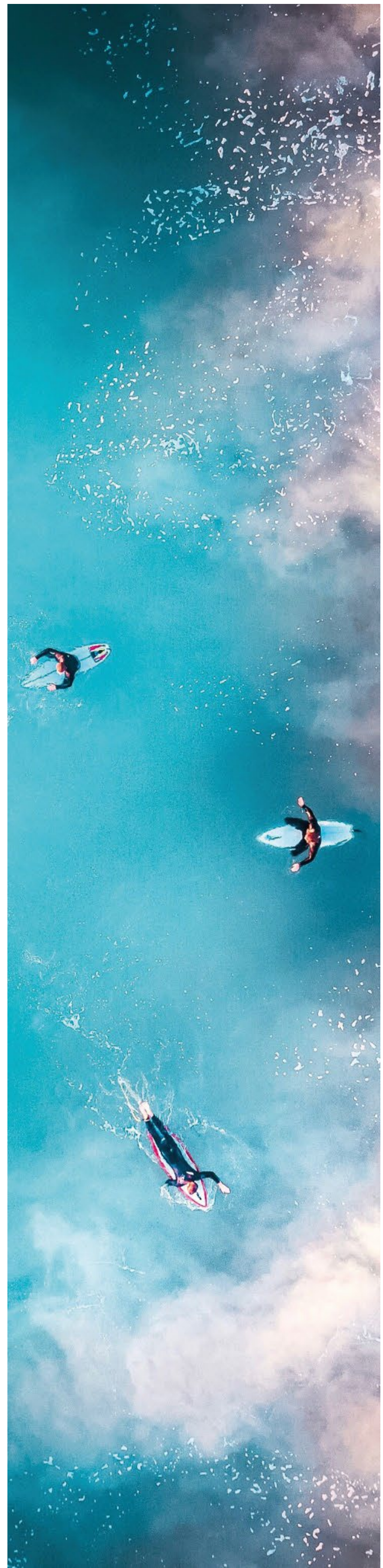
Identifying physical risk

Whilst physical risk can manifest over different time horizons, we are increasingly experiencing climate related changes today in our physical environment. As such, we recognise the potential impact of climate-related physical risk on our investment portfolios.

To support this, we are integrating physical climate risk considerations into certain of our investment decision making tools that support our risk management processes. This work aims to provide investment teams with access to both traditional backward looking carbon metrics and forward-looking scenario analysis estimates related to physical climate risk for many HSBC AM funds. Looking ahead, we plan to use this work to drive more in-depth analysis and research with the aim of further enhancing ESG integration, such as integrating physical climate risk within our investment processes.

Alongside this we will further analyse the physical risks of companies held within our corporate fixed income and listed equity portfolios that have significant exposure to physical climate risk. Additionally, we are also focused on identifying what we believe are mitigants of physical risk including maintaining and restoring biodiversity, which is crucial for a sustainable global economy.

For more quantitative climate scenario analysis on our HSBC AMUK AuM, refer to the section on 'Metrics and Targets'.



ESG Integration

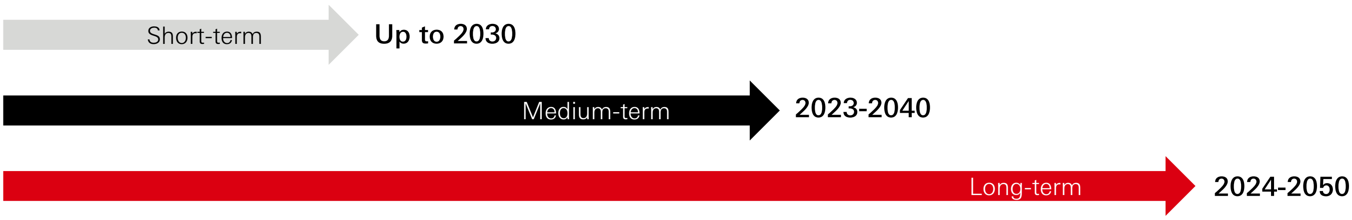
While implementation will vary by fund, asset class and security, we define ESG integration as the common global practices that are incorporated broadly across our investment platform as core elements of our investment philosophy and global research.

We manage our clients' assets according to a range of different investment strategies and aim to consider ESG factors in our investment processes to the extent relevant to the strategy and asset class concerned. For example, stewardship will be more relevant for active and passively managed equity funds, where investment research in relation to ESG factors for asset selection will be primarily relevant to actively managed products rather than those that track an index. Different investment strategies have different exposure to ESG risks and opportunities and accordingly our ESG integration has varying impacts on the investment process. Implementation of the components of our approach to ESG integration will therefore depend on the investment strategy concerned and investment time horizons.

Climate-related risks and our strategic response

Climate-related risk time horizons

For the purpose of this report, across each category of climate-related risk, we have identified risks based on the following time horizons.



This is aligned with our overall business time horizons such as our thermal coal phase out plan by 2030 in the European Union (EU)/ Organisation for Economic Co-operation and Development (OECD), and by 2040 in all markets. These time horizons are also complemented by our NZAM interim target in the short-term and net zero commitment in the long term.

Climate-related orderly transition risk strategy

We are working to position our business towards an orderly climate transition scenario that would limit global temperature increase to well below 2°C, aligned with efforts to limit the temperature increase even further to 1.5°C. However, we recognise that under the policies already announced by governments by the time of COP26, the Intergovernmental Panel on Climate Change believed it was likely that warming will exceed 1.5°C during this century and that it would be harder to limit warming below 2°C if no additional commitments were made or actions taken[1].

We are conscious that private and public capital and governmental policy has to shift dramatically to enable a low carbon economy. In this context, HSBC AMUK aims to grow its sustainable AuM driven by our sustainable investment strategy in order to support a low carbon economy.

In relation to this, HSBC AMUK seeks to address the climate-related transition and physical risks identified as set out in the following table:

1. Source: IPCC Sixth Assessment Synthesis Report, March 2023

Climate-related risks and our strategic response

Risk	Risk Description	Risk impact on Issuer	Risk impact on HSBC AMUK	HSBC AMUK current strategy	Timeframe
Transition	Cost from regulatory and governmental penalty for high carbon activity and/or support for low carbon activity	Increased cost without transition to low carbon activity	decreased AuM from investment in high carbon activity subject to stranded assets	Grow strategies that consider ESG and climate related risks and opportunities adherent to our criteria as referenced by our ESG and Sustainable Investing Framework. Our sustainable strategies include c.90 funds and mandates many of which are compliant with EU Sustainable Finance Disclosure Regulation (SFDR) Article 8/9. Align our overall investments with our commitments and policies; including net zero, phasing out of actively managed holdings in thermal coal (by 2030/40) & assessing transition plans of the largest oil & gas and utilities greenhouse gas emitters in our portfolios	Short-term: 2030 Medium – term: 2030-2040
				Grow products with long-term climate objectives (e.g., Paris-aligned): There are 6 Paris-aligned products (as at Dec 2023). Generally, 'Paris- aligned' refers to activity that is consistent with the Paris Agreement. For example, our HSBC MSCI Climate Paris Aligned UCITS ETFs manage to a 'Paris-aligned' objective in various ways, such as by constructing the index in accordance with the European Union's 'Principle Adverse Indicators' (PAIs) to: - Reduce exposure to carbon intensive issuers - Reduce exposure to issuers active in the fossil fuel sector - Increase exposure to issuers with credible emission reduction targets - Increase exposure to issuers providing sustainable/ green solutions A list of PAIs are set out in Appendix 2.	Long-term: Up to 2050
	Cost to replace high carbon emitting products with low ones	Increased costs from stranded high carbon assets and inability to continue activity with low carbon alternative	(decreased) AuM from investment in high carbon assets	Research and track high carbon issuers as part of our thermal coal policy and energy policy using metrics such as coal revenues and emissions intensity. These metrics enable us to monitor the degree in which coal and other emission intensive activities are material to a issuers and therefore the potential current and future risk they may face with regards to transition	Short-term: 2030
				Active venture capital strategy that invests in transformative early-stage issuers enabling decarbonisation and de-pollution of industries. Our commitment to growing our ESG and Sustainable AUM is already integrated within our investment strategy and therefore we are expecting the number of ESG and Sustainable strategies we offer to expand in line with this. As part of this, we will seek to include ever advancing approaches to integrating climate risk within our investment decision making and hopefully reduce the risk of having exposure to stranded assets.	Medium-term: 2030-2040

Climate-related risks and our strategic response

Risk	Risk Description	Risk impact on Issuer	Risk impact on HSBC AMUK	HSBC AMUK current strategy	Timeframe
Transition	Changing consumer demand from individuals preferring low carbon, sustainable products	↓ Potential future declining profits for issuers that continue to sell high carbon, non-sustainable products	↓ (Potential decreased) AuM from investment in high carbon, non-ESG and sustainable products	Increase sustainable AuM through: ◆ ESG and Sustainable Investing Framework to encourage investment. This Framework establishes minimum ESG, carbon and/or sustainability criteria as well as processes for investment funds to adhere to in order to qualify as sustainable strategies across asset classes ◆ Active ownership: Active ownership, through engagement and global proxy voting, is a key pillar of our approach to responsible investment. We meet with issuers regularly to improve our understanding of their business and strategy, signal support or concerns we have with management actions and promote best practice. We engage with carbon-intensive issuers to encourage climate–resilient business strategies ◆ Engagement: We also engage alongside our stakeholders to bring about long-term sustainable outcomes	Short-term: 2030 Medium-term: 2030-2040
	Tarnished brand due to misleading action or inactive transition to low carbon economy	↑ Increased costs due to loss of customers from brand tarnish and/or regulatory fines/penalty from climate inaction	↓ (decreased) AuM from investment in assets with tarnished brand or fine for investment in issuers with climate- related controversy	Our investment, ESG Research and stewardship teams use tools and data sources like Sustainalytics and RepRisk to flag issuers that are involved in activity that goes against our support for climate action, or issuers that have been exposed to climate-related controversy.	Short-term: 2030 Medium-term: 2030-2040 Long-term: 2050

Climate-related risks and our strategic response

Risk	Risk Description	Risk impact on Issuer	Risk impact on HSBC AMUK	HSBC AMUK current strategy	Timeframe
Physical	Increased frequency and severity of weather events causing disruption to business operations	↑ Increased costs due to disruption to business operations and cost to mitigate or adapt to changing weather	↓ (decreased) AuM from investment in assets with operational exposure to severe weather events and most issuers which are dependent on biodiverse ecosystems	We view physical risk exposure of our assets as building over time so instead our overall climate risk strategy towards physical risk is currently preventative – working to reduce greenhouse gas emissions will limit the increase in physical risk exposure, compared to taking no action. We also understand that nature and climate change go hand in hand, interacting in many complex ways. For instance, nature can play an integral role as part of the net zero transition through nature-based solutions aimed at removing carbon from the atmosphere; whilst climate change itself is a key driver of biodiversity loss, impairing the potential for nature led carbon removal. We are incorporating biodiversity-related risks into our investment activities in the following ways: ◆ ESG scoring framework: We have developed scores to reflect our own view of ESG risks and opportunities, in which we re-assess the materiality of key E, S and G factors from MSCI on a sector-by-sector basis and generate a sector-specific ESG weighting. Biodiversity and physical climate risks are considerations as part of the E pillar. We are continuing our work to further develop this ESG scoring capability to ensure we are capturing up-to-date material ESG issues, which will include biodiversity and physical climate risks ◆ Biodiversity Enhanced Due Diligence (EDD): Over the course of 2023, we developed an enhanced due diligence process to review issuers within our portfolios that had been flagged as high risk due to their impact on nature and biodiversity. To assess the issuers, we referred to Nature Action 100 and other data considerations to build the Enhanced Due Diligence template. This methodology is designed to drive consistency in what is being asked of issuers across sectors from a biodiversity perspective. We will be looking to further develop our EDD approach to biodiversity in 2024 and onwards ◆ We have access to multiple data sources including Iceberg Data Labs which provides the Corporate Biodiversity Footprint (CBF) indicator1. As a next step, we will develop our analytical tools to allow our investment teams access to relevant biodiversity impact data for ESG and Sustainable funds on the desk	Short-term: 2030 Medium-term: 2030-2040 Long-term: 2050
	Longer-term shifts in climate patterns (e.g. sustained higher temperature, sea level rise, damage to ecosystems, shifting monsoons or chronic heat waves)				

1. The CBF is a metric that measures the extent of a company's impact on biodiversity using the Mean Species Abundance (MSA) metric, both in absolute – km2.MSA – and relative terms. MSA expresses the conservation status of an ecosystem compared to its original state, by measuring the average relative abundance of native species in an ecosystem in relation to their abundance in an ecosystem undisturbed by human impacts. The unit expressed is Km2.MSA, corresponding to a negative impact on biodiversity. This widely used metric is endorsed by the international scientific community such as the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES) and the Intergovernmental Panel on Climate Change (IPCC).

Climate-related risks and our strategic response

Scanning the universe for climate-related risks and opportunities

Climate risks and opportunities are considered within the ESG and sustainability products’ assessment of issuers we carry out for our ESG and sustainable products. We consider issuers’ ESG and sustainability credentials along a spectrum, with those issuers who demonstrate strong ESG and/or sustainability characteristics as leading whilst those with less strong ESG or sustainability characteristics as lagging. There are issuers who are in the middle, who are neither lagging nor leading, but where we see potential for these issuers to enhance their management of ESG issues and/or maximise sustainable outcomes. The diagram below is an indicative illustration of this.

We consider ESG and sustainable leaders as issuers that contribute positively to environmental and/or social outcomes, including climate related outcomes. One way we currently assess whether an issuer is leading on ESG or sustainability is via our SI methodology. The methodology considers three key pillars within its assessment – (i) sustainable products and services typically measured via revenues (ii) sustainable strategic alignment typically focused on sustainability of business models (iii) green, social and sustainable bonds. Climate related considerations are included across each – whether climate related revenues, business models, or through specific issuances designed to support climate related outcomes. The diagram below further summarises our methodology in more detail.

Sustainable and ESG Leaders:

Sustainable and ESG Leaders

We consider within our ESG and sustainable products, sustainable and/or ESG leaders as entities that demonstrate optimal ESG risk management and/or outcomes. Below is our methodology for how we calculate a sustainable investment.

Our Sustainable Investment Methodology for identifying Climate Opportunity

In our methodology, there are three categories that an instrument or issuer can be deemed ‘sustainable’ which considers climate opportunities throughout as follows:

- **Sustainable product and service** as measured by revenue aligned with one or more of the 17 UN Sustainable Development Goals
- **Sustainable strategic alignment** as measured by one of the following criteria
  - Sustainable business models
  - Sustainable ambitions and practices
  - Energy transition pathway
- **Green, Social & Sustainable bonds** that provide a clear and direct contribution towards environmental and social objectives

ESG Laggards

We typically consider issuers in the lowest percentile of the relevant universe due to either ESG or other climate related considerations as ESG laggards. We conduct ESG due diligence on these companies, which may include engagement.

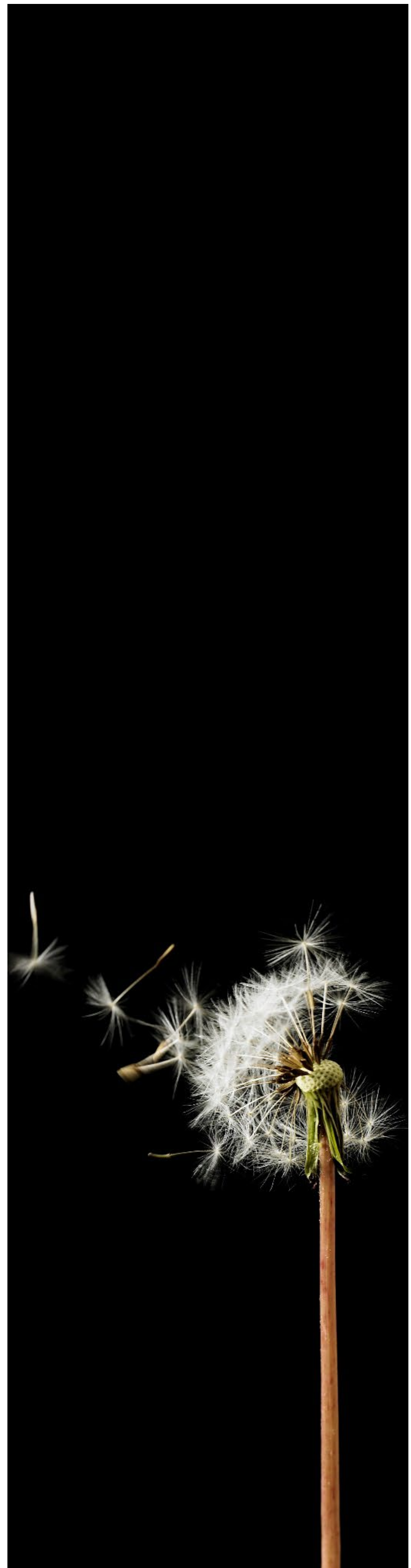
Climate-related risks and our strategic response

Our Sustainable investment

In 2020, HSBC Group introduced its ESG and Sustainable Investing Framework ('Framework'), which HSBC AMUK has adopted. Our Framework sets the standards across the investment platform for how we design a a sustainable strategy for a fund or portfolio, across investment approaches and asset classes. Climate metrics such as carbon intensity are measured and assessed across many of our ESG and sustainable investing strategies.

Within our Framework, certain strategies have climate as part of their investment objective. These strategies may seek to achieve improvement on carbon related metrics and/or consider carbon related metrics in their issuer screening process and/or fund construction. There are also ESG and sustainable strategies that focus on climate related opportunities and themes such as circular economy, renewable energy and green transition. Lastly, we also have impact strategies that seek to deliver an intentional and specific outcome related to climate and/or other sustainable areas.

HSBC AMUK continues to operate and manage a range of investment solutions which do not have a specific climate-focused, ESG and/or Sustainable objective. These account for at least 83% of HSBC AMUK's AuM as at the end of December 2023. These investment solutions offer exposure to traditional asset classes such as equities and fixed income as well as alternatives. They are managed to various core strategies including index tracking, multi-factor and multi-asset and alternative strategies such as infrastructure debt and hedge funds. While these investment solutions do not have a specific climate-focused, ESG and/or Sustainable objective they are, where possible, managed in line with our responsible investment policy. For example, the traditional active equity, active fixed income and liquidity solution HSBC AMUK manages, include ESG-related voting and engagement activities.



How do our products incorporate climate-related risk and opportunity

Climate-related opportunities: our sustainable fund offering

There will be climate opportunities across our sustainable fund offering, within each category as directed by the Framework. The Framework ensures that strategies adhere to minimum criteria for ESG, climate and broader sustainability risks/opportunities. The Framework ensures products incorporate climate opportunities using ESG scores and/or other relevant metrics such as carbon, UN SDGs, sustainable themes and outcomes.

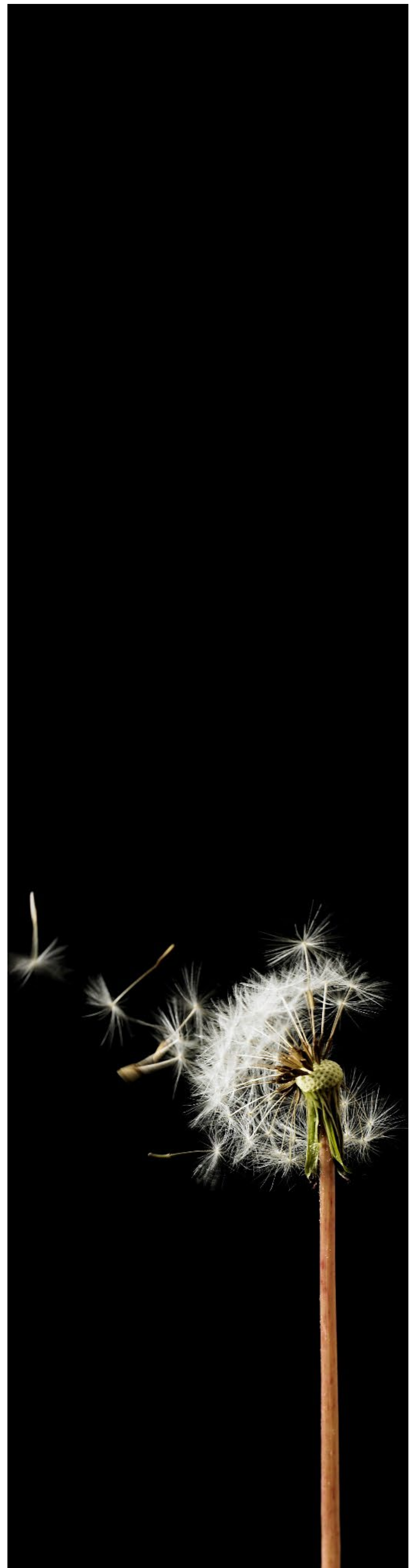
Our Framework supports our belief that sustainable products that invest in low carbon economy issuers are best positioned for the transition to a low carbon economy and are likely to be well positioned to succeed in the future.

Responsible investment opportunity

HSBC AMUK manages 38% of HSBC AM's total ESG and sustainable AuM. Over time we expect the number of ESG and Sustainable funds to grow as we accelerate our investment activity in support of sustainable transition and launch strategies that align to or support net zero. For example, we are considering climate critical strategies and themes such as climate technology and climate transition. We also have Paris Aligned strategies that seek to support net zero goals.

We are bringing new propositions to the market for investors, including sustainable exchange-traded and actively managed funds and transition investment solutions. HSBC AM is committed to further developing our ESG and sustainable product range across asset classes and strategies, as well as enhancing our existing ESG product where there is investor interest.

In 2023, HSBC AM launched 10 new ESG strategies and realigned 8, many of which are managed by HSBC AMUK. We offer a range of sustainable investment products across asset classes, including equities, fixed income, liquidity, discretionary and alternatives.



Our climate-related opportunities

Recent HSBC AM climate related product development

2022

- Biodiversity screened ETF – passive management
- Emerging Sustainable Corporate Bond
- Global Green Bond

2023

- Alternatives Energy Transition
- Global Climate Tech
- Global Transition Infrastructure Debt

Transition to low carbon economy opportunity

Tackling climate change will require an extensive economic transformation, especially in areas such as energy, power, manufacturing, transport and food systems. However, this process must deliver benefits to the largest possible number of people for it to be sustainable. That is why the concept of a just transition – transitioning the economy in a way that is as fair and inclusive as possible is so important.

Case Study

To support the transition to a low carbon economy, as part of our net zero commitment, in 2023 HSBC AM developed a new Climate Tech strategy which prioritises the identification of issuers that are directly involved in helping facilitate a transition towards carbon neutrality. In developing strategies relating to climate solutions, we are aiming to offer investors the opportunity to invest in issuers across a wide range of industries, which are redeveloping or engaging with compelling innovations that seek to accelerate the global transition.

Looking Ahead

We recognise that the consumer demand for funds offering different approaches to management of climate risk is increasing, running parallel to our net zero ambition. As such, we are continuing to work on developing new and innovative climate-related investment solutions for our clients. We have set-up a climate product working group to bring together some of the key business subject-matter experts across the business to continue to build out our product offering and ensure the latest thinking on climate-risk management is built into our investment processes. This working group reports into the Climate Investment Committee.

Climate-related impact on our business and strategy

At HSBC AMUK, we see climate positively impacting business strategy in a number of ways including:

Climate-related opportunities

We see a multi-decade investment opportunity where new technologies, business models, investment products, alongside ESG integration, can facilitate both wealth creation and sustainable outcomes in the long term.

New asset classes

The net zero transition will give rise to new asset classes. Natural, human and social capital are the world's most precious resources. We support their development into investible asset classes with the aim of directing capital towards the UN Sustainable Development Goals.

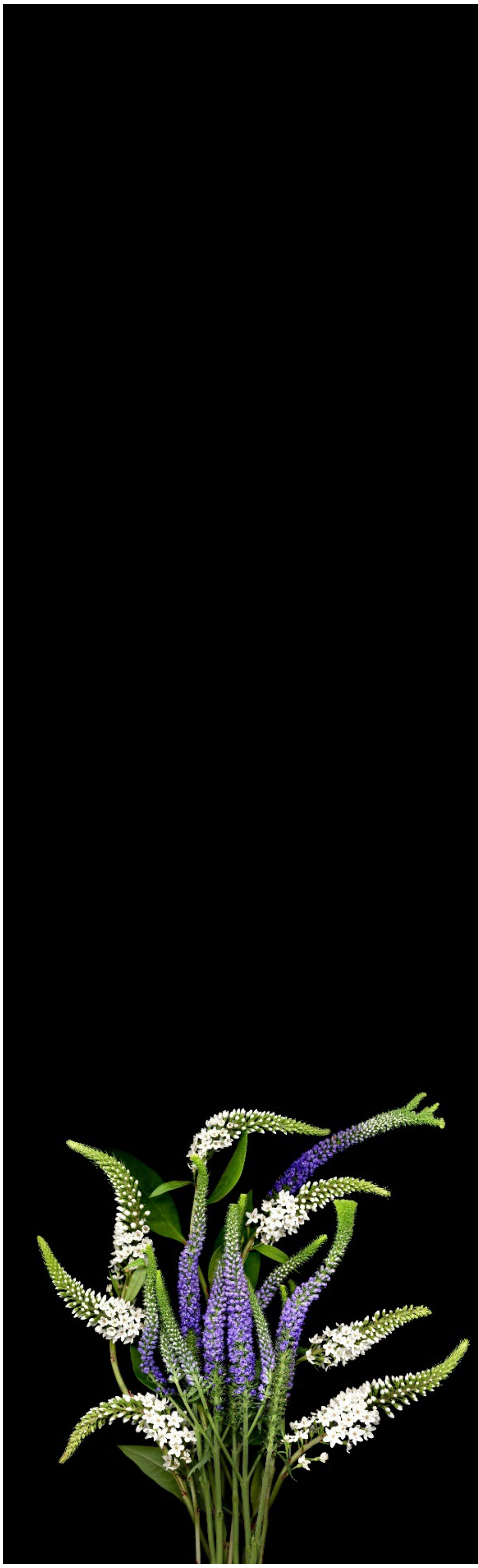
Business Alignment

Our approach to sustainability is organised by two pillars - the Sustainability Office (SO) and the Responsible Investment (RI) team.

The SO is responsible for the delivery of HSBC AM's global sustainability strategy including voluntary commitments, policy, implementation, assurance and the business-wide transition to sustainable investing. The team also drives the people-focused initiatives, including Diversity Equity and Inclusion (DE&I), as part of its ambition to embed a human sustainability culture.

Key deliverables of the Sustainability Office include

- Defining our ambitions, sustainability strategy and financial targets & measurement
- Developing strategic partnerships in line with our sustainability objectives
- Clearly setting and embedding our sustainability policies throughout HSBC AM whilst also considering investment feasibility and impact standards
- Managing our external engagements with industry bodies and overseeing our public HSBC AM commitments
- Developing and overseeing the Assurance framework to provide robust governance and controls for HSBC AM's sustainability commitments both voluntary and regulatory.



Climate-related impact on our business and strategy

The RI team is responsible for ESG integration (standards, best practices and implementation) throughout our investment activity for traditional asset classes, developing new sustainability, 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.

As part of Investments, the RI team works hand in hand with asset class teams in integrating ESG into investment processes and in product development, where appropriate. 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.

Key deliverables of the RI Team include:

- Driving effective ESG integration throughout all investment strategies globally
- Developing and delivering specialised sustainable investment strategies across a variety of asset classes (e.g Emerging Market Debt, Corporate Improvers, Climate Change Equity, ESG Liquidity)
- Developing bespoke sustainability solutions for client portfolios
- Innovative investment research on ESG/sustainability issues including Climate Change
- Delivering on our stewardship and engagement agenda – see Section on “How engagement with issuers helps us identify climate-related risk and opportunities” in line with Group policy and HSBC AM strategy
- Providing expertise and assistance to internal and external stakeholders on our RI products and solutions
- Providing ESG expertise on incoming and existing ESG-related regulation, including but not limited to the FCA’s Sustainable Disclosure Requirements (SDR)

Alongside the traditional asset classes overseen by the RI team, a dedicated team for alternatives has been created that focuses on alternatives in order to address the specificities of this market. The team is responsible for ESG integration across non-traditional asset classes and works closely with the RI and SO teams for alignment and cross-fertilisation of best practices.

Climate-related impact on our business and strategy

Investment governance and decision making for climate-related matters

Outside of the Sustainability Office and Responsible Investment team, our investment teams including our credit and equity research analysts are taking an increasingly strategic role in managing climate-related impacts.

ESG assessments are included in the responsibilities of our portfolio managers and analysts.

The portfolio managers and analysts use the research output from the Responsible Investment ESG Research & Integration team in their portfolio research and analysis.

They integrate material ESG issues into their investment decision-making.

They also draw on the expertise of our Responsible Investment Stewardship & Engagement team to inform direct company engagement.

Our investment teams share a common philosophy and adhere to a team-based approach to investing.

Our core investment belief is that good sustainable governance, informed by identification and management of climate-related risks and opportunities, is the key to delivering long-term value to our customers.

Climate-related impact on our operations

Our company's operational climate impact is summarised and calculated at the HSBC Group level.

How will our products meet our net zero objective

We have begun to initiate activities to support achievement of our target, focused on engagement, issuer net zero alignment and embedding net zero alignment into investment considerations for our listed equity and corporate fixed income assets. As part of this, we are initiating key activities in developing 4 key levers to support climate implementation across our investment platform and our client portfolios.

These 4 levers will help support embedding climate and net-zero considerations into our product offering. This will enable us to build solutions to support our clients' objectives and our own net-zero commitment to reduce the emissions intensity of 38% of our assets under management, covering listed equity and corporate fixed income, by 58% by 2030.

The 4 levers are as follows:

Issuers alignment:

HSBC AM have estimated an annual linear reduction in emissions from 2019 to 2030 based on issuers achieving the targets they have set. We are also developing an alignment framework which acts as a forward-looking indicator for issuers and portfolios progress towards interim and longer-term net-zero targets. The mechanism will enable us to combine our assessments of alignment, forecasting issuer decarbonisation as well as consider climate related risks to inform decision making and portfolio construction. This alignment classification is underway

Engagement:

HSBC AM is developing an engagement strategy for priority issuers based on their contribution and materiality to HSBC AM's financed emissions (typically the top emitting issuers) and by setting company level engagement plans. This approach will enable us to support issuers along their transition journey and show improvement in issuers alignment classifications overtime, whilst also helping support the reduction in emissions intensity of portfolios.

Climate solutions & capital allocation:

HSBC AM is developing a climate product framework to be considered in accordance with our Framework to define our climate offering of products and solutions. The climate offering will consider climate alignment classifications as well as other metrics, to meet a range of client's climate objectives.

Divestment:

Engagement is a multi-year process and may not be successful in all cases. As a final escalation we may consider divestment from issuers that do not take sufficient steps to manage or consider climate.

Implementation of our net-zero targets remain subject to consultation with our stakeholders including investors, fund boards and regulators.

How will our products meet our net zero objective

In addition to the 4 levers, we are already applying transition analysis within our approach to ESG integration. For instance, we consider several factors when assessing the transition credentials of underlying issuers. The first step is to assess whether issuers have set transition targets and/or have plans to support these targets. Whilst it's preferable to see that transition plans are certified by a credible body such as Science Based Targets initiative (SBTi), it's not a prerequisite. What is paramount is that such plans can be supported by interim targets, capabilities to measure and report. We apply these reviews where relevant, as per our policies and commitments. For example, as stated in our Thermal Coal Policy, our active ESG and sustainable products exclude thermal coal mining and power generation above 10% revenue exposure, where there is no credible transition plan. To facilitate the analysis, we conduct enhanced due diligence on active holdings with more than 10% revenue exposure to thermal coal, starting with issuers domiciled in developed markets. Where our analysis suggests transition plans are inadequate, we may consider divestment over an appropriate timescale.

As defined below and in addition to the above, our Thermal Coal and Energy Policy's form part of our NZAM commitment and are already applied.

Our Commitments

Thermal Coal	Energy
HSBC AM's thermal coal policy supports our products in meeting our net zero objective as it supports the transition from coal-fired power and thermal coal mining within HSBC's 2030/40 timelines. Actively managed portfolios do not participate in IPOs or primary fixed income financing by issuers engaged in thermal coal expansion. For other issuers with more than 10% revenue exposure to thermal coal, participation by actively managed portfolios in IPOs or primary fixed income financing is subject to enhanced due diligence of transition plans to ensure alignment with our Net Zero Objective.	Our energy policy builds on our thermal coal policy and expands our work to assess transition plans to include oil & gas and power & utilities issuers as well. In line with the Net Zero Investment Framework recommendations, we will engage with and assess transition plans of listed issuers responsible for around 70% of relevant emissions. By the end of 2024, we will have commenced engagement with oil & gas and power & utilities issuers in this group; we already engage with many of them. Transition plans will inform engagement objectives we set for issuers, as well as our assessment of progress towards meeting our 2030 interim emissions target and Net Zero Objective. Where issuer transition plans fall short of our expectations following engagement and there has not been adequate progress in meeting engagement objectives, we will consider escalation of our engagement as set out in our Global Stewardship Plan.

How will our products meet our net zero objective

Transition analysis

We are in the process of embedding climate across our ESG and Sustainable product frameworks as well as issuer assessments.

As part of the work we are already doing, we offer existing climate-aligned strategies. For example, the Climate Paris Aligned strategy offers a means to access extensive company coverage across different geographic exposures. This is done whilst seeking to reduce investment exposure to transition and physical climate risks.

Other types of strategies that are well-positioned to lead the transition, include low carbon active funds. These products promote environmental characteristics which supports their position in a low-carbon economy. These characteristics include:

- Active consideration of low carbon intensity investments compared to the Reference Benchmark
- Minimum environmental standards through exclusion of business activities that are deemed harmful to the environment
- Identification and analysis of a company's environmental characteristics including, but not limited to, physical risks of climate change and human capital management
- Active consideration of environmental issues through engagement and proxy voting

The MSCI Climate Paris Aligned Indices, that a Climate Paris Aligned ETF strategy would follow, provide a means of ensuring investors encourage companies to align their environmental strategies with the Paris Agreement. The indices follow a rules-based methodology designed to facilitate a 1.5°C climate scenario whilst helping investors mitigate transition risk and benefit from transition opportunities. The index methodology achieves this by incorporating the TCFD recommendations, leveraging advanced climate analytics which identify and manage transition and physical risk, and identifying green opportunities. The indices are designed to exceed the minimum standards of the EU Paris Aligned Benchmark. It is these types of products which are designed to benefit from a low-carbon economy by aligning with investments that are targeting a 1.5°C orderly transition scenario.

Climate-related impact on financial plan and strategy

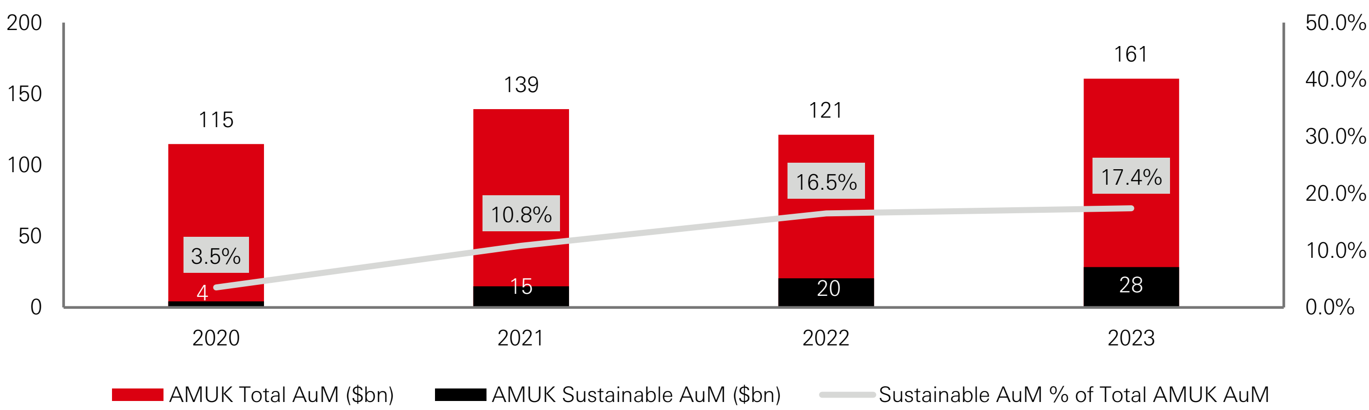
The HSBC AMUK managed sustainable AuM – see the sustainable offering framework in section '**How do our products incorporate climate related risks and opportunities**' - as of year-end 2023 was USD28.3bn representing a USD7.9bn (+38%) increase year on year.

The fund with the largest AuM was the HSBC Developed World Sustainable Equity Index Fund with USD4.7bn.

Our sustainable AuM has increased from 4% of our total AuM as at December 2020 to 17% as at December 2023. Whilst our SI AuM calculation methodology has not changed since December 2020, in future it may change with evolving regulatory developments, including FCA's Sustainability Disclosure Requirements (SDR).

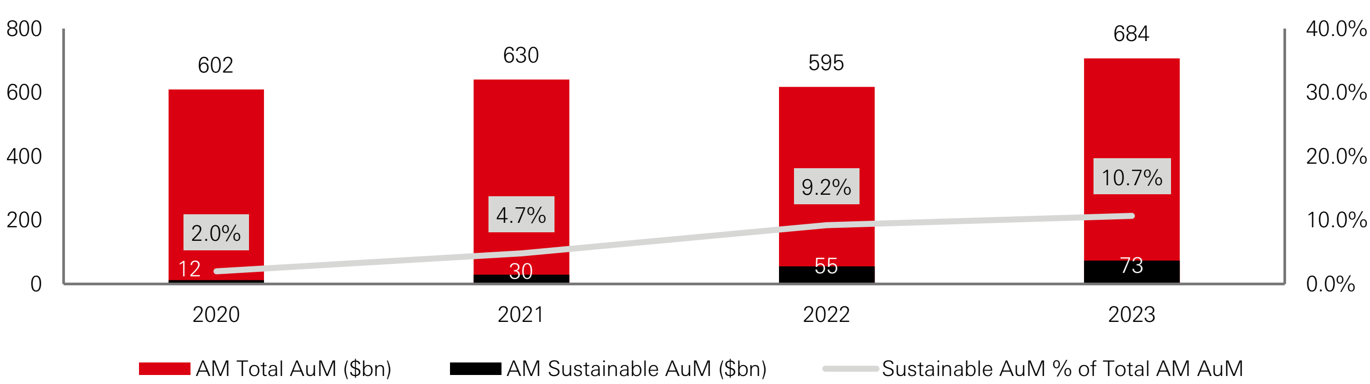
AuM and Sustainable AuM – HSBC AMUK

(USDbn)



AuM and Sustainable AuM – HSBC AM

(USDbn)



Risk Management

Risk Management Framework (RMF)

The HSBC AMUK Board has overall responsibility for ensuring that the RMF is adequate in light of the nature, scale and complexity of HSBC AMUK's business activities and setting the risk appetite. The RMF provides a comprehensive framework around managing risk. It covers risk governance, roles and responsibilities, process and tools, internal controls, principles, policies and procedures, and risk classifications.

The RMF describes our approach to managing risk. It is applicable to all employees and is supplemented by specialist risk frameworks. It ensures a consistent risk management approach, to support a strong risk culture, to promote risk awareness and sound operational and strategic decision making and to ensure that only risks of an agreed type and level are taken with the appropriate/sufficient controls in place.

Our risk management approach follows five simple steps: define and enable, identify and assess, manage, aggregate and report and govern.

5 **Govern** the risks through analysis, challenge and remediation

4 **Aggregate** and analyse data
Report to enable decision making

3 **Manage** and control our risks within appetite

2 **Identify** and record risks to our business
Access the potential Impact

1 **Define** risk appetite and controls
Enable risk culture and accountability

Within the RMF, key items relating to policy are maintained in the HSBC AM written procedures which HSBC AMUK is required to follow. Any changes to the HSBC AM procedures are reviewed by the HSBC AMUK Risk Management Meeting as appropriate. The RMF defines a Three Lines of Defence model to enable a strong risk management culture and to outline clear responsibilities for all employees. This ensures functional and hierarchical separation of the risk management responsibilities.

HSBC AMUK has adopted the Three Lines of Defence Model to ensure that there is clear accountability within the business to manage risks including climate risk in an effective and efficient manner.

Three Lines of Defence

First line

Responsible for identifying, recording, reporting and managing risks, and ensuring that the right controls and assessments are in place to mitigate these risks

Second line

Risk specialists (Risk Stewards) who set policy and guidelines for managing risk and provide advice and guidance on effective risk management

Third line

Independently ensure the effective management of risk

HSBC AMUK Business Teams

- Investments
- Operations
- Chief Control Office (CCO)
- Strategy and Corporate Management
- Marketing
- Product Management and Development
- Sales

Functional Specialist teams

- Compliance
- Risk
- Legal
- Information Security
- Tax
- Operational Risk

Internal Audit

- Thematic audits
- Regular on-site audits
- Follow up of audit recommendations

Control Effectiveness Validation, Quality Assurance & Governance

- CCOs: Monitor Control Effectiveness
- Front, Middle, Back Office Teams: Own and Execute Controls
- Objective: Mitigate against the risks the Business faces through the execution of its strategy

- Report top and emerging risk issues at the Risk Management Meeting. Key items escalated to the HSBC AMUK Board Risk Committee and AMUK Board

- Provide independent assurance to the Asset Management Board on effectiveness of overall framework.

How does the overall risk framework integrate the climate-related risk framework

The RMF has been enhanced from a governance and controls perspective to integrate sustainable (including climate) related risk considerations. Further details on the governance forums are outlined within the Governance section of this report.

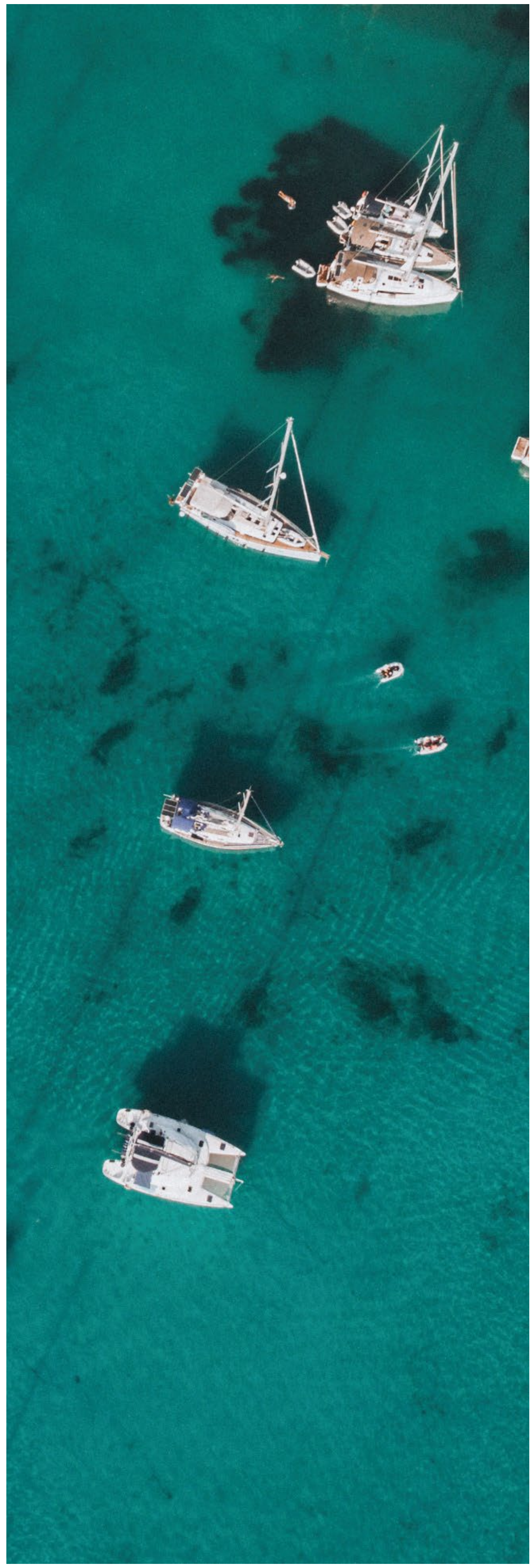
The integration of climate related risks takes two approaches:

1 From a top-down perspective climate related policy sets the overarching framework.

2 From a bottom-up perspective at fund/ mandate level, ownership of the risks and associated controls sits within the first line, with an additional layer of independent second line oversight.

Any significant breaches are escalated to the relevant governance forums including the HSBC AMUK Risk Management Meeting and the HSBC AMUK Board Risk Committee. The HSBC AMUK risk appetite statement sets out the key risks the business faces in the execution of its strategy, this includes sustainability related metrics.

Emerging regulatory requirements are identified by a dedicated regulatory change Business Transformation team. This team co-ordinates the review of new regulation and co-ordinates the related activities and responsibilities on a cross functional basis. As part of the ongoing review of new regulation or regulator guidance, the HSBC AMUK Compliance team also conducts gap analyses to identify areas of enhancement or whether any new policy or governance processes need to be established. Where required, third party consultants may also be engaged to provide an independent view on the Company's interpretation and approach.



How does the overall risk framework integrate the climate-related risk framework

Risk Management Framework Climate Related Control Enhancements

The HSBC AM Climate Change policy sets out our approach to managing climate risk. We recognise that climate risk may manifest as transition and physical risk over the short, medium, and longer term. The impact of climate-related risk will vary depending on characteristics such as asset class, sector, business model and geography.

Where applicable and relevant, we incorporate climate-related indicators such as carbon intensity and management of carbon emissions into our investment decisions as well as insights from our climate-related engagement.

There are a number of first and second line controls that are used to oversee compliance with our sustainability and climate related targets and restrictions. The Investment team has built proprietary sustainability tools within their key Investment risk management system. Sustainability related investment restrictions and exclusions automatically ensure on a pre-trade basis that trades are rejected or alerts raised whenever necessary.

The Investment Guidelines Monitoring (IGM) team is responsible for coding sustainability related investment restrictions and exclusions into our core investment system, Bloomberg AIM. The IGM team oversees and escalates any related breaches. Where restrictions or investment guidelines cannot be coded in an automated manner, such as Carbon Intensity or ESG uplift scores, other solutions are used independent of the Investment Team. The second line Risk team works with the Performance and Reporting and the IGM teams to ensure the appropriate level of governance is applied.

The Risk team provides independent oversight across a variety of sustainability risk related metrics. The main sustainability risk metrics monitored by the Risk team includes Carbon Intensity or ESG uplifts. The Risk team works closely with the RI team to regularly review sustainability risk either at an absolute level or relative to a benchmark or an underlying parent index (for index tracking funds), to ensure that funds/ mandates are managed in line with the stated objectives. Issuers with unsatisfactory ESG scores are also monitored by the Risk team under tail risk management policy.

Management action triggers (MAT) are set for a given risk metric. Although, these are not limits, they are used as an early warning indicator that highlights where a fund/ mandate is deviating from the levels it is expected to operate within for a given metric. If a fund/ mandate moves outside of its agreed sustainable risk MAT, the relevant fund/ mandate manager (or index vendor for passive funds) is engaged to understand the causes and where necessary, determine remedial action to ensure a fund/ mandate is aligned to its investment objective.

How engagement with issuers helps us identify and assess climate-related risk and opportunities

Climate change is a central theme of our stewardship programme, with stewardship being one of our four key levers in our effort to transition to achieve our NZAM commitment and subsequently encourage investee issuers to commit to a just climate transition.

Engagement approach

Our engagements aim to improve the climate resilience of the issuers we invest in. We encourage priority issuers where Climate Change is a material potential risk to take the following steps:

Climate strategy

- Set a net zero ambition for the company covering all material areas of business and operation, aligned with the objectives of the Paris Agreement.
- Develop clear short and medium-term emission reduction targets, for both scope 1, 2 and material scope 3 emissions.
- Set out sector-based decarbonisation strategies supporting the achievement of the company's net zero target, inclusive of climate solutions and objectives to grow green revenue.
- Set out capital expenditure plans to support the company's net zero targets and objectives.
- For issuers covered under our Energy or Thermal coal policies to set out credible transition plans **(see details on page 34).**

Climate risk and reporting

- Publish comprehensive climate risk disclosure and scenario planning, including details on assumptions used e.g. carbon pricing. We strongly encourage issuers to align with the recommendations of the TCFD and report in accordance with IFRS S2
- Disclose emissions data and independent assurance of this information, including emission reduction trajectories (absolute and intensity)

Climate governance including lobbying

- Ensure senior management are accountable for the company's climate strategy and there is sufficient board oversight of material climate risks
- Publish a Paris-aligned climate lobbying position, consistent with an overall net zero outcome

Just Transition

- Commit to a Just Transition, which aims to shape a sustainable world that is fair and inclusive with no segments of society left behind, in line with the definition by the International Labour Organization (ILO). Set out how the company has engaged with stakeholders, including workers, suppliers and communities on identifying impacts associated with the energy transition in their climate strategy
- Identify risks and opportunities related to a Just Transition and develop a suitable approach to addressing Just Transition considerations
- Integrate Just Transition objectives within transition plans. This may include specific metrics or objectives in relation, but not limited to employee training and development, green job creation, safeguarding workers' rights, support to affected communities, social dialogue, among others

How engagement with issuers helps us identify and assess climate-related risk and opportunities

When HSBC AM engage with issuers and other stakeholders, we identify Specific, Measurable, Achievable, Relevant and Timebound (SMART) objectives to achieve the desired outcomes, tracking progress and milestones over time. If we do not observe sufficient progress or traction, our escalation process may be applied.

For further details on our approach to stewardship, please refer to our publicly available Stewardship Plan, linked here.

Climate Considerations in Voting

We believe an issuer's board should be responsible for that company's climate change strategy and the oversight of relevant issues. Where the strategy or actions of a company in a carbon intensive sector fall short of that required for low carbon transition, we may vote against the re-election of the chair or relevant board director.

We assess "say-on-climate" resolutions put forward by issuers on a case-by-case basis. Our support of the proposal is contingent on factors such as our assessment of the climate strategy proposed, the scope of any targets, management oversight and accountability, and capital expenditure plans. We typically support proposals to introduce a regular "say-on-climate" resolution, regular reporting on climate or a vote on climate transition plans.

Please refer to our Voting Guidelines for further details on our approach, linked here.

Key engagement and voting statistics

- In 2023, climate change topics were covered in almost 23%[1] of our engagements for the year
- We voted against over 100 individual directors for taking insufficient action to manage climate risks faced by their companies.
- We supported over 80% of shareholder resolutions asking companies to take more action to address climate risks.
- We supported nearly all 'Say on Climate' proposals from issuers asking us to support their climate reports and / or policies.

1. Although HSBC AM makes reasonable efforts to collate engagement data, actual figures may vary and you should not place reliance on the accuracy of the data.

How engagement with issuers helps us identify and assess climate-related risk and opportunities

Case Study 1: Engaging and escalating our concerns on climate change and remuneration with an energy company

We have been engaging the company on climate change and remuneration matters

Objectives

1. Set mid-term target for reducing absolute emissions from use of sold products, or at least a projection of such emissions
2. Publish a policy on responsible divestment
3. Disclose emission reduction achieved through carbon capture, utilisation storage
4. Quantify scale of just transition, including the need of reskilling and transfer of workforce
5. CEO pay to be more proportional, in consideration of the UK national median wage

Engagements

- We provided feedback on the summary update of the company's remuneration policy
- At a meeting ahead of the 2023 AGM, we communicated our disappointment at the downward revision of the company's scope 3 target and our plan to support a shareholder proposal to align its target with Paris goals
- We also shared our view that the pay outcome for the CEO is beyond the level we would accept and that we would oppose both the remuneration report and the new remuneration policy, which would sustain this level of pay

Voting

- In the past, we have supported the company's say on climate proposal, acknowledging the progress the company had made in its energy transition strategy including new GHG emissions reduction targets. In 2023, we supported a shareholder proposal to seek a Paris-aligned target covering scope 3 emissions, in line with the request we had previously made
- We also opposed both the remuneration report and the new remuneration policy

Outcomes

- The company confirmed that a set of principles on responsible divestment was being developed
- We will continue to seek assurance that the company's current strategy is aligned with the Paris goals
- We will also engage on executive pay, to seek a better alignment with the UK national median pay

How engagement with issuers helps us identify and assess climate-related risk and opportunities

Case Study 2: Direct engagement with a middle eastern bank leading up to sustainable fund inclusion

We have been engaging the company on climate change matters

Objectives

1. Baseline and report scope 3 emission footprint in line with PCAF methodology
2. Develop and disclose emission reduction targets for its financing activities (scope 3)
3. Produce first TCFD Report, outlining the company's approach to scenario analysis and climate risk management
4. Increase and develop objectives around engagement with clients on climate risk management
5. Expand consideration of biodiversity within financing decisions

Engagements

- On an ongoing basis, discussed and shared good practice in regard to portfolio foot printing and target setting
- Raised the importance of a climate risk assessment and/or scenario analysis
- Discussed the need for greater client engagement and on the Just transition, which the bank raised as a priority focus. This includes discussions on climate risk management and opportunities for transition financing
- Discussed importance and need for a focus on understanding biodiversity risk and in developing a biodiversity strategy

Voting

- Given the company's progress on objectives discussed, there was no escalation required

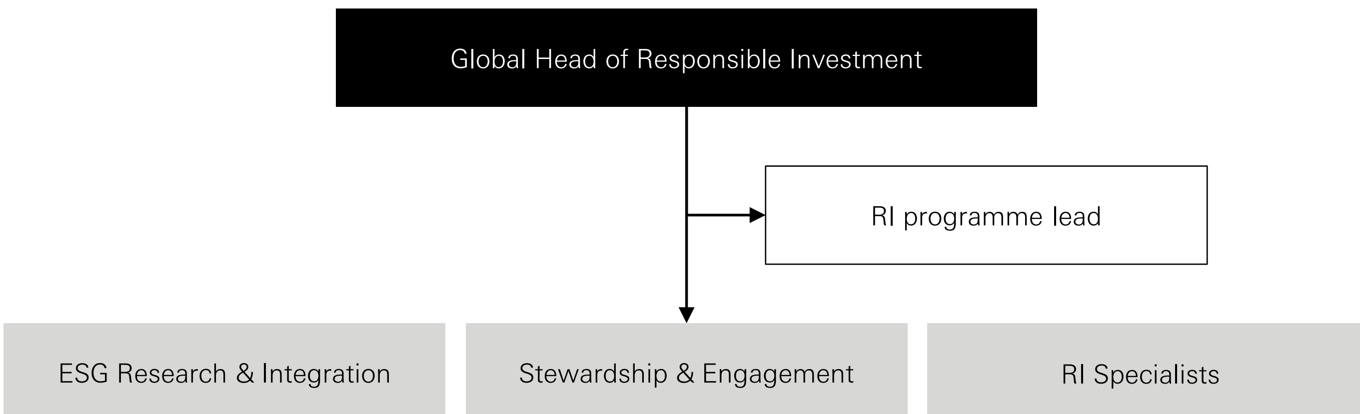
Outcomes

- The company reported on portfolio emissions in March 2023 according to PCAF Guidelines, becoming the first in the region to do so
- Set greenhouse gas financed emission reduction targets for 2030 in accordance with its NZBA Commitments
- Published its first TCFD Report toward the end of 2023 and proactively engaged with us on progress and feedback upon publication
- Outlined sustainable financing target, noting importance of client engagement strategies in achieving these objectives
- The company was included in our ESG liquidity fund following this progress

What resources and tools do we have to monitor climate-related risk

Resources

Our overall ESG risk strategy, including climate, is driven by the Responsible Investment team with support from our asset class teams. Throughout 2023 we prioritised expanding resource within our Responsible Investment team, including with the hire of a Head of Responsible Investment. The new Head of Responsible Investment leads on our RI strategy, including enhancing our climate risk strategy. We have continued to expand the team and there are plans to continue growing. By expanding our in-house expertise and bringing in people with different depths and breadths of skills, this enables us to respond better to climate risk and drive our strategic response.



Beyond the Responsible Investment team, we have access to a global network of on-the-ground equity and credit analysts. We collaborate in several different ways throughout our ESG integration process and approach to sustainable investing.

Our Virtual Sector Teams (VSTs) form part of this collaborative approach, including climate investment risk and opportunities.

These teams bring together ESG research and integration analysts, stewardship team, credit and equity analysts based in different regions. VSTs are made up of over 120 participants. The VST's are responsible for conducting sector research, overseeing ESG checklists, deriving ESG scores and aligning our engagement activities with risk issues, which makes them a key component of our enhanced ESG integration framework described later in the section.

What resources and tools do we have to monitor climate-related risk

12 sector focused centers of excellence

Energy	Materials	Aerospace & Defence	Industrials
Consumer Goods & Services	Auto & Transport	Food & Retailing	Healthcare
Financials	Tech/Media Telecom	Utilities	Real Estate

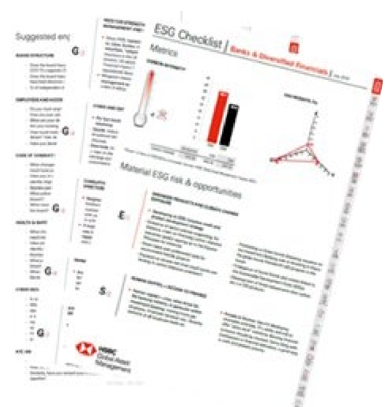
....whose goal is to enhance risk-adjusted returns

The VSTs are pivotal in the build-up of ESG Risk scores, Sustainability measurement metrics and conducting sector research relating to ESG and overseeing the development of ESG materiality checklists. The ESG sector checklists aim to tackle ESG risks and opportunities for the three pillars E, S and G. They summarise the most material ESG issues, those with the highest degree of potential financial materiality, and suggested engagement approaches. Sector specific checklists incorporate ESG trends, regulatory changes and industry guidelines

Example: Checklist for the utilities sector

Emphasis on Environment

- How important are carbon assets to your business model?
- What percentage of your revenues/generating capacity comes from renewable sources of energy?
- What is your assumption for a long-term carbon price? Would you be able to pass on an increase in the carbon price to customers?
- Do you have a clear target in terms of carbon intensity reduction? In terms of future generation mix?
- How is environmental legislation affecting the company's business?
- How much do you spend on environmental issues, in terms of expenses and capital investments?



Outputs from VSTs go to our Asset Class ESG Committees, which hold the responsibility of overseeing ESG implementation across investment processes, and the monitoring of risk and engagement progress. Each committee leverages our sector insights and data analytics generated by the VSTs. This information is used to support our investment teams with ESG assessments, issuer decision making, and where relevant new product development.

What resources and tools do we have to monitor climate-related risk

Tools

We have access to a number of quantitative analytics tools, through which we can assess the materiality of climate-related risk factors on historical performance and subsequently form our in-house view on their impacts going forward. This is also supported by the qualitative overlay provided by our analyst teams based on years of experience and access to corporates.

Our investment platform has developed a set of proprietary tools. These quantitative analytics tools enable us to assess the exposure of our portfolios to ESG risks and opportunities. The key tools and systems include:

Name	Asset Class	Description
Global ESG Research Platform	Fixed Income, Active Equities.	An internal ESG tool which captures ESG data points and maintains a range of historic ratings allowing us to analyse each issuer's ESG rating trends. It also provides online access to research provided by our third-party providers. The tool produces an executive summary for issuers within our investment universe and integrates the most up-to-date ESG data into our portfolio assessment and construction tools. This enables the portfolio managers to create a snapshot of a portfolio's ESG profile and assess ESG criteria alongside profitability and valuation metrics.
HSBC Analytics	Fixed Income	A proprietary tool which allows the portfolio manager to analyse the portfolio as well as any potential changes in order to assess ESG-related risk impacts. It monitors the evolution and level of risk on a day-to-day basis. Live market information and ESG data (including ESG Scores, carbon-related metrics, UNGC flag, green bonds, Paris Alignment data) feed into HSBC Analytics. The system enables a granular view into portfolio characteristics and allows the investment team to visualize each fund’s ESG scores and climate metrics. As a modular dashboard, it provides portfolio managers with data to monitor where they are most exposed.
Visualiser	Quant Equity	Our Quantitative Equity team uses a proprietary toolkit “Visualiser” to identify, assess and manage climate-related risks in ESG focused quantitative equity portfolios. Our proprietary technology can monitor ESG scores of portfolios and carbon intensity. The quantitative tools are also able to measure whether a strategy is aligned with the goals of the Paris Agreement by measuring the implied temperature rise scores of portfolios, greenhouse gas emissions and incorporate green revenues data. Climate risks are specifically assessed by using multiple datasets.

What resources and tools do we have to monitor climate-related risk

To support our analysis, we also use a number of third-party research and data providers. As a global asset manager, when selecting third-party data providers, we pay particular attention to breadth and depth of coverage (developed and emerging markets, small and mid-caps, governments bonds, unlisted bond issuers, etc.).

Looking ahead, we are continuing to invest in our internal proprietary tools by building in-house solutions to enhance our approach to ESG integration, including the management of climate risk. Specifically, this includes:

- Developing an app which will allow investment teams to view ESG data, monitor ESG performance, understand historical trends and undertake ESG portfolio simulation and scenario analysis
- Embedding qualitative investment processes within an automated data capturing solution, so as to enhance the efficiency of our processes

What is our product level governance of climate-related risk

To support the integration of climate considerations across our investment platform and ensure that our sustainable products are sustainable and minimize climate-related risk, we enhanced our product governance framework. The process is summarised as follows:

ESG and Sustainable Investment Product Review Process:

Investment teams that seek to launch new ESG and Sustainable Investment ('SI') products must undergo the SI Product Review Process.

Step 1 **SI Product Review Template** – To initiate the process, investment teams complete the SI Product Review Template. The SI Product Template includes a summary of the investment process step by step, how the process embeds sustainability considerations and the thresholds measured against, and which internal SI Definition and where appropriate the SFDR Article (8 or 9) the product seeks to be considered for. The SI Product Template includes a series of questions as to how the fund achieves the qualifying criteria for internal SI Definition and SFDR 8 & 9 classification, as per our ESG and Sustainable Investing Framework. This will be extended to include FCA's Sustainability Disclosure Requirements (SDR).

Step 2 **Asset Class ESG Committee** – After the SI Product Review Template is completed, investment teams bring the template to their respective Asset Class ESG Committee for peer review and initial validation. Any issues with regards to the investment processes, sustainability metrics to be measured against and all other features that qualify a fund as 'sustainable' and meeting the minimum criteria are reviewed. The role of the Asset Class ESG Committees is to ensure that best practices are applied to proposed new SI products, that proposed products adequately meet the minimum criteria for the internal SI Classification and SFDR Frameworks (if relevant). They shall also ensure that products employ ESG rules and metrics, that these are binding and measurable where possible, and are applied consistently when it makes sense to do so. The role of the Asset Class ESG Committee is to peer review and if satisfactory, provide a recommendation to the ESG Investment Committee to validate.

Step 3 **ESG Investment Committee** – review all new SI products for validation before being submitted to the relevant New Business Committee (NBC) where they are formally approved. The role of the ESG Investment Committee is to review the findings from the Asset Class ESG Committees and the recommendations, as well as the overall product template. Any areas that required further deliberation/guidance at the ESG Investment Committee are put into focus. The role of the ESG Investment Committee is to then validate SI Products for final approval at the NBC.

Step 4 **NBC** – review and approve all new products. Any areas of concern/further consideration raised by the Asset Class ESG Committees and ESG Investment Committees are documented on the business case template that is presented to NBC

Product level governance for climate-related risk

Sustainable Investment Product Review Process

Not all individual investments in our ESG and sustainable products are required to be 'sustainable investments', e.g., make a positive contribution towards sustainable outcomes or goals. In identifying the proportion of assets of products that are classified as sustainable investments, we consider "Do No Significant Harm" (DNSH), which means that investments that are contributing towards sustainable goals/outcomes are not doing any significant harm in relation to other sustainable goals/outcomes. We employ various data sources to test for sustainable investment, which considers mandatory PAIs (Principal Adverse Impacts) as required by EU regulation. PAIs are any negative effects that investment decisions or advice could have on sustainability factors. We consider climate change and climate related risks as part of our PAIs consideration process.

HSBC AM has set out an approach to measure and ensure DNSH requirements are considered within investment processes for ESG and sustainable products. It requires issuers to adhere to the following policies and criteria as it relates to sustainable investments:

- Good Governance
- Principle Adverse Indicators ('PAIs')
- Standard and Sustainable Exclusions (see **sustainable investment methodology**)

Our Framework requires DNSH criteria to be applied, which requires all mandatory PAIs to be considered.

Metrics and Targets

Analysis of climate-related risk

We use the following three key climate metrics to describe our exposure to emissions as set out subsequently on pages 58-60 of this report: Weighted Average Carbon Intensity, Total Carbon Footprint and Total Carbon Emissions. We use two other metrics in relation to climate related scenarios: Climate Value at Risk (cVaR) and Implied Temperature Rise (ITR).

Our climate metrics are measured as at the report date using available vendor data, which could be based on reported data or vendor estimates. Vendor data evolves because vendor estimates are replaced by reported figures as issuers report them. Coverage indicates availability of data.

Raw metrics are calculated using available data. The figures presented are extrapolated to what the raw metric would be if the entire portfolio comprised assets for which vendor data was available (irrespective of whether reported or estimated by the vendor). Where coverage is limited, this would be subject to governance around data considerations when preparing climate-related reports. Areas excluded from calculation of raw metrics due to limited data coverage include some private market assets such as private debt, infrastructure, and venture capital.

Comparator analysis

Whilst we have provided figures from our 2022 report, they are not directly comparable due to year-on-year changes in the AuM, data coverage and calculation methodology. To facilitate our metric analysis, we use broad market indices such as an equity index: MSCI All Country World Index (MSCI ACWI) and fixed income index: Bloomberg Global Corporate Aggregate to put into context our AuM exposure and its associated climate risks. Although, it should be noted we are not managing our AuM against these indices.

Analysis of climate-related risk

Sector review

As sectors have vastly different climate risks, it is useful to understand the sector distribution of the broad market indices in comparison to the HSBC AM UK portfolio.

The equity market (see MSCI ACWI 2022-23 movement below) has shown a year-on-year increase in the market value in information technology companies. Companies in the information technology sector have lower climate risk than in other sectors. Similar to the MSCI ACWI, the HSBC AMUK AuM has a high sector weight to information technology. This is also the case for the Bloomberg Global Corporate Aggregate Bond Index, where the HSBC AMUK AuM also has a large percentage allocated to the financial sector, which in addition, has a lower climate risk than other sectors.

HSBC AMUK Climate Metrics

Due to the HSBC AMUK AuM weight in information technology and financials, the climate risk of the HSBC AMUK AuM is less than if its allocation were more evenly distributed across each of the sectors or had higher weights in sectors with significant climate risk, such as materials and energy. HSBC AMUK AuM also has a lower carbon emissions intensity than the broad market indices because of differences in sector allocation.

The sector allocation of the HSBC AMUK AuM is based on several factors and is subject to change. There are companies within each sector, including in the materials and energy sector, which have net zero alignment and are managing their climate risk accordingly. Whilst we prioritize investment in these issuers in some of our ESG and Sustainable products, this currently only represents 17% of AuM. However, we continue to expand our ESG and Sustainable product offering.

Analysis of climate-related risk

Our approach to climate related scenario analysis uses forward looking metrics such as Climate Value at Risk (cVaR), as set out subsequently on page 62 of this report. A view of climate risk across sectors for HSBC AMUK AuM and MSCI ACWI is set out in the table below, which shows sector weights followed by three different climate risk metrics:

- The transition cVaR (1.5 °C) in the table shows a forward-looking estimate of the amount of future climate risk across sectors under the 1.5 °C NGFS orderly scenario. Most of the climate risk is distributed across the three high impact sectors of utilities, materials and energy
- The carbon per USD m revenue (carbon intensity) shown in the last column is a measure of a sector's current climate risk. As with the forward-looking transition risk, most of the risk is concentrated in the utilities, materials and energy sectors
- Physical risk, measured by the physical cVaR (4 °C) metric is also a forward-looking estimate of future climate risk under the Intergovernmental Panel on Climate Change (IPCC) SSP3-7.0 scenario. It shows the impact of physical risk varies across all sectors based on the value and size of company assets and their exposure to acute and chronic weather events. While risk is much more normally distributed, financial and information technology sectors are outliers with relatively lower physical risk as compared with the other sectors

Table:
Broad investable universe climate risk metrics by sector compared with AMUK AuM

	Sector Weights					Climate Risk		
Sector	AMUK AuM Weight 2023	Bloomberg Global Corporate Aggregate Bond Index	MSCI ACWI Weight 2023	MSCI ACWI Weight 2022	MSCI ACWI 2022-23 % movement	MSCI ACWI Physical cVaR (4C) %	MSCI ACWI Transition cVaR (1.5C) %	MSCI ACWI Carbon Scope 1_2 tCO_2/\$m sales
Information Technology	15.0%	4.0%	24.7%	9.9%	4.7%	-5.0	-5.0	29.0
Communication Services	5.0%	5.0%	7.2%	6.8%	0.5%	-13.1	-2.2	29.4
Consumer Discretionary	8.0%	4.0%	10.9%	10.4%	0.4%	-20.5	-15.1	50.3
Real Estate	3.0%	2.0%	2.3%	2.6%	-0.3%	-28.6	-2.5	81.3
Industrials	8.0%	5.0%	9.6%	10.0%	-0.3%	-26.1	-17.3	99.5
Utilities	30%	2.0%	2.6%	3.2%	-0.6%	-36.9	-44.9	1,780.7
Materials	3.0%	2.0%	4.0%	4.7%	-0.7%	-24.2	-47.7	690.5
Energy	4.0%	2.0%	4.5%	5.6%	-1.1%	-35.6	-76.3	355.1
Financials	15.0%	25.0%	13.7%	15.0%	-1.3%	-20.6	-1.4	16.5
Consumer Staples	5.0%	4.0%	6.4%	7.7%	-1.4%	-24.1	-13.2	50.6
Health Care	7.0%	5.0%	10.6%	13.4%	-2.8%	-9.9	-3.2	18.4

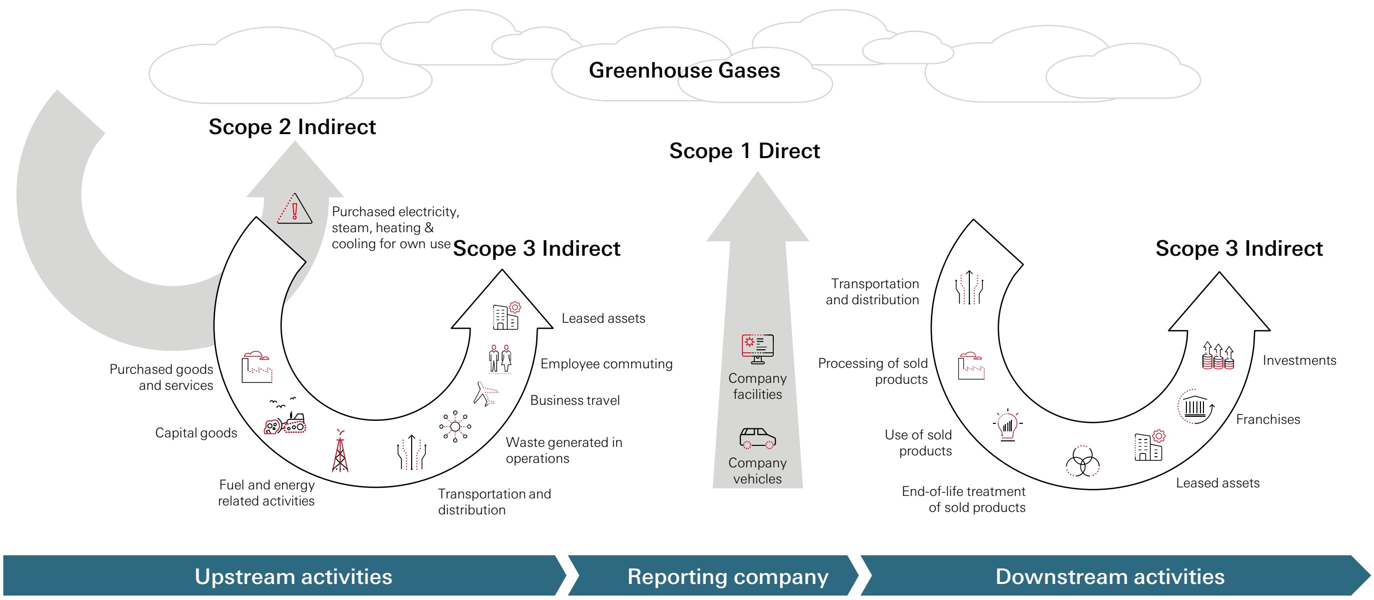
Note: Portfolio and index weights may not add up to 100% as not all holdings may be covered by the cVaR model.

Climate related metrics

Methodological choices

Corporate carbon emissions

Below is a graphic of the different scope of emissions. Greenhouse gases contribute to global warming and are released through different company activities. Our company emissions data is an amalgam of the three scopes, though a company's indirect emissions will be double counted by the emissions of another company's indirect emissions.



Sovereign carbon emissions

Country emissions, include both its private and public sector emissions. Scope emissions are defined as follows.

PCAF scope definition for Sovereign Debt[1]

Scope 1	Scope 2	Scope 3
Domestic GHG emissions from sources located within the country territory This aligns with the UNFCCC definition of domestic territorial emissions, including emissions from exported goods and services	GHG emissions occurring as a consequence of the domestic use of grid-supplied electricity, heat, steam and/or cooling which is imported from another territory	Emissions attributable to nonenergy imports as a result of activities taking place within the country territory

Within the weighted average carbon intensity metric, we only source a sovereign's production emissions, which is the scope 1 emissions of a country. The Partnership for Carbon Accounting Financials (PCAF) guidance, is that scope 1 emissions figures are the only ones appropriate to divide by GDP (gross domestic product) to give a carbon emission intensity figure.

1. Table 5-17 PCAF scope definition for Sovereign debt

Climate related metrics

Reported sovereign emissions exclude those arising from land use, land-use change and forestry activity (LULUCF) as these calculations have a high degree of uncertainty with high annual fluctuations. The related emissions estimates can vary between different datasets and methodologies. However, in line with PCAF guidance we will explore reporting including LULUCF in future periods when feasible.

Scope 3 emissions

Scope 3 emissions comprise upstream and downstream emissions, where the related proportion of each can vary for different issuers and sectors. Due to the uncertainty of Scope 3 emission accounting, we have decided to report only the upstream emissions where a company has more control. We will review our position as guidance and regulation evolves.

Green Bonds

We treat the emissions of green bonds differently from those of the issuer itself. Green bonds comprise an immaterial share of less than 0.8% of our overall AuM. In order to incentivise green finance and decarbonisation projects, green bonds that have been reviewed and approved by us are treated as having zero emissions. We do this because there is no clear and appropriate measure to calculate the avoided emissions that the projects financed by these bonds would have helped with. Projects financed by these issuances undergo a stringent governance framework. If an issuer’s emissions figures are used, we would have no way to account for the positive steps financed for a given green bond issuance.

There is currently no industry-wide guidance as to how to estimate both the positive (i.e. avoided carbon emission) and negative (caused emission) impact of the projects financed by the green bonds. We will continue to review and adapt our position as the industry metrics evolve. We are members of the ICMA (The International Capital Market Association) Green Bond Working Group and give feedback to PCAF to find an appropriate industry solution in the future.

Data source

We source carbon emissions and intensity data from S&P TruCost. We source Global Domestic Product purchasing power parity adjusted (GDP PPP) for sovereigns from the International Monetary Fund (IMF). We source Enterprise Value Including Cash (EVIC) from FactSet.

Climate related metrics

Our Greenhouse Gas Emissions[1]

In accordance with our choices for climate-related metrics, HSBC AMUK greenhouse gas emissions for assets under management are as follows:

Weighted Average Carbon Intensity (WACI)

Carbon intensity measures the quantity of carbon emissions per million dollars of economic output. Economic output is measured using revenues for corporates and Global Domestic Product purchasing power parity adjusted (GDP PPP) for sovereigns, both in line with their respective methodology as per PCAF. Thus, it is a measure of the environmental efficiency of an issuer. Weighted average carbon intensity(WACI) is the sum of all issuer carbon intensity, weighted by the allocation to those issuers, across HSBC AMUK's AuM. This is shown as tonnes of CO_2 equivalent per million USD of economic output (tCO_2e/USD m).

Corporates and Sovereigns comprise 76.96% and 17.87% of AMUK AuM, respectively. For cash and positions where S&P Trucost doesn't have data coverage, these holdings are assumed to have the same emissions profile as the other investments in the portfolio for which there is coverage. As the sovereign scope 1 emission intensity metric is an attribution of emissions by economic activity, we combine it with corporate carbon intensity to give a full picture. However, as sovereign emissions can include an element of duplication of private sector emissions, we present the metrics separately as well.

	Scope 1 and 2			Scope 3
	Corporates Scope 1 and 2	Sovereigns[2] Scope 1	Combined	Corporates
2023				
HSBC AMUK unadjusted WACI (A)[3]	86.31	36.96	123.27	72.61
Eligibility (B)[4]	77%	18%	95%	77%
Data coverage (C)[5]	94%	96%	94%	94%
Eligible data coverage (D = B * C)[6]	72%	17%	89%	72%
HSBC AMUK WACI (E = A / D)[7]	119.42	215.63	137.86	100.47
MSCI ACWI WACI[7]	127.34	N/A	127.34	103.96
Eligible data coverage[6]	98%	N/A	98%	98%
Bloomberg Corporate Aggregate WACI[7]	158.07	N/A	158.07	90.77
Eligible data coverage[6]	89%	N/A	89%	89%
2022				
HSBC AMUK WACI[8]	Not reported	Not reported	133.48	Not reported

Source: HSBC. 2023 refers to data as of 31 December 2023. Units in tonnes of CO_2 equivalent per USD million of economic output (tCO_2e/ USD m)

1. Reported metrics are dependent on the chosen vendor's data quality and availability of metrics as at the reporting date. Assets under management for this entity report includes all funds and mandates managed by AMEU on a discretionary basis. This includes model portfolios where HSBC AMUK also undertakes placing of orders. For model portfolios the related AuM is estimated based on actual portfolio values aligned to model portfolio weights.
2. Sovereign production emission intensity is the scope 1 emissions of a country, defined as the 'Domestic GHG emissions from sources located within the country territory,' divided by the PPP-adjusted GDP excluding LULUCF The Global GHG Accounting and Reporting Standard for the Financial Industry (carbonaccountingfinancials.com). This is combined with corporate carbon intensity as it is an attribution of emissions by economic activity.
3. Unadjusted WACI refers to WACI prior to adjustments for share of holdings and data availability and is defined as the sum of the following for all holdings: % weight of holding within portfolio multiplied by issuer's carbon intensity in tCO_2e/$m revenues of issuer (for sovereigns GDP PPP is used instead of revenues).
4. Eligibility refers to % of total AuM. Non-eligible items include cash and other assets not classified as corporate or sovereigns or both, respectively.
5. Data coverage refers to % of eligible AuM for which data is available.
6. Eligible data coverage refers to % of total AuM for which data is available.
7. WACI refers to unadjusted WACI divided by eligible data coverage.

Climate related metrics

Total Carbon Footprint

Carbon footprint measures the quantity of carbon emissions divided by the issuer value, and then multiplied by the size of the investment. The carbon footprint can fluctuate without a change in carbon emissions due to movements in the issuer value. Understanding the change in investment or issuer versus the change in carbon emissions is an important step in monitoring the environmental progress of the investment. The Total Carbon Footprint is the sum of all issuer carbon emissions, divided by the value of the HSBC AMUK AuM.

	Corporates Scope 1 and 2	Corporates Scope 3
2023		
HSBC AMUK unadjusted Total Carbon Footprint (A)[1]	35.62	35.55
Eligibility (B)[2]	77%	77%
Data coverage (C)[3]	95%	95%
Eligible data coverage (D = B * C)[4]	73%	73%
HSBC AMUK Total Carbon Footprint (E = A / D)[5]	48.69	48.60
MSCI ACWI Total Carbon Footprint[5]	52.26	46.12
Eligible data coverage[4]	100%	100%
Bloomberg Corporate Aggregate Total Carbon Footprint[5]	67.09	53.44
Eligible data coverage[4]	90%	90%
2022		
HSBC AMUK Carbon Footprint[5]	47.29	Not reported

Source: HSBC. 2023 refers to data as of 31 December 2023. Units in tonnes of CO_2 equivalent per USD million of company value (tCO_2e /USD m)

1. Unadjusted Total Carbon Footprint refers to Total Carbon Footprint prior to adjustments for share of holdings and data availability and is defined as the sum of the following for all holdings divided by the total AMUK AuM: issuer's carbon emissions in tCO_2e multiplied by current value of investment divided by issuer's Enterprise Value including cash.
2. Eligibility refers to % of total AuM. Non-eligible items include cash and other assets not classified as corporates.
3. Data coverage refers to % of eligible AuM for which data is available.
4. Eligible data coverage refers to % of total AuM for which data is available.
5. Total Carbon Footprint refers to unadjusted Total Carbon Footprint divided by eligible data coverage.

Climate related metrics

Total Carbon Emissions

Total carbon emissions are calculated like the total carbon footprint, but without dividing by the value of the HSBC AMUK AuM. Like the carbon footprint, it is the investment share of all issuer emissions, often referred to as "financed emissions". As our total carbon emissions figure is an absolute figure, dependent on size of the assets, and not a ratio like weighted average carbon intensity or carbon footprint, we are of the view that it is not helpful to show the HSBC AMUK AuM against a comparator.

However, it can be useful for providing a perspective of the amount of financing our AuM is contributing towards the remaining total global carbon budget. The remaining total carbon budget to limit global warming to 1.5°C and avoid any material long term effects from climate change is 500 billion tonnes of carbon emissions – refer to the United Nations Framework Convention on Climate Change for more information.

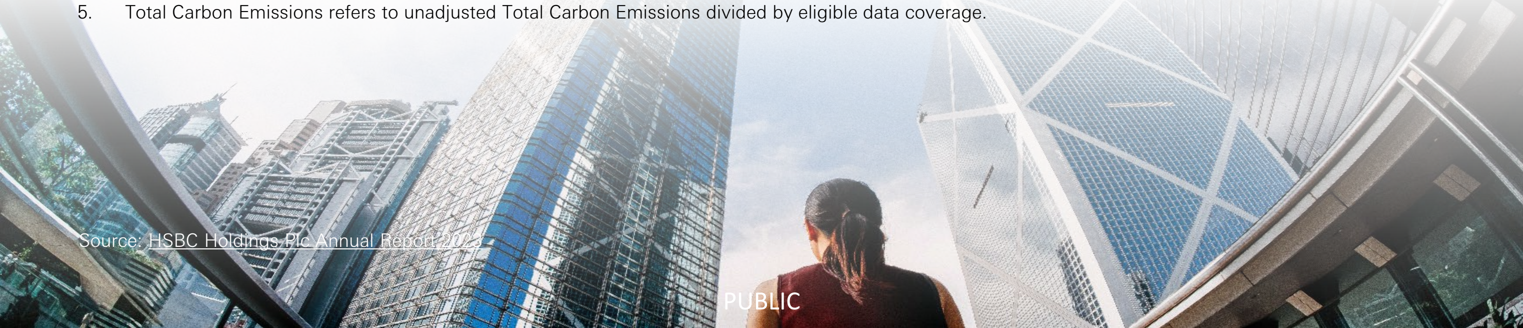
	Corporates Scope 1 and 2	Corporates Scope 3
2023		
HSBC AMUK unadjusted Total Carbon Emissions (A) [1]	5,687,816	5,678,010
Eligibility (B)[2]	77%	77%
Data coverage (C)[3]	95%	95%
Eligible data coverage (D = B * C)[4]	73%	73%
HSBC AMUK Total Carbon Emissions (E = A / D)[5]	7,775,605	7,762,199
2022		
HSBC AMUK[5]	9,160,000	Not reported

Source: HSBC. 2023 refers to data as of 31 December 2023. Units in tonnes of CO_2 equivalent(tCO_2e)

Operational Greenhouse Gas Emissions

Our operational GHG, or HSBC AMUK's operational emissions are calculated at the Group level as HSBC AMUK shares the facilities and resources of its parent company HSBC Holdings plc. Our 2023 greenhouse gas emissions in tonnes CO_2e per full time employee remains unchanged at 1.30 in comparison to 2022 for Scope 1,2 and 3 (Category 6) and down to 5.8 from 5.9 in comparison to 2022 for Scope 1,2 and 3 (Category 1, 2 and 6).

1. Unadjusted Total Carbon Emissions refers to Total Carbon Emissions prior to adjustments for share of holdings and data availability and is defined as the sum of the following for all holdings: issuer's carbon emissions in tCO_2e multiplied by current value of investment divided by issuer's Enterprise Value including cash.
2. Eligibility refers to % of total AuM. Non-eligible items include cash and other assets not classified as corporates.
3. Data coverage refers to % of eligible AuM for which data is available.
4. Eligible data coverage refers to % of total AuM for which data is available.
5. Total Carbon Emissions refers to unadjusted Total Carbon Emissions divided by eligible data coverage.

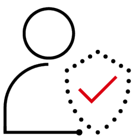


Source: HSBC Holdings Plc Annual Report 2023

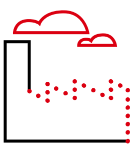
Climate related scenario analysis

Forward looking metrics

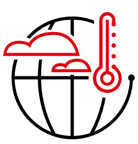
TCFD recommends climate related scenario analysis as a tool to enhance strategic thinking. The scenarios used should be plausible, consistent, relevant, and challenging. Outlined below are the scenarios provided by the Network for Greening the Financial System (NGFS), which outline the potential impact of climate change under different temperature assumptions:



Orderly transition: Under an 'orderly transition' scenario, we expect a tightening of national climate policies that would increase the costs for companies engaging in high-emitting activities while providing subsidies for activities and technology that accelerate the transition. Assets that can take advantage of the subsidies and limit their costs would increase in value. Under this scenario, there is a limit to global warming and assets experience minimal cost from physical climate change. The impact under this scenario is shown by the 1.5°C transition scenario below.



Disorderly transition: Under a 'disorderly transition' scenario, we expect current national climate policies to continue before an aggressive tightening. The disorder from the tightening would disrupt supply chains, strand assets and lead to significant costs for companies that were not able to adjust quickly. The abrupt changes would lead to a deterioration in assets across sectors and the delayed policies would come too late to offset some of the costs from physical climate risk weather events, adding further to company costs and decreasing asset value. The impact under this scenario is shown by the 2.0°C disorderly transition scenario below.



Hot house world: Under a 'hot house world' scenario, we expect emissions and temperatures to rise throughout the end of the century leading to economic loss and decline in asset values.

Amongst 'hot house' scenarios, the best-case limits global temperature rises to 3.0°C, if every country delivers on their current nationally determined contributions through the Paris Agreement. The impact under this scenario is shown by the 3.0°C 'Hot House 1' scenario below.

1

Under the current global trajectory, temperature rise is expected to exceed 3.0°C with currently implemented policies preserved and no transition.

The impact under this scenario is shown by the +3.0°C 'Hot House 2' scenario below.

2

Under an extreme scenario, where national security is prioritized, public and private sectors would favour existing carbon intensive energy sources and carbon emissions would rise consistently, leading to increasing temperatures of greater than 4.0°C.

The impact under this scenario is shown by the +4.0°C 'Hot House 3' scenario below.

It is important to note that these scenarios represent a range of end of the century projected global pathways, among a very large number of climate scenarios and potential outcomes. Measuring the risks and opportunities under these scenarios is only a guide to understanding the likely sensitivity of investments and should not be interpreted as a prediction of future investment value.

Climate related scenario analysis

MSCI Climate-Value-at-Risk (cVaR)

cVaR is a forward-looking climate risk metric which provides an assessment of both dimensions of climate change, transition risk and physical risk. To quantify the effects of climate change on our products, we use MSCI's cVaR model. The model estimates the present value of future transition costs and opportunities of each company through to 2050 and physical cost through to 2100 across each climate scenario. The modelled costs and profits are expressed as a percentage of equity or debt depending on the type of instrument, weighted by holdings and aggregated at the HSBC AMUK entity level. The cVaR metric has been provided in both the Product level and this Entity level TCFD report. The scenario outputs at the HSBC AMUK entity level are outlined below:

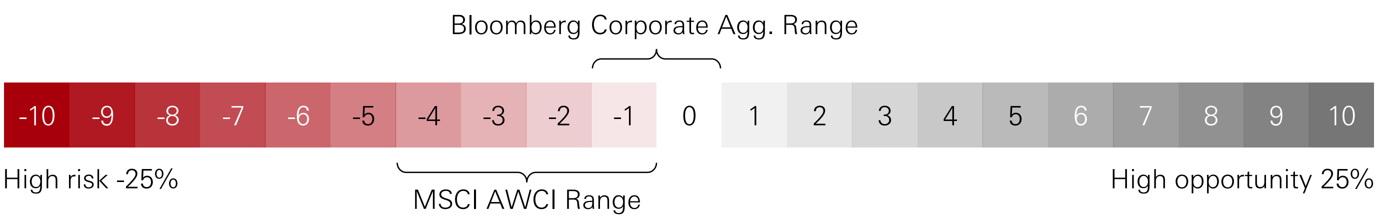
Climate Change Mitigation

	Low carbon transition		
Climate Scenario	**Opportunity**	**Costs**	**Aggregate**
1.5°C	0	-4	-4
2.0°C	0	-3	-3
3.0°C: Hot House 1	0	-1	-1

Climate Change Impact

Climate Scenario	Physical Risk
1.5°C: Orderly	-1
2.0°C: Disorderly	-2
3.0°C: Hot House 1	-3
+3.0°C: Hot House 2	-3
+4.0°C: Hot House 3	-4

The scores are based upon the scale below.



Our cVaR metrics only cover corporate bond and equity asset types. We have not included sovereigns as the methodology is still evolving to include the broader climate risks that are covered for equities and corporate bonds. Proxies are not used where data is missing[1]. In our entity report cVaR coverage ranges from 65% for modelled data on opportunity, to 69% for physical risk and 72% for transition cost coverage.

Given some of the uncertainty of the model projections (for example the ability of issuers to offset projected carbon related costs with future profitability), the results have been expressed as a score where the MSCI cVaR percentage has been translated to a score range to show the indicative impact rather than the precise percentage. The scores range from -10 to 10 based on a cVaR distribution of -25% to 25%. Negative scores show the projected associated costs, whereas positive scores relate to opportunities. An absolute figure of 25% was chosen as the score bounds as majority of our test sample were observed to be within this range. We will look to further develop both our usage and coverage of assets as the model methodology is enhanced.

1. For cash and positions where the MSCI cVaR model doesn't have coverage, these holdings are assumed to have the same cVaR profile as the other investments in the portfolio for which there is coverage.

Climate related scenario analysis

It is important to note that the entity level climate scenario scores are broadly aligned with the comparator. Fixed income instruments have a shorter investment period and therefore have less impact as calculated by the MSCI cVaR model and demonstrated by the fixed income comparator. The HBSC AMUK cVaR results will be an aggregate of its equity to fixed income split.

Financial Impact of Climate Change using scenario analysis

After further review, HSBC AMUK is not using climate related scenarios given our financial planning at present is carried out on a 5-year cycle. However, as our sustainable product offering expands to form a greater proportion of our assets under management, this will be monitored within our future financial planning.

Climate related scenario analysis

MSCI Implied Temperature Rise (ITR)

Critically, the MSCI Climate Value-at-Risk model places a high weight on the current climate profile of the issuer. An issuer in a high carbon sector will have higher decarbonisation costs than an issuer in a low carbon sector. Issuers that are currently engaged in low carbon solutions will have higher projected opportunities. The model does not capture the commitments of those issuers that are serious about a low carbon economy but perhaps not yet transitioning or are not at the forefront of the clean technology revolution but can still benefit. For issuers that have not yet transitioned, forward looking scenario projections are needed to measure whether a high carbon portfolio today, can align to be a low carbon portfolio in the future.

The MSCI Implied Temperature Rise (ITR) model, is a metric which indicates whether an equity or corporate bond portfolio is aligned to a sustainable, low carbon trajectory. Portfolios that exceed 2◦C, are misaligned, because of investment in issuers that contribute to global warming based on the ITR model. The greater the temperature ◦C, the higher the contribution. The ITR model projects whether a company will exceed its allocated sector and geographic carbon budget to limit global warming to a level that minimises any long-term impact on future generations. A company's projected carbon is based on a company's stated targets and adjusted based on their credibility assessment quantified by MSCI.

How to interpret the ITR – Scale/Score

	ITR Band	Range (°C)	Description
MISALIGNED	Strongly Misaligned	> 3.2	This company/portfolio is misaligned even by business-as usual standards. Its contribution to catastrophic climate change is higher than most companies'/portfolios'.
MISALIGNED	Misaligned	> 2.0 – 3.2	This company/portfolio does not comply with the Paris Agreement goals. Its pace of decarbonization is too slow to mitigate catastrophic climate change. The threshold is determined by the Network for Greening the Financial System (NGFS). Current policies scenario yielding an estimated 3.24°C at the 2100 horizon (rounded 3.2°C).
ALIGNED	2°C Aligned	>1.5 – 2.0	This company/portfolio meets the Paris Agreement's minimum objective44 of +2°C global mean temperature compared with pre-industrial levels. It is engaged in the low carbon transition.
ALIGNED	1.5°C Aligned	<=1.5	This company/portfolio is in line with the Paris Agreement's maximal objective of keeping global mean temperature to +1.5°C compared with pre-industrial levels. It is a transition leader, significantly contributing to mitigating catastrophic climate change.

Implied Temperature Rise Refer to complete formula in the glossary	ITR Scope 1 & 2 **31/12/2023**	ITR Scope 3 **31/12/2023**
HSBC AMUK	>2.0 -3.2	>2.0 -3.2
Coverage	73%	73%
Reference Comparator (MSCI ACWI)	>2.0 -3.2	>2.0 -3.2
Coverage	99%	99%
Reference Comparator (Bloomberg Global Agg)	>2.0 -3.2	>2.0 -3.2
Coverage	87%	87%

Transition plan and net zero

Using climate metrics to assess risk and opportunity

HSBC AMUK uses multiple data sources and capabilities to report and assess climate-related risks and opportunities[1]. Assessments take place at multiple levels from the issuer to the portfolio, depending on the nature of the investment objective. Our data sources and metrics enable us to evaluate issuers and portfolios based on their current climate related credentials. The features we measure include but are not limited to:

At the issuer level

we use the metrics above to inform our investments and engagement activity. These metrics influence our proprietary and vendor 'E', environmental scores, which if issues identified, may require enhanced credit and equity analysis before continued investment, if appropriate. We have built automated workflow tools that monitor issuer level data and send flagged issues to our analysts for further review, which is then cascaded to our investment teams.

At the portfolio/fund level

investment teams use the metrics above to construct sustainable Key performance Indicator (KPI)objectives for some of our sustainable funds. We have internal reporting mechanisms which allow us to regularly monitor carbon intensity, avoided carbon emissions, carbon footprint, fossil fuel reserves emissions and exposure to fossil fuels, coal, power generation, climate solutions and green revenues, and portfolio temperature.

Transition plan analysis

In addition to our existing vendor metrics and data sources we are initiating issuer transition plan analysis in high carbon industries. Our investment teams are undertaking quantitative assessments of the credibility of issuers' transition plans to support our net zero commitment. We score companies in the coal and energy sectors which inform our priority engagements.

1. Historical figures for 2022 represent the figures published in the report as at 31 December 2022. These have not been recalculated and may not be comparable as i) the scope of the entity's AUM for TCFD reporting purposes (i.e. portfolio and holdings) for the current year's report would differ from the scope as at 31 December 2022, and ii) data quality may have evolved, such as the extent of data coverage, the specific data fields used, and data limitations.

Net Zero Targets

Our HSBC AMUK greenhouse gas emissions targets are embedded in our HSBC AM targets, captured by our HSBC AM NZAM summary below. Our Net Zero Transition Plan | HSBC Holdings plc

Key NZAM decision	Explanation/context	HSBC AM's decision
1. AuM in scope	AuM in scope for interim target, i.e., % of AuM which is currently covered by a quantified, science-based emission reduction target (NB: 100% of AuM will be in scope for net zero by 2050). This applies to listed equity and corporate fixed income assets, excluding those held in multi-asset strategies managed in our 5 Global Network Markets. (UK, US, France, Germany, Hong Kong SAR).	38%
2. Target year	The target year we commit to achieving our interim decarbonisation target	2030
3. Baseline year	The year we will be using as a starting point for our interim carbon reduction target.	2019
4. Quantified targets	The necessary reduction in carbon emissions intensity needed to align our portfolio to a 1.5°C temperature increase as per the Paris Agreement (i.e., an interim target on the way to net zero by 2050). Target is applied to AuM in scope (38% - listed equity and corporate fixed income managed within HSBC Asset Management's major investment hubs in UK, Hong Kong SAR, France, Germany and US, which amounted to to USD193.9bn at 31/12/2019) and is calculated as (tCO_2e/USDm invested), where emissions are scaled by enterprise values including cash. Our targets will be reviewed on an ongoing basis, with a view to ratcheting up our commitment towards the target of 100 per cent of assets being included by 2050 as per the NZAM initiative commitment. Implementation of the net zero targets remains subject to consultation with stakeholders including investors and fund boards on whose behalf we manage the assets.	58% reduction in carbon emissions intensity (Scopes 1 and 2) - based on assumptions for financial markets and other data, including the IEA Net Zero emissions by 2050 scenario and its underlying activity growth assumptions.
5. Framework	Frameworks set the rules and guardrails on metrics, methodologies, and approaches to net zero to help drive consistency and credibility across the industry. This will support us to align our AuM in scope to net zero.	Net Zero Investment Framework
6. Scenario pathway	Scenario pathways are projections that estimate the economic activity required to limit global warming to a 1.5° temperature rise. It is used to calculate our necessary carbon emission reduction.	IEA NZE (International Energy Agency Net Zero Emissions by 2050)
7. Baseline emissions	Our baseline emissions include Scope 1 and 2 portfolio companies only. (We aim to include Scope 3 once data is sufficiently available and of good quality).	We aim to include Scope 3 once data is sufficiently available and of good quality

Remuneration

Given that climate risk management is reflected in investment processes, as outlined in this report, evaluation of portfolio managers and Chief Investment Officers (which feeds into remuneration setting) includes the extent to which they have managed in line with those processes, in accordance with local legal requirements. .

Policies references

Policies references

HSBC AM & Group References	Cross References
HSBC AM Policies	https://www.assetmanagement.hsbc.co.uk/en/institutional-investor/about-us/responsible-investing/policies
HSBC Group: Annual Report and Accounts 2023 (See pages 42-87 for ESG disclosures)	https://www.hsbc.com/-/files/hsbc/investors/hsbc-results/2023/annual/pdfs/hsbc-holdings-plc/240226-annual-report-and-accounts-2023.pdf?download=1

A		
AGM	Annual General Meeting	An annual general meeting is a meeting of the general membership of an organization
AuD	Assets under Distribution	Assets under distribution (AuD) is the market value of the investments distributed by HSBC AMUK to clients; this may include assets managed by other HSBC AM entities/ third parties
AuM	Assets under Management	Assets under management (AuM) is the market value of the investments managed by HSBC AMUK on behalf of clients
B		
Bloomberg AIM	Bloomberg Asset and Investment Manager	Bloomberg AIM is a premium enterprise service by Bloomberg that is fully integrated with the Bloomberg Terminal that enables users to take advantage of Bloomberg news, data and analytics.
C		
CapEx	Capital expenditure	Money spent by a business for ongoing operations maintaining fixed assets, such as land, buildings, and equipment
CO_2e	Carbon dioxide equivalent	CO_2e is a metric measure used to compare the emissions from various greenhouse gases on the basis of their global-warming potential, by converting amounts of other gases to the equivalent amount of carbon dioxide
COP26	Conference of the Parties (COP 26)	The 2021 United Nations Climate Change Conference Glasgow
cVaR	Climate-Value-at-Risk	Climate Value at Risk is a model based metric which estimates the present value of future transition costs and opportunities of a company through to 2050 – and physical cost through to 2100 – for a given climate scenario
D		
DE&I	Diversity, Equity & Inclusion	DE&I is any policy or practice designed to make people of various backgrounds feel welcome and ensure they have support to perform to the fullest of their abilities in the workplace.
DNSH	Do No Significant Harm	A requirement of the EU's SFDR legislation that investments that are contributing towards certain sustainable goals/outcomes are not doing significant harm to other sustainable goals/outcomes

E		
EDD	Enhanced Due Diligence	An advanced risk assessment process
ESG	Environmental, Social, and Governance	Environmental, social, and governance, is a set of aspects, including environmental issues, social issues and corporate governance that can be considered in investing
ETF	Exchange Traded Funds	An exchange-traded fund (ETF) is a basket of securities that tracks or seeks to outperform an underlying index
EVIC	Enterprise Value Including Cash	A measures of company's total value, often used as alternative to market capitalization.
F		
FCA	Financial Conduct Authority	HSBC UK's regulator
Framework		HSBC AM's ESG and Sustainable Investment Framework, setting out the internal requirements for our ESG and sustainable products
G		
GDP	Gross Domestic Product	GDP measures the monetary value of final goods and service produced in a country in a given period of time.
GHG	Greenhouse Gas Emission	Greenhouse gases in the earth's atmosphere that trap heat
GIF	HSBC Global Investment Funds	A range of HSBC funds established in Luxembourg
GNBC	Global New Business Committee	HSBC AM's global committee, which reviews all new global products and businesses
H		
HSBC AM	HSBC Asset Management	HSBC's global asset management business
HSBC AMUK	HSBC Global Asset Management (UK) Limited	HSBC's UK asset manager to which this report relates
Hurdle Rate		A hurdle rate is the minimum rate of return on an investment required by a manager or investor.
I		
ICMA	The International Capital Market Association	
IEA NZE	International Energy Agency Net Zero Emissions by 2050 Scenario	A normative IEA scenario that shows a pathway for the global energy sector to achieve net zero CO_2 emissions by 2050, with advanced economies reaching net zero emissions in advance of others.
IFRS S2	International Financial Reporting Standards	IFRS S2 sets out the requirements for disclosing information about an entity's climate-related risks and opportunities
IPOs	Initial public offering	The first offering of new securities by an issuer to the public

I		
IPCC	Intergovernmental Panel on Climate Change	The intergovernmental Panel on Climate Change is an intergovernmental body of the United Nations, aims to advance scientific knowledge about climate change caused by human activities.
ITR	Implied Temperature Rise	The MSCI Implied Temperature Rise (ITR) model, is a metric which indicates whether an equity or fixed income portfolio is aligned to a sustainable, low carbon trajectory
J		
Just transition		Greening the economy in a way that is as fair and inclusive as possible to everyone concerned, creating decent work opportunities and leaving no one behind, as defined by The International Labour Organization (ILO).
K		
KPI	Key performance indicators	A quantifiable measure of performance over time for a specific objective
L		
LULUCF	land use, land-use change and forestry activity	Defined as a "greenhouse gas inventory sector that covers emissions and removals of greenhouse gases resulting from direct human-induced land use such as settlements and commercial uses, land-use change, and forestry activities.
M		
MSCI	Morgan Stanley Capital International	Index vendor, and model supplier for cVaR
N		
Net Zero		Net Zero refers to a state in which greenhouse gases going into the atmosphere are balanced by removal out of the atmosphere. The term net zero is important because for CO_2 at least- this is the state at which global warming stops. The Paris Agreement underlines the need of net zero; to 'go net zero' is to reduce greenhouse gas emissions and/or to ensure that any ongoing emissions are balanced by removals. The 'net' in net zero is important it will be very difficult to reduce all emission to zero on the timescale needed. As well as deep and widespread cuts in the emissions, we will likely need to scale up removals. The IPCC concluded the need for net zero CO_2 by mid- century remain consistent with 1.5° C
NGFS	Network for Greening the Financial System	
NZAM	Net Zero Asset Managers initiative	An international group of asset managers committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5^{O}C; and to supporting investing aligned with net zero emissions by 2050 or sooner.

N		
NZBA	Net Zero Banking Alliance	Complying with the Net Zero Banking Alliance (NZBA) involves a multifaceted commitment for banks, ensuring their alignment with global efforts for a net zero future: Emission Transition: Banks need to align operational and financed emissions from their lending and investment portfolios with net-zero pathways by 2050
O		
OECD	The Organization for Economic Co-operation and Development	The Organization for Economic Co-operation and Development (OECD) is a unique forum where the governments of 38 democracies with market-based economies collaborate to develop policy standards to promote sustainable economic growth
OEIC	Open – Ended Investment Company	Professionally-managed funds where investors money is pooled together to gain access to a wide range of assets and financial markets.
OpEx	Operational Expenditure	Money spent on the ongoing costs of running a business or organization, such as wages and rent on premises.
P		
PAIs	Principal Adverse Indicators	Indicators of the adverse impacts investments may have on environmental and social measures, which form part of metrics required by the EU's Sustainable Finance Disclosure Regulations
PCAF	Partnership for Carbon Accounting Financials	An industry-led partnership to facilitate transparency and accountability of the financial industry to the Paris Agreement
PPP	Purchasing Power Parity	A measure of the price of specific goods in different countries and is used to compare the absolute purchasing power of the countries' currencies.
PRI	Principles for Responsible Investment	A United Nations-supported international network of financial institutions working together to implement its six aspirational principles
S		
S&P	Standard & Poor's	Index vendor
SBTi	Science Based Targets initiative	A partnership between the carbon disclosure project (CDP), World Resources Institute (WRI), the Worldwide Fund for Nature (WWF), and the United Nations Global Compact (UN Global Compact)
SFDR	Sustainable Finance Disclosure Regulation	EU legislation that imposes mandatory ESG disclosure obligations for asset managers and other financial markets participants
SSP3-7.0	Shared Socioeconomic Pathways	SSP3-7.0 is a medium to high reference scenario resulting from no additional climate policy under the SSP3 socioeconomic development narrative. SSP3-7.0 has particularly high non-CO_2 emissions, including high aerosols emissions.

T		
TCFD	Task Force on Climate-related Financial Disclosures	A taskforce established by the Financial Stability Board to develop recommendations on the types of information that companies should disclose to support investors, lenders, and insurance underwriters in appropriately assessing and pricing risks related to climate change
TPI	The Transition Pathway Initiative Global Climate Transition Centre	An independent, authoritative source of research and data into the progress being made by the financial and corporate world in making the transition to a low-carbon economy, based at the London School of Economics and Political Science
U		
UCITS	Undertakings for Collective Investment in Transferable Securities	A retail investment fund structure used in the UK (UK UCITS)and the EU
UNPRI	UN Principles for Responsible Investment	A set of responsible investment principles developed under the leadership of the United Nations. The six Principles offer a menu of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system. They have attracted a global signatory base representing a majority of the world's professionally managed investments.

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Appendix

TCFD Recommended Disclosures

Governance

Governance Disclose the organization's governance around climate-related risks and opportunities.

Recommended Disclosure	Page	
Describe the board's oversight of climate-related risks and opportunities	13-15	✓
Describe management's role in assessing and managing climate related risks and opportunities	14-17	✓

Strategy

Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material..

Recommended Disclosure	Page	
Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	23-30	✓
Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.	24-26, 31, 32, 43 - 46	✓
Describe the resilience of the organization's strategy, taking into consideration different climate related scenarios, including a 2°C or lower scenario.	22	✓

TCFD Recommended Disclosures

Risk Management

Disclose how the organization identifies, assesses, and manages climate-related risks.

Recommended Disclosure	Page	
Describe the organization's processes for identifying and assessing climate related risks.	39-50	✓
Describe the organization's processes for managing climate related risks.	39-42	✓
Describe how processes for identifying, assessing, and managing climate related risks are integrated into the organization's overall risk management.	41-50	✓

Metrics and Targets

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

Recommended Disclosure	Page	
Disclose the metrics used by the organization to assess climate related risks and opportunities in line with its strategy and risk management process.	59-65	✓
Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.	59-61	✓
Describe the targets used by the organization to manage climate related risks and opportunities and performance against targets.	67	✓

List of PAIs

Climate/environment	
1.	Greenhouse gas emissions
2.	Carbon footprint
3.	Greenhouse gas intensity of investee companies
4.	Exposure to companies active in the fossil fuel sector
5.	Share of non-renewable energy consumption and production
6.	Energy consumption intensity per high impact climate sector
7.	Activities negatively affecting biodiversity-sensitive areas
8.	Emissions to water
9.	Hazardous waste and radioactive waste ratio
Social/human rights	
10.	Violations of UNGC principles and OECD guidelines for multinational enterprises
11.	Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises
12.	Unadjusted gender pay gap
13.	Board gender diversity
14.	Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)
Sovereign investments only	
15.	Investee countries' greenhouse gas intensity
16.	Investee countries subject to social violations
Real estate investments only	
17.	Exposure to fossil fuels through real estate assets