Asset Management

HSBC Global Asset Management (UK) Limited

Taskforce on Climate-Related Financial Disclosure (TCFD) Annual Report 2022

June 2023

HSBC | Opening up a world of opportunity

Contents

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

Stuart White
Chief Executive Officer

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

Climate change continues to reshape our world, with far reaching and systemic impacts. The cost of inaction is clear and will be catastrophic for the planet and our societies.

The recommendations of the Task Force on Climate-related Financial Disclosures have served to ensure asset managers focus and communicate on key climate-related information and risks. To address these risks, we have seen increasing focus and regulation on emissions reporting, risk management and the identification of new opportunities in the transition to a more sustainable future.

As part of the wider HSBC Asset Management (HSBC AM) business, HSBC AMUK is committed to playing our part in helping to address climate change and limiting its impact on the global economy. In line with HSBC Group's Statement on Climate Change, our approach is to increase the resilience of our clients' investments by reducing climate-related financial risks and by investing in the low carbon economy. Indeed, one of HSBC AM's five key strategic priorities is to build leadership in sustainable investments, driving growth through investment innovation, with a focus on climate, net zero and biodiversity.

Our responsible investment policy is based on the recognition that sustainability means building our business for the long term by balancing social, environmental and economic considerations in the decisions that we make. We have expanded the resources available to our investment professionals for Environmental, Social and Governance (ESG) integration and engagement, with the aim to incorporate all material sustainability issues within our investment process and further engage with investee companies to help minimise climate risk. In 2021, we created a Sustainability Office, which works in partnership with the Responsible Investment team to deliver on our objective of becoming a leader in sustainable investing.

As part of HSBC AM, we have strengthened our expertise in delivering net zero investment solutions and launched more innovative sustainable investment products. We support the UN Global Compact principles and follow stand-alone policies on banned weapons, biodiversity and climate change, as well as a policy to phase out coal-fired power and thermal coal mining from our actively managed listed holdings by 2030 for EU/The Organisation for Economic Co-operation and Development (OECD) markets and by 2040 for all other markets.

HSBC AM is a signatory to the Net Zero Asset Managers (NZAM) initiative, which commits us to work in partnership with our clients on decarbonisation goals, consistent with an ambition to reach net zero emissions by 2050 or sooner across all assets under management.

In 2022, we published our interim target to reduce the emissions intensity of 38% of our assets by 58% by 2030, compared with 2019. This target covers all our listed equity and corporate fixed income assets (other than those held in multi-asset strategies).

HSBC AM has been involved in the Climate Action 100+ since its inception and continues to lead on engagements with companies, notably those with long and complicated supply chains. In 2022, we continued our involvement in the CDP (formerly Carbon Disclosure Project) non-disclosure campaign and provided feedback to the International Financial Reporting Standards Foundation and the International Sustainability Standards Board on financial and sustainability reporting on their consultations, with a strong focus on climate change related disclosure.

We have a responsibility to exercise stewardship on behalf of our clients. We meet with companies regularly to improve our understanding of their business and strategy, signal support or concerns we have with management actions, and promote best practice. Through our engagement, we seek to preserve and enhance value in the companies in which we invest. We also engage with carbon intensive companies to encourage climate–resilient business strategies both individually and as part of our collective engagement through Climate Action 100+.

Compliance Statement

I can confirm under the FCA rule, ESG 2.2.7 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 sourcebook.

Reflection

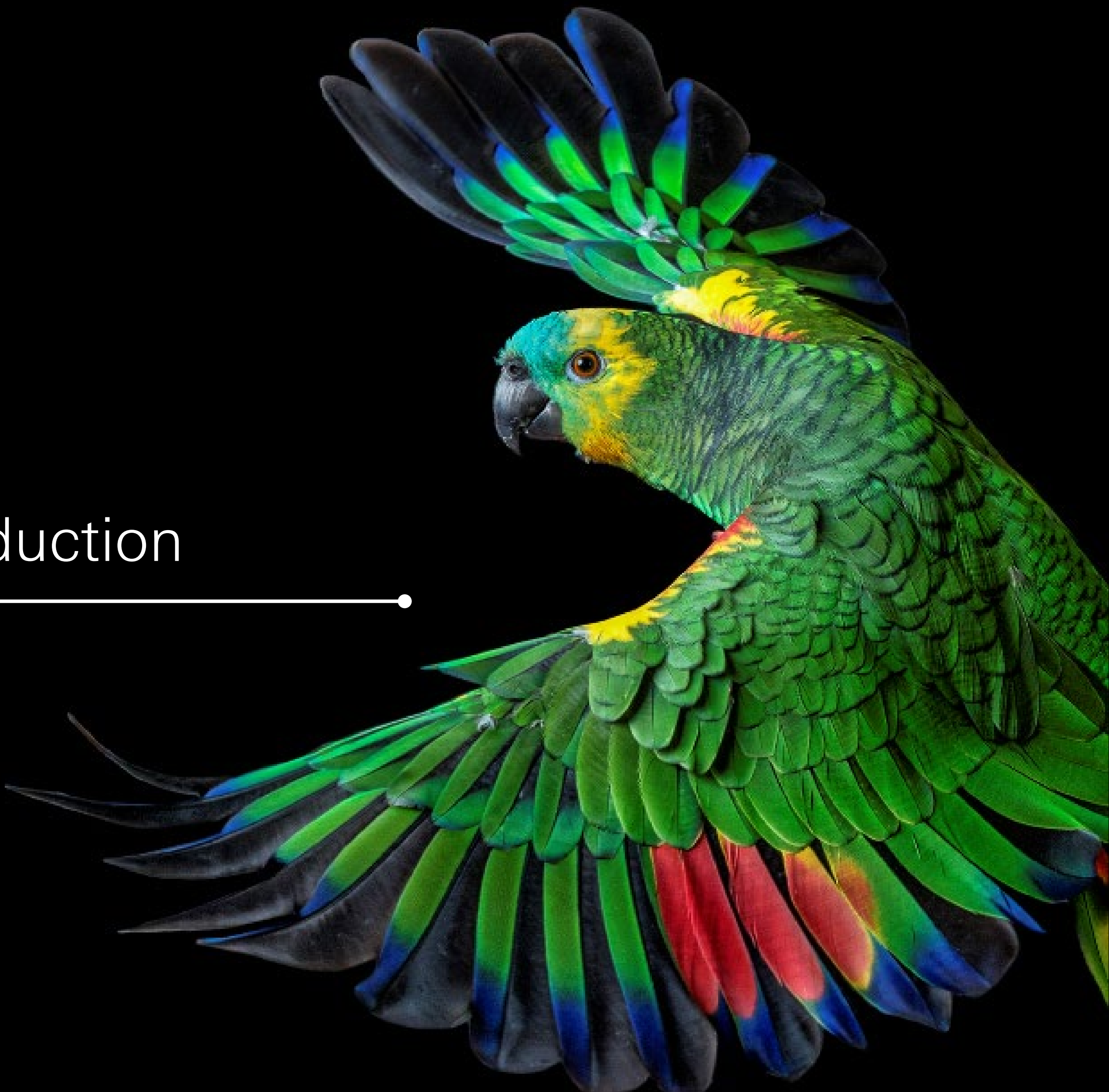
As a global investor, HSBC AMUK is committed to playing our full part in addressing the issue of climate change; asset managers have a crucial role to play in the climate risk equation to enable us to create a sustainable planet, and we must work together with the industry and its regulators to ensure that asset managers identify the full spectrum of risks from climate change and develop strategies to manage them.

With a focus on our clients' needs, we will leverage our unique global footprint and deep local market expertise to deliver a sustainable and long-term impact, with the objective of helping clients to achieve their financial and sustainability goals.

Best wishes,

Stuart White

Introduction



This report is intended to provide information about the climate impact and risks of the assets held by HSBC Global Asset Management (UK) Limited (HSBC AMUK), for the reporting period 1 January 2022 to 31 December 2022. 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 available for products managed by HSBC AMUK.

TCFD recommendations set 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 will advocate the same from our distributors, suppliers and the industry. We recognise that further work lies ahead as we develop our related investment management and metrics capabilities.

This report follows FCA rules and guidance for asset managers to make disclosures consistent with the recommendations of the TCFD. It 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 HSBC AM's 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 due to obligations to these pre-existing clients.

HSBC AMUK shares its policies and principles with the wider HSBC AM business, which gives a consistent and focused global approach to climate change, while respecting local regulatory requirements. HSBC AMUK acts as investment manager for UK and Non-UK domiciled funds, Exchange Traded Funds (ETFs), retail discretionary portfolios and investment advisory roles for both active and passive strategies across multiple asset classes, including alternatives. We are also investment manager for many 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 of HSBC AMUK or HSBC AM.

Assets Under Management (AuM) as at 31 December 2022

HSBC AMUK
USD121bn

HSBC AM
USD617bn

Of HSBC AMUK's AuM, **USD20.4bn (14%)** was in Sustainable Investment "SI" as at December 2022

HSBC AMUK's SI AuM represented **37%** of HSBC AM's total SI AuM

SI AuM calculation methodology may change with ongoing regulatory developments, including FCA's Sustainability Disclosure Requirements (SDR).

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). Our aim is to facilitate the flow of capital from the world's leading investors to the businesses and projects around the world that are driving the transition to a sustainable global economy. We believe that ESG issues can have a material impact on companies. Issues including climate change, water scarcity and availability, deforestation, health and safety, and executive pay generate risks and opportunities for companies, 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 emerging new asset classes that are climate critical, expanding on and growing transformational ones, repositioning some traditional investment approaches towards sustainability and embedding a Just Transition framework (as detailed in the Risk Management pillar of this report) to lead and influence inclusive growth.

We are committed to playing our part in addressing climate change, both as a business and as stewards of our clients' assets. In 2022, HSBC AM established a Climate team, responsible for driving insights and implementing frameworks for a low-carbon transition, used to inform investment decision making and portfolio management, as well as supporting our clients. HSBC AM announced its ambition of reducing scope 1 and 2 carbon emissions by 58% by 2030, compared to a 2019 baseline of 38% of total assets under management (AuM). This interim target is a starting point on the road towards net zero emissions across all AuM by 2050 or sooner, and demonstrates our commitment in support of the collective effort following the Paris Agreement, to limit global warning to 1.5°C. Today, we and many of our clients contribute to greenhouse gas emissions.This is why HSBC AMUK together with other asset managers, have 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 help our clients reduce theirs.

During 2022

HSBC AM published a new policy on thermal coal. Phasing out thermal coal is a priority for early action in achieving net zero emissions. Burning coal for electricity generation is one of the most carbon emission intensive activities in the economy. Unlike some uses where a technological advance is needed to replace fossil fuels – such as finding an alternative to jet fuel for long distance flights – solar, wind, hydro and nuclear power are technologies that already exist for low or zero carbon electricity generation. HSBC AM expects to develop an energy policy during second half of 2023.

Another key area where HSBC AM has made a commitment is biodiversity. Biodiversity is critical to our economy, communities and the climate. Addressing biodiversity loss requires a collective effort. HSBC AM is one of the founding signatories to the Finance for Biodiversity Pledge.

One of our core beliefs is that genuinely embedding ESG at the core of our investment decision-making process can improve long-term risk-adjusted returns. Alongside climate issues, we integrate other ESG factors into our investment decisions. We believe that ESG factors can have a material effect on the financial performance of the securities and assets in which we invest on behalf of our clients. HSBC AM signed the Principles for Responsible Investment (PRI) in 2006 as one of the first asset managers to do so. Since then, we have integrated material ESG factors into our investment analysis and decision-making to reduce risk and enhance returns. We recognise the contribution we can make to the United Nations' Sustainable Development Goals (SDGs) and the global transition to a low-carbon economy. In 2022, we further improved our scoring and integration processes. We notably focused on two priorities: making our proprietary assessment more holistic and rolling out our virtual sector teams to develop analytical frameworks across sectors.

As investors in businesses on behalf of our clients, we have a responsibility to exercise active stewardship on their behalf. Our stewardship approach incorporates exercising shareholder rights through voting and an outcomes-oriented approach to engagement for all asset classes. These stewardship activities help the core of our business by directly supporting investment decisions. We meet with companies regularly to improve our understanding of their business and strategy, signal support or concerns we have with management actions and promote best practice. We believe that good corporate governance ensures that companies are managed in line with the long-term interests of their investors. We also engage with carbon-intensive companies to encourage climate–resilient business strategies.

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 practice for organisations of its scale. Good governance is designed to be at the core of how HSBC AMUK conducts business.

The HSBC AMUK Board (Board) is committed to maintaining high standards of corporate governance. The corporate governance framework enables efficient and effective decision making with clear accountabilities, contributing to achieving HSBC AMUK's objectives and delivering long-term and sustainable value to its clients.

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 induction and ongoing development and seek out further opportunities to build their skills and experience in this area. A sustainability risk dashboard is reported to the Board on a quarterly basis as part of the HSBC AMUK CEO report. In 2022, the Board oversaw the implementation of the ESG strategy through regular reports and detailed updates including, reviews of net zero policies and climate-aligned initiatives.

The governance framework is evolving to incorporate climate metrics going forward. The CEO of HSBC AMUK is responsible for the management of climate-related risk for HSBC AMUK. Currently any climate-related issues will be included in sustainability/ESG risks and can be escalated to the Board and the Board Risk Committee. In the near future, climate-related risk metrics will be included in the sustainability dashboard and will be presented through the HSBC AMUK governance committees.

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 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 HSBC AMUK CEO, and which serve as the areas of attention for the LT are Distribution, Manufacturing, Operations, People & Sustainability.

The LT will agree sustainability initiatives and review 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 a consideration 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 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 CRO (SMF4)	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 (SMF4) and Head of Regulatory Compliance (SMF16 &17)	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 &17)	Minimum 6 times a year
4 AMUK Leadership Team (AMLT)	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 Coal), helps identify engagement priorities/themes, approve engagement plans, industry involvement, addresses controversial issues.	All AMUK Executive SMFs and representation from the Sustainability Office	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 CIO (SMF18) AMUK Head of Product (SMF18) Senior Risk and Compliance Managers	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, Legal, Head of Compliance and Risk – HSBC AMUK SMF16 and Distribution (Includes SMF1 – AMUK CEO)

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, Head of Sustainability

*SMF – Senior Manager Function (FCA Senior Managers & Certification Regime)
SMF memberships shown above are as at 31 December 2022

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 established an ESG and Sustainability Governance framework. It is 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 sustainability investment activities and for the appropriate execution of the strategy and policies determined by the Sustainability Forum. The ESG Investment Committee oversees the activity of Asset Class ESG Committees, assess issues escalated, validates new sustainability products and monitor their investments. The ESG Investment Committee also reviews our Engagement and Stewardship activity and practices.

The Climate Investment Committee is a sub-committee of the ESG Investment Committee. It oversees the development and implementation of HSBC AM's climate investment strategy. It is responsible for setting HSBC AM's NZAM targets and KPIs associated with delivering the net zero commitment.

Sustainability Governance Structure

The overarching global approach is applied at local entity level

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

Global committees overseeing RI-related activities

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, Asset Class CIOs, Head of Stewardship, Head of RI, Head of Sustainability

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, Head of RI (Alternatives), Legal, Compliance, Risk and Distribution (includes AMUK SMF 1& 3)

Alternatives Sustainability Oversight Committee (ASOC)

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

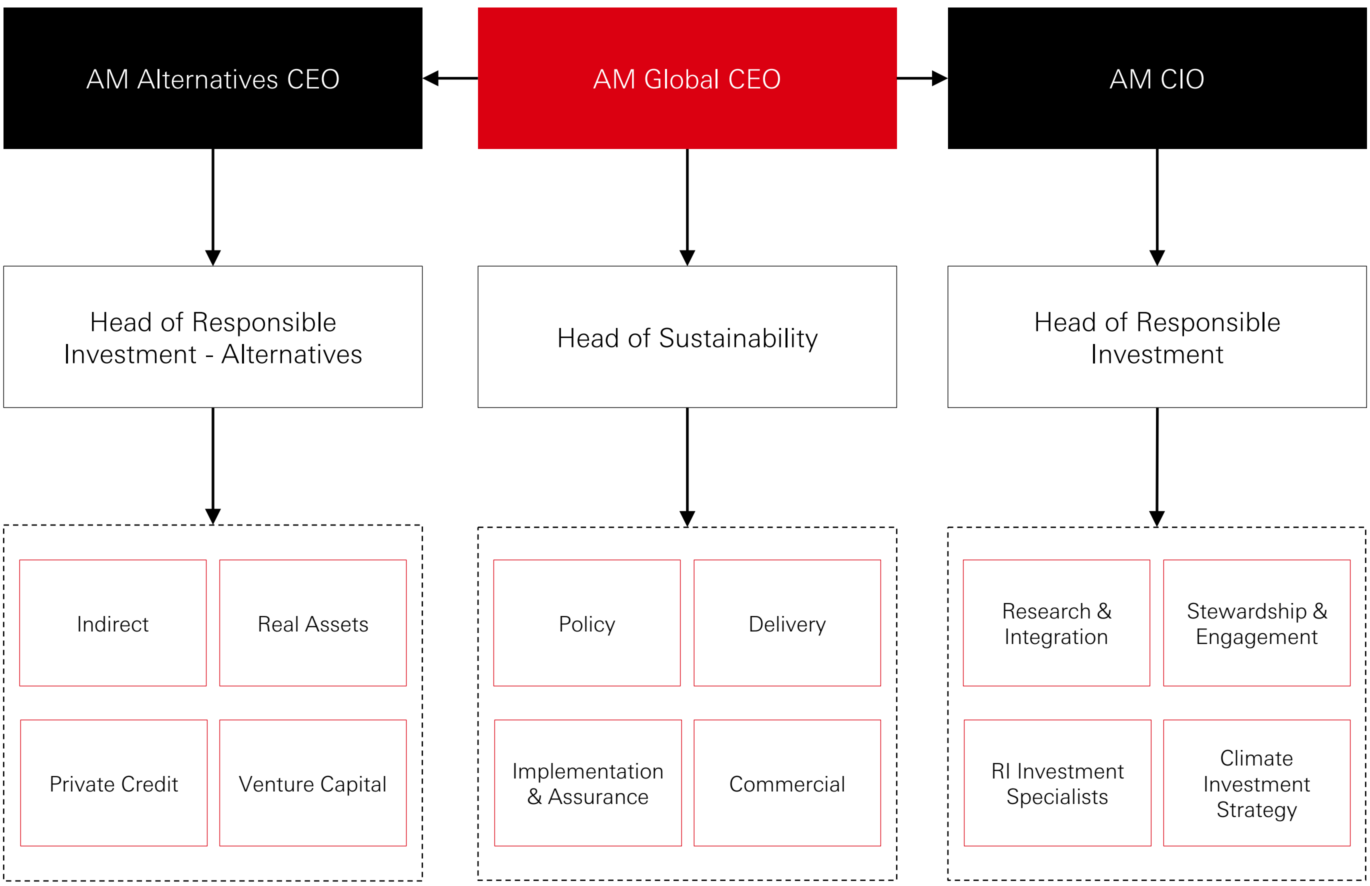
Members: Alternatives CEO, Capability Heads, Head of RI (Alternatives), Risk and members of Sustainability Office and RI team

	Mandate	Members[1]
Climate Investment committee	Oversee the development and implementation of our climate change investment strategy, ensuring climate considerations and commitment are embedded across the investment platform	Global CIO, Head Climate Strategist, Head of RI, Asset Class CIOs, RI Investment Specialists, Stewardship, Research, Sustainability Office and Risk
Stewardship Committee	Oversee alignment to sustainability policies and implementation of stewardship commitments across investment function, approve engagement plans, facilitate/address controversial issues	Global CIO, Head of Sustainability, Head of RI, Head of Stewardship & Engagement, Stewardship team, representatives from RI team, Investment Teams covering each asset class and Risk
Sustainable Portfolio Review Committee	Oversee alignment of portfolios against SRI Group Definitions and regulatory requirements. Validate compliance to Socially Responsible Investing restrictions	Global CIO, Head of RI, Asset Class CIOs, RI Investment Specialist(s), Stewardship, Research, Risk and Reporting
Asset Class ESG Committee(s)	Implement and review ESG Integration, monitor risks and engagement progress, oversight and approvals, engagement coordination	Global and Regional CIOs, Investment Teams, ESG champions within Asset Class, RI Investments (no.1-2)
Virtual Sector Teams	Oversee the development of sector materiality checklists and ESG scoring, conduct sector reviews, identify high risk issues, formulate engagement questions, supervise ESG overrides	Specialists from Responsible Investment, portfolio managers and analysts divided into 12 sector teams, representing all asset classes and regions covered

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 while ensuring consistency across the organisation.

While the Sustainability Office is in charge of establishing the overarching 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 above two teams to ensure alignment and cross-fertilisation of best practices.



Delegation

HSBC AMUK is currently building out its due diligence process to include TCFD recommendations and disclosures in the selection process and ongoing reviews related to delegation and third parties.

Strategy

Climate-related risks and our strategic response

HSBC AM's responsible investment policies set out how we apply sustainability beliefs in our investment activity. HSBC AM has a range of policies explaining its approach to climate-related issues including climate change and biodiversity. These policies are reviewed regularly to reflect developments in our thinking and in client and regulatory expectations. Our climate change policy is aimed at increasing the climate resilience of our clients' investments, as well as contributing to financing the transition to a low carbon economy. At the heart of the policy 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.

Greenwashing risk arises from the act of knowingly or unknowingly misleading stakeholders regarding our strategy relating to climate, the climate impact/benefits of a product or service, or the climate commitments or performance of our customers. We consider greenwashing to be an important emerging risk, that is likely to increase over time as we look to develop capabilities and products to achieve our net zero commitments, and work with our clients to help them transition to a low-carbon economy. We also recognise that sustainability taxonomies are not consistent globally, and evolving taxonomies and practices could result in revisions in our reporting going forward.

Climate-related risks and our strategic response

HSBC AM recognises the complexity and urgency of climate change and the transition to a low-carbon economy. We acknowledge the risks and opportunities it presents across the global economy and therefore our investments. To reflect our support of the Paris Agreement's goals of maintaining the global temperature rise to below 2°C compared to pre-industrial levels, HSBC AM became a signatory to the NZAM initiative in July 2021. The HSBC AMUK Board receives a sustainability risk dashboard covering relevant metrics to ensure visibility and oversight.

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

We believe both transition risk and physical risk can potentially impact society, the operating environments 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 consider these two types of climate related risks across our strategy and investment platform. We also consider climate relate opportunities alongside risks.

Our categorisation of each risk is as follows:

- Physical risk can be event driven or long-term shifts in climate patterns to entities. These can include, but are not limited to, changes in precipitation, water availability, changes in temperature, in the location of, frequency and/or severity of weather events such as hurricanes, floods and weather patterns. It can also include changes in the occurrence and severity of fires as well as changes in sea levels. We acknowledge that physical risk can negatively impact the entities in which we invest either directly (eg the damage to assets) or indirectly (eg via supply chains). Further impacts can be through changes to the availability of key inputs such as water, food availability and/or negative impacts to employee safety. This list is not exhaustive
- Transition risk resulting from the move towards a lower carbon economy involves both mitigation and adaptation considerations. Transition related risk can be in the form of changes to policy, legislation, technology and consumer demand behaviour, all of which can impact financially the entities in which we invest, depending on the location, degree, nature and speed of the transition to a lower-carbon economy

Climate opportunities resulting from activities to support climate mitigation and adaptation can arise as a result of managing climate related risks. We see these manifesting across a range of investment areas, 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 resiliency across physical infrastructure and supply chains.

We currently consider risk and opportunities at a global and UK level, however we do not at present break these down into sector or geography climate-related issues.

Climate-related risks and our strategic response

Identifying transition risk

ESG and climate considerations are increasingly important to managing potential investment risk, as well as identifying and capturing opportunities. Transition risk can potentially impact assets with more exposure to higher carbon sectors, regions and/or business models, as these are likely to be most affected by the low-carbon transition.

This is why transition risk is considered across our policies, engagement and sustainable investment process(es) and product/solution frameworks.

Specifically, HSBC AM identifies and manages transition risk through multiple levers:

1. Through policies and exclusions, which set out our beliefs, ambition and commitments on ESG and issues including climate transition. For example, our NZAM commitment to align our AuM to net zero by 2050, and the thermal coal policy that 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

2. Through our engagement, which focuses on specific ESG themes including supporting the transition of high carbon emitters and/or industries where emissions are typically most concentrated; Our engagement focuses on individual company interactions as well as industry wide collective initiatives

3. 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

Our FCA TCFD product reports show each product's carbon intensity and exposure to six of the highest transition risk sectors. Publishing this metric is just the initial step as assets in these sectors may be well positioned to move to a low carbon economy through strong transition plans and corporate governance. Our engagement platform and proprietary ESG assessment helps identify leaders and laggards in the transition to a low carbon economy.

We recognise that higher carbon industries and activities are particularly critical to ensuring the low-carbon transition. Therefore, we believe that if transition is not managed well or appropriately, issuers could face potentially higher transition risk. Conversely, companies that manage their transition well could emerge as leaders in their respective industries as well as potentially attractive value generators.

We are tracking the flow of AuM into low-carbon assets through new and transitioning portfolios. We are setting global business targets for AuM and revenues in the short to medium term against these sustainability parameters. Our decarbonisation pathway will be assessing the potential impacts under different climate scenarios. This will be key to future strategic and financial planning.

Climate-related risks and our strategic response

Identifying transition risk (cont'd)

In 2020, HSBC Group introduced its HSBC Sustainable Investment Definitions Framework (SIDF), which AMUK has adopted. SIDF sets the standards across the investment platform for what constitutes a sustainable strategy at the portfolio level, across investment approaches and asset classes. Climate metrics like carbon intensity are measured and assessed across sustainable strategies.

Climate related factors that are considered are both current and, increasingly, forward looking.

Within SIDF, certain funds have climate as part of their investment objective. These funds may seek to achieve superior performance or on-going improvement on carbon related metrics. There are also 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.

Identifying physical risk

Our initial climate scenario analysis, using MSCI's climate value at risk model, indicates that physical risk increases as global temperatures rise across our products. The higher the value of the underlying assets and exposure to biodiversity sensitive regions, the higher the physical climate value at risk value. We also observed that as the higher the duration of our fixed income product holdings, the higher the physical costs, which aligns to our understanding that most climate-related physical risks will manifest over a longer time horizon, through to the end of the century. As our corporate bond portfolio with duration greater than 2030 is less than 7% of our HSBC AMUK portfolio, we are primarily monitoring physical risk at this point in time. However, our products with long-term sustainable objectives, like our HSBC MSCI Paris Aligned UCITS ETFs, all manage physical risk by tracking to MSCI Climate Paris Aligned Indices which aim for physical climate value at risk lower than 50%.

For more quantitative climate scenario analysis on our HSBC AMUK portfolio, refer to the section on 'Metrics and Targets.' Strategically, we are focused on identifying what we believe are mitigants of physical risk including maintaining and restoring biodiversity, which is crucial for a sustainable global economy.

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 the following risks based on the following time horizons.

- Short-term: Up to 2030
- Medium-term: 2030-2040
- Long-term: 2040-2050

We consider climate related risks and opportunities within the short, medium and long-term time horizons reflected above. This is aligned with our overall business time horizons such as our thermal coal phase out by 2030 in the EU/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 strategy in the long term.

Climate-related orderly transition risk strategy

We are positioning our business towards an orderly climate transition scenario that would limit global temperature increase to below 2°C, but we recognise that under current geopolitical and macro policies, global temperature increases are expected to exceed 3°C. We are conscious that private and public capital and governmental policy has to shift dramatically to enable a low carbon economy. HSBC AMUK aims to grow its share of sustainable AuM, driven by our sustainable investment strategy that supports a low carbon economy and addresses each of the following transition risks identified.

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	Grow sustainable strategies that consider ESG and climate related risks and opportunities adherent to our criteria as referenced by the SIDF. Our sustainable strategies include over 60 funds, many of which are compliant with EU Sustainable Finance Disclosure Regulation (SFDR) Article 8/9	Short-term: 2030
				Align our overall investments with our commitments and policies; including net zero, phasing out actively managed holdings in thermal coal	Short - medium - long term (2030-2050)
				Grow products with long-term climate objectives (eg Paris-aligned) There are 6 Paris-aligned products (as at Dec 2022). Generally, 'Paris-aligned' refers to activity that is consistent with the United Nation's Paris Agreement, a legally binding international treaty on climate change to limit the increase in global average temperatures to well below 2°C above pre-industrial levels. For example, our HSBC MSCI Climate Paris Aligned UCITS ETFs manage to a 'Paris-aligned' objective in a number of ways including constructing the index according to the European Union's 'Principle Adverse Indicators' (PAIs), a list of which is in Appendix 2, as follows: ◆ Reduce exposure to carbon intensity (PAI 1,2) ◆ Reduce fossil fuel and increase exposure to securities with credible emission reduction targets (PAI 1, 2, 3, 4, 5) ◆ Overweighting of companies providing sustainable/green solutions (PAI 7, 8, 9)	Long-term: Up to 2050
	Cost to replace high carbon emitting products with low ones	Increased costs from stranding 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 using metrics such as coal revenues. These metrics enable us to monitor the degree in which coal is material to a company 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 companies enabling decarbonisation and de-pollution of industries. 3 start-ups invested. Additional fundraising planned in 2023 Across our sustainable strategies, there are examples where funds seek to invest in climate transition opportunities, such as those that align to the UN Sustainable Development Goals	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 investment strategy	Timeframe
Transition	Changing consumer demand from individuals preferring low carbon, sustainable products	declining profits for companies that continue to sell high carbon, non-sustainable product	(decreased) AuM from investment in high carbon, non-sustainable product	Increase sustainable AuM through: • Sustainable Investment Definitions Standards (SIF): Standards establish 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. These criteria identify investments that would thrive in a low carbon economy and excludes companies at risk in a low carbon economy. Sustainable investment criteria is further detailed at the end of this section. Our sustainable product offering, which determines our sustainable AuM, is detailed in the section 'How do our products incorporate climate risk and opportunities' • Active ownership: Active ownership, through engagement and global proxy voting, is a key pillar of our approach to responsible investments. We meet with companies 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 companies to encourage climate–resilient business strategies. Refer to the risk pillar on engagement for more detail • Leadership: We also believe that we have a responsibility to advocate for a sustainable future. We signpost this leadership by engaging with policymakers, industry leaders and regulators to support the transition to Net Zero, while also supporting behaviour change through engagement with clients and stakeholders	Short-term: 2030; Medium-term: 2030 to 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 companies with climate-related controversy	Our responsible research and specialist teams use tools and data sources like Sustainalytics and RepRisk to flag companies that are involved in activity that goes against our support for climate action, or companies 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 investment strategy	Timeframe
Physical	Increased frequency and severity of weather events causing disruption to business operations Longer-term shifts in climate patterns (eg sustained higher temperature, sea level rise, shifting monsoons or chronic heat waves)	↑ 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 companies which are dependent on biodiverse ecosystems.	We view physical risk exposure to our assets as a long-term risk so instead our overall climate risk strategy towards physical risk is currently preventative, seeking investments solutions in nature and assets that protect and restore biodiversity. Limiting biodiversity loss, and restoring what has been lost, reduces the negative physical effects of climate change. Conserving mangroves for example can reduce flooding and storm surges. Restored habitats can remove carbon dioxide from the atmosphere, thereby limiting global warming. We integrate biodiversity-related risk into our investment activities in the following ways: ◆ Proprietary ESG scoring framework: We are developing a proprietary ESG scoring capability which includes, climate, biodiversity protection and reducing exploitation of natural resources ◆ Screening investees We are developing screens to detect severe and very severe biodiversity controversies across several high climate impact activities such as forestry and agriculture. . In the future, any time an investee is flagged, it is passed through our governance framework as part of responsible investment practices. Currently, this is done through our ESG integration	Long-term: 2050

Climate-related risks and our strategic response

Scanning the universe for climate-related risks and opportunities

At the core of our strategy for identifying climate-related risks and opportunities, is our assessment of issuers and where they rank across ESG, and sustainable criteria as illustrated in the diagram below.

Sustainable and ESG Leaders:

ESG Laggards

Sustainable and ESG Leaders

We consider 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.

We typically consider companies that are not ESG or sustainable leaders, nor laggards, as those that have the potential to enhance their management of ESG issues and/or maximisation of net sustainable outcomes through either commitments and/or activities.

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. As part of our NZAM commitment, we are engaging with issuers that do not have net zero transition plans. Phasing out actively managed thermal coal is a key priority as per our thermal coal policy. As part of our thermal coal policy, we are engaging with companies on their transition plans to phase out thermal coal.

Climate-related risks and our strategic response

HSBC AMUK continues to operate and manage a range of investment solutions which do not have a specific climate-focused objective, i.e., non-sustainable investments. These accounted for 83.2% of HSBC AMUK's AuM as at the end of December 2022. 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 objective they are, where possible, managed in line with our responsible investment policy. For example, the traditional active equity, active fixed income and liquidity solutions we manage include ESG integration in their investment processes, which incorporates stewardship and engagement activities.

Our climate-related opportunities

Climate opportunities are reflected across our Sustainability Investment Definitions Framework (SIDF), which governs how we set investment standards for our sustainable strategies. Within the framework we have four key pillars, ESG Aligned, ESG Enhanced, Thematic and Impact. Each pillar incorporates climate opportunities in the form of ESG scores and or other relevant metrics such as carbon, SDGs, sustainable themes and outcomes.

HSBC AMUK manages in excess of USD$20bn in sustainable AuM, part of HSBC AM's total sustainable AuM which is currently greater than USD$55bn. This is a measure of our allocation towards ESG and sustainable strategies, including climate opportunities. Over time we expect this number 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 asset classes and themes such as natural capital and biodiversity. We also have multiple Paris Aligned strategies that seek to support net zero goals.

We consider these opportunities across short-, medium- and longer-term time horizons. Our stewardship and engagement activities are an important element of our approach.

Responsible investment opportunity

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

In 2022, HSBC AM launched more than 20 strategies within our SIF, 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.

In our alternatives asset class, we are pursuing innovative climate-related opportunities. HSBC AMUK recently launched a venture capital strategy that invests in pioneering early-stage companies addressing decarbonisation of higher emitting industries. The strategy invests across four investment themes: power transformation, transport electrification, supply chain sustainability and climate risk mitigation.

This strategy was seeded with capital in November 2021; it has since invested in three start-up companies.

Our climate-related opportunities

Recent HSBC AM climate related product development

2021

- Emerging Market Green Bond
- Paris Aligned Benchmark range – passive management
- Sustainable Fixed Income range – passive management
- Emerging Market ESG debt

2022

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

Transition to low carbon economy opportunity

Tackling the climate crisis 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.

To support the transition to a low carbon economy, in its net zero ambition, HSBC AM continued to add to the range of products aligned to Paris-aligned benchmarks, launching two exchange-traded funds in 2022 that invest in emerging markets and Asia Pacific. These benchmarks' underlying assets are selected in such a manner that the resulting benchmark portfolio's greenhouse gas emissions are aligned with the long-term global warming target of the Paris Agreement.

Biodiversity opportunity

Biodiversity and natural systems health are absolutely integral to planetary sustainability and climate change, and a narrow focus on carbon emissions is not enough to create a resilient environment. HSBC AM has been focusing on biodiversity as a key area of investment.

In August 2022, HSBC AM launched a biodiversity exchange-traded fund managed by HSBC AMUK that enables investors to incorporate sustainable considerations within their portfolio. Launched as the first of its kind biodiversity screened exchange-traded fund, it provides investors with the opportunity to consider biodiversity risk factors in their portfolios. This exchange-traded fund tracks the Euronext ESG Biodiversity Screened Index series which uses a biodiversity footprint score to exclude companies from the index that do not sufficiently consider biodiversity impacts as well as those with poor ESG credentials and/or business activities deemed harmful towards biodiversity.

Climate-related impact on our business and strategy

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

More opportunities

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

New asset classes

The net zero transition will give rise to new valuable 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

We are developing our business so that it strategically aligns to capture climate-related opportunities while minimising climate-related risks.

Climate-related impact on our business and strategy

How our organisation is impacted by climate

We see the biggest impact on our business through the portfolios we manage.

Our approach to sustainability is organised by two pillars - the Sustainability Office (SO) and Responsible Investment (RI) team. While the SO is in charge of establishing the overarching policies and corporate initiatives, the RI team focuses on investment processes, capabilities and product development across asset classes. We believe our clients benefit from this dual structure as it allows us to increase our focus and resource alignment, helping to develop innovative products and solutions consistent with our sustainability commitments. The SO is responsible for setting HSBC AM's strategic approach to sustainable investing and for driving the delivery of the transformational agenda.

Key deliverables of the Sustainability Office include:

- Defining our product strategy for the back-book and our new product launches and initiatives 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 (eg UNPRI, Sustainable Markets Initiative, Climate Action 100+) 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
- Embedding an authentic sustainability culture throughout HSBC AM by driving a strong commitment to Diversity, Equity & Inclusion that delivers on objectives and meets the expectations of clients

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

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. 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 (eg 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" and ensuring alignment to Group policy and HSBC Asset Management strategy
- Providing expertise and assistance to internal and external stakeholders on our RI products and solutions

Climate-related impact on our business and strategy

What is the investment governance and decision making for climate

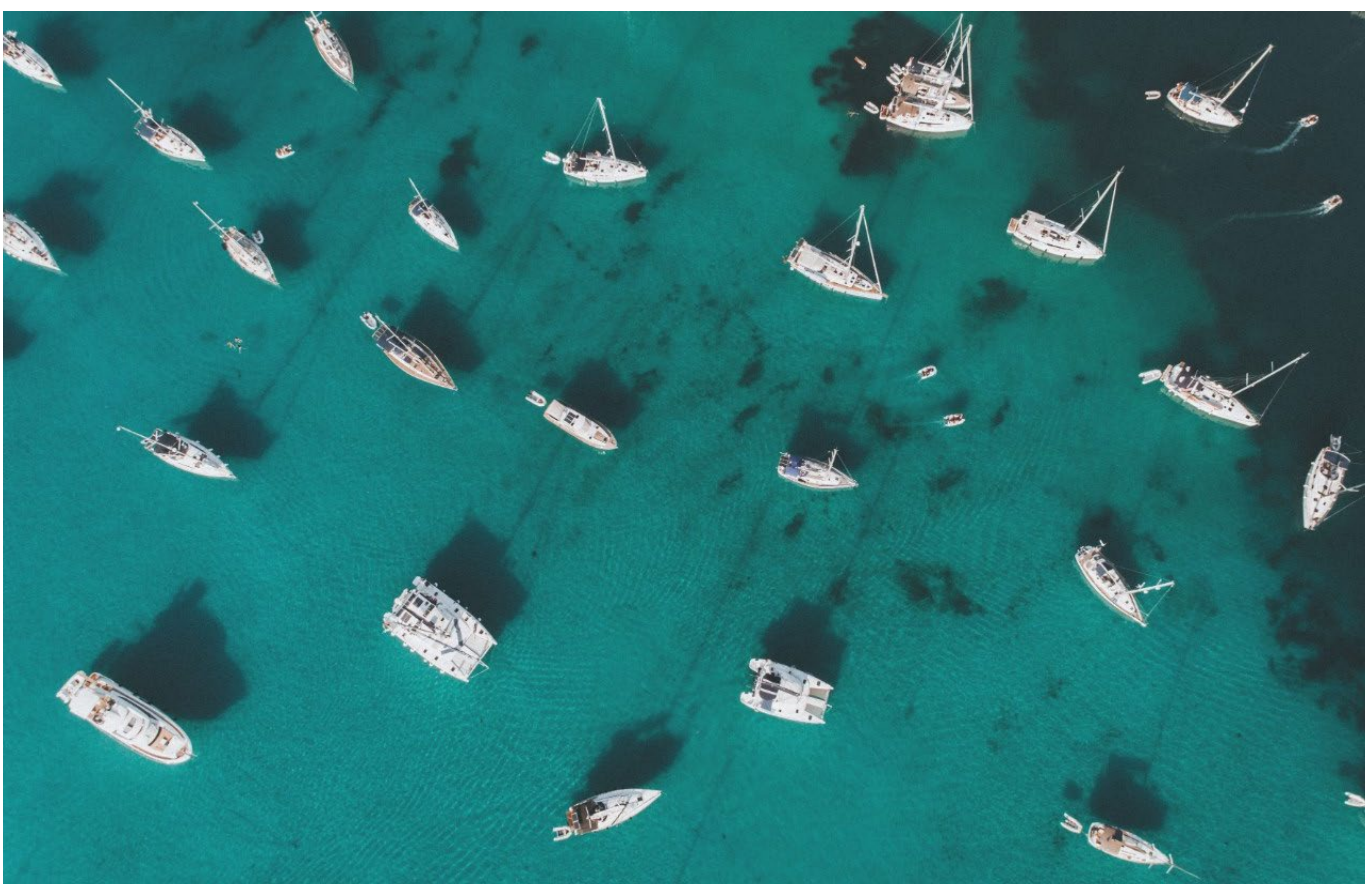
Outside of the Sustainability Office and Responsible Investment team, our investment teams including our credit and equity research analysts are taking an increasingly strategic role in managing climate-related impacts. ESG assessments are a core responsibility of all our portfolio managers and analysts.

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.

All our investment teams share a common philosophy and adhere to a team-based approach to investing, with all investment decisions taken by the portfolio management team. 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. We believe there is a strong link between companies with high ESG scores and performance, and using our two-pillar strategic structure we aim to unlock this link thereby strengthening performance.

Climate-related impact on our operations

The majority of our emissions are attributed to the emissions of the investments we have in our portfolios. Our company's operational climate impact is summarised and calculated at the HSBC Group level. See Section on "Metric and Targets."



How do our products incorporate climate-related risk and opportunity

We focus on increasing the climate resilience of our clients' portfolios as well as contributing towards financing the transition to a lower-carbon economy. To capitalise on this opportunity, we apply the universe of issuers that aligns to a low carbon economy across our sustainable fund offering.

Climate-related opportunities: our sustainable fund offering

There will be climate opportunities across our sustainable fund offering, within each category as directed by the SIDF. The framework ensures that strategies adhere to minimum criteria for ESG, climate and broader sustainability risks/opportunities. The following are our current sustainable investment classifications. These will be adapted and tailored as local regulation evolves and are as follows:

- **ESG Aligned** – strategies that achieve a higher ESG performance relative to the comparator as a result of embedding ESG considerations into investment processes, taking into account ESG and financial considerations as part of its objective. Strategies can include ESG positive tilts and ESG improvers
- **ESG Enhanced** – strategies that seek to achieve superior ESG performance relative to the comparator, whilst applying best-in-class processes. Strategies that have carbon as part of their objective are also considered within ESG Enhanced
- **Thematic** – strategies that apply a framework/methodology to identify issuers that support or promote a sustainable theme. This includes net zero aligned strategies as well as strategies that support other sustainable themes across E, S and G or climate
- **Impact** – strategies that seek to deliver a specific and intentional sustainable outcome, as per the strategy's impact objective

Our framework supports our belief that our sustainable products that invest in low carbon economy companies best positioned for the transition to a low carbon economy, are also most likely best suited for financial success in the future.

Case Study

Climate-related opportunities

The HSBC GIF Global Equity Climate Change fund, for which HSBC AMUK is Investment Manager, is an example of one of our products whose objective is to track a low carbon economy, thereby exploring climate-related opportunities. The investment strategy is such that the sub-fund invests in normal market conditions a minimum of 70% of its net assets in equities and equity equivalent securities of companies with revenue exposure to certain climate transition themes." . Our equity analysts conduct fundamental and sustainability research on companies which we believe could align to one of the following nine themes: renewable energy; energy efficiency; clean transport; green energy; sustainable water and wastewater management; climate change adaption; pollution and waste prevention and control; circular economy and resource efficiency; and natural capital and ecosystems.

Climate-related risks: tackling the laggards

The converse of our climate-related opportunities, as determined by the SIDF, is our criteria for identifying climate-related risks within our sustainable products. Our sustainable products excludes issuers which are misaligned with a low carbon economy as set out by the below guidelines. Within our sustainable offering we restrict, subject to transition plan assessment:

- Companies with thermal coal extraction revenue > 10%
- Companies with thermal coal power generation revenue > 10% (2.5% for SFDR Article 9 product)

How will our products meet our net zero objective

Our managed assets aim to align to net zero by mid-century, as per our NZAM commitment. Quantitative net zero commitments and target setting is an important starting point. However, it is critical that these targets are realised through a defined strategy and operational plan.

To develop our net zero plan within the organization we know that we need to dedicate and mobilise resources to adjust our investment strategy and risk management, governance, processes, performance metrics, planning, roles & responsibilities, products and propositions to align to our net zero ambitions.

- We know that we have to implement decarbonisation measures at a fund/portfolio/mandate level, which is subject to client/legal entity/fund board consent
    - We are exploring the initiation of climate transition relevant metrics into our product frameworks, initially into our select flagship funds to support our net zero target commitment. This can include the use of forward-looking metrics, climate transition benchmarks and proprietary climate transition metrics in development
    - For indices, HSBC AM will join market participants to engage with index providers for decarbonisation measures

Transition analysis

At the underlying company level, we consider several factors when assessing the transition credentials of underlying issuers currently and into the future. The first step is to assess whether companies have set transition targets and/or have plans to support these targets. Whilst it's preferable to see that transition plans are certified as per 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. Where no plans are in place and where our portfolios have an investment, HSBC AM will make an assessment as to whether to support issues and continuing to invest, or not. This investment decision considers several factors and is dependent on the issuer, its sector, location, our engagement with that issuer and our exposure. For example, as stated in our thermal coal policy, our sustainable products exclude thermal coal mining and power generation above 10% revenue exposure. Yet, to facilitate a just transition, we conduct enhanced due diligence on active holdings with more than 10% revenue exposure to thermal coal, starting with developed markets. We expect to divest over an appropriate timescale where transition plans are inadequate so that our investments are planning for a low-carbon economy.

HSBC AM's thermal coal policy backs 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. With immediate effect, actively managed portfolios will 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 will be subject to enhanced due diligence of transition plans to ensure alignment with our Net Zero Objective.

How will our products meet our net zero objective

Our current net zero or climate-aligned strategies like our Climate Paris Aligned UCITS ETFs have more advanced objectives and forward looking KPIs. However, the ambition is for the majority of funds within scope to include decarbonisation ambitions of which issuer transition plans will be a key aspect of our assessments. Our baseline assumption is that investment strategies or products with concrete transition plans will be better positioned in the transition to a low-carbon economy.

A good issuer transition plan assesses all aspects of climate-related transition risk. It should know its hurdle rate, or the costs required to develop a net zero business and project plan for these costs. These costs should integrate projected factors such as regulation, consumer expectations and new technologies. A good transition plan should also consider physical risks, such as increasing temperature rises and reduction in freshwater availability, which can impact the valuation of assets, industries and economies as well.

For example, the Climate Paris Aligned UCITS ETFs offer 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.

The funds have a clear sustainable investment objective, aiming to replicate the performance of their respective MSCI Climate Paris Aligned Index, designated as a reference benchmark under Article 8 of the Sustainable Finance Disclosure Regulation (SFDR).

Other types of products that are well-positioned, include the HGIF Low Carbon Equity fund. 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 the HSBC Climate Paris Aligned UCITS ETFs track, 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

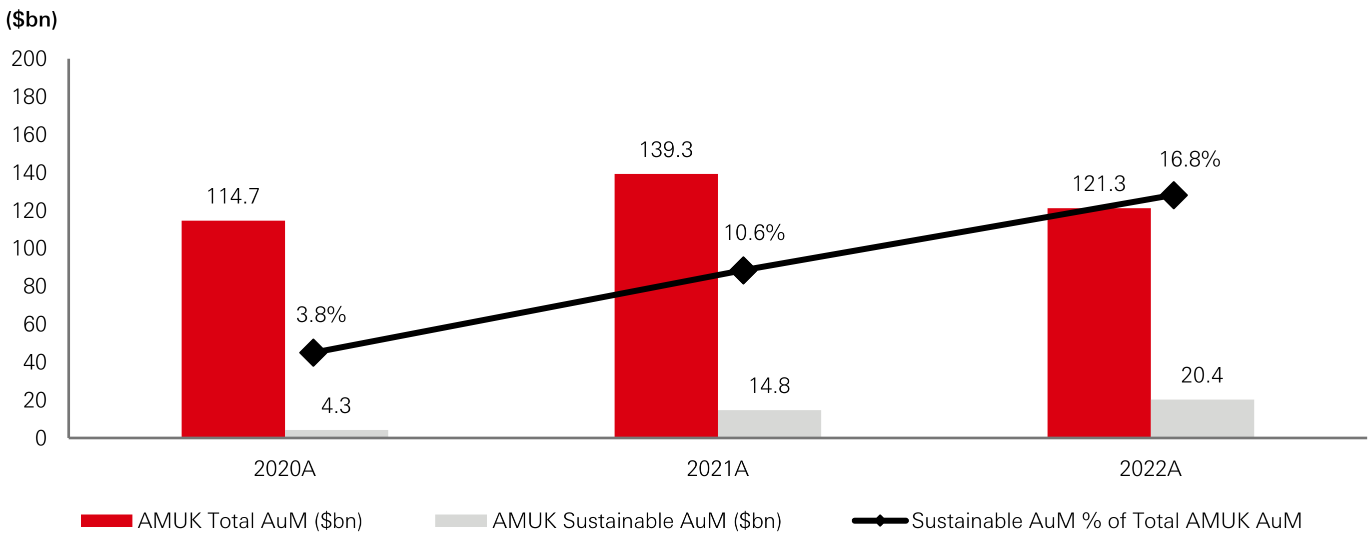
The HSBC AMUK managed sustainable AuM – see the sustainable offering framework in section 'How do our products incorporate climate related risks and opportunities' - as of year-end 2022 was USD20.4bn, representing a USD5.5bn (+38%) increase year on year.

The fund with the largest AuM was the HSBC Developed World Sustainable Equity Index Fund with USD3.9bn. HSBC AMUK also manage a segregated mandate to the same strategy, which had USD4.6bn as at year end 2022, a USD1.0bn (+29%) increase year on year.

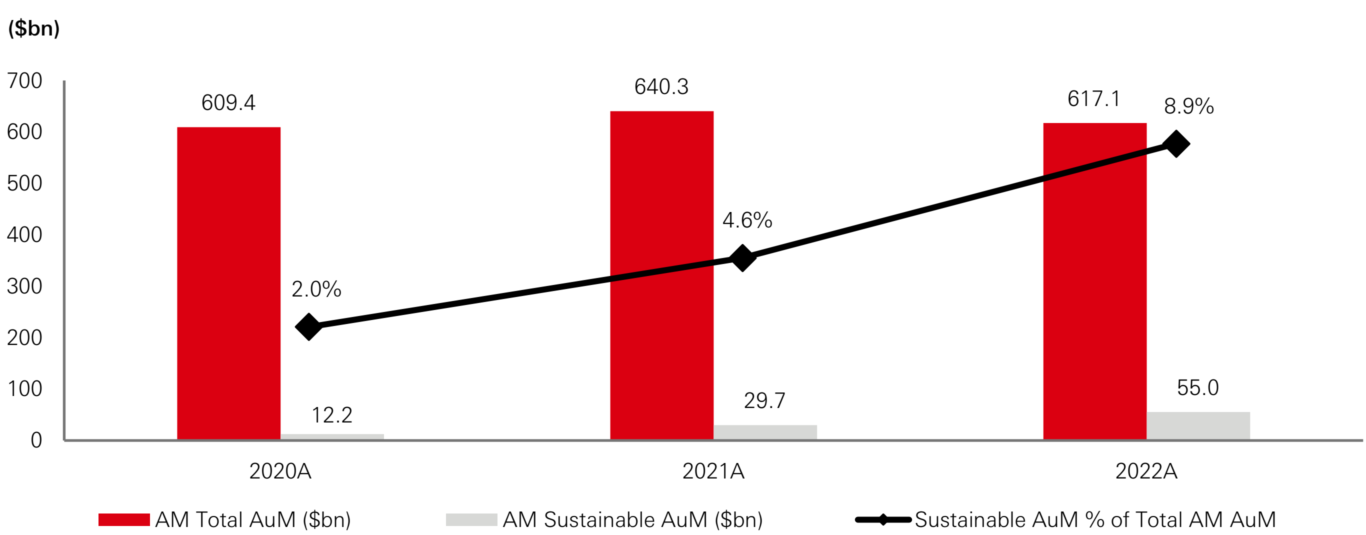
Our sustainable AuM as a % of total AuM has gone up from 4% as at Dec 2020 to 17% as at December 2022. This is well above the AM wide % of AM in SI of 9% (up from 2% as of Dec 2020). SI AuM calculation methodology may change with ongoing regulatory developments, including FCA's Sustainability Disclosure Requirements (SDR).

HSBC AMUK ambition is to grow sustainable AuM to over $40bn by the end of 2024.

HSBC AMUK AuM and HSBC AMUK Sustainable AuM



HSBC AM AuM and HSBC AM Sustainable AuM



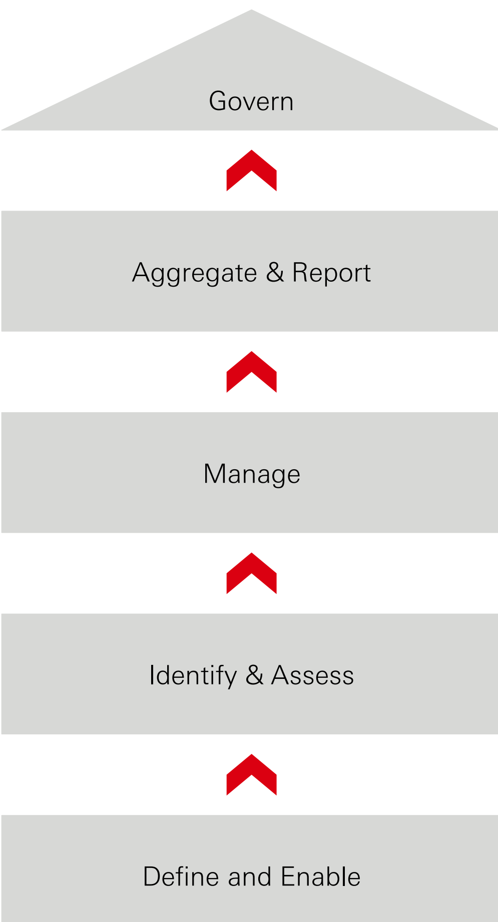
Risk Management

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 Group written procedures which HSBC AMUK is required to follow. Any changes to the HSBC Group 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 Risk Management Framework 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.

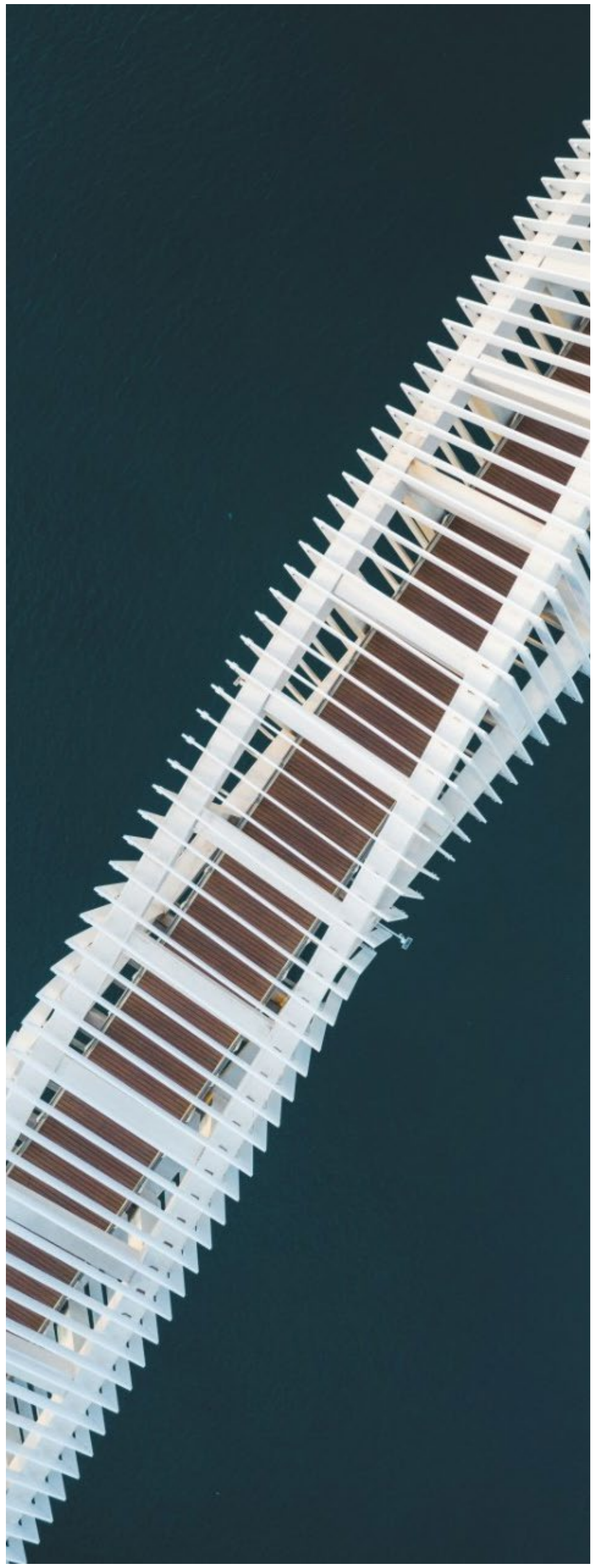
The integration of climate related risks takes two approaches:

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 used by the Risk team are either Carbon Intensity or ESG uplifts. The Risk team works closely with the RI team to regularly review sustainability risk relative to either a sustainable benchmark or an underlying parent index (for index tracking funds), to ensure that fund/ mandates are managed in line with the stated objectives.

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

Stewardship is a key lever in our effort to encourage companies we invest in to commit to a just climate transition, with climate change being one of seven themes central to our stewardship programme.

We see stewardship as a powerful tool to driving positive climate performance, to improve risk awareness, and ultimately enhance the value of companies we invest in on behalf of our clients. Through dialogue with issuers, we continue to discuss the need for improved risk management and transparency, impact mitigation and the identification of opportunities related to the climate transition. This allows for responsible allocation, management and oversight of capital. Greater awareness of these issues , whether through direct discussion or collective engagement with other stakeholders, is the primary means by which investors exert positive stewardship outcomes.

1. Our Approach on Engagement

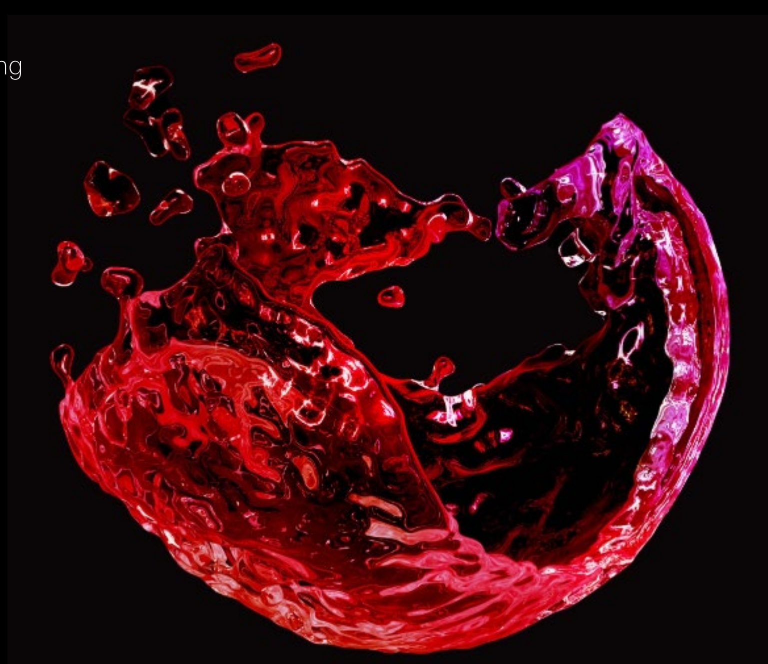
Companies which do not take a concerted effort to address climate risks to their business are likely to see either some, or all of the following issues: cost increase, sourcing disruption, adverse regulatory changes, reputational risk and scrutiny by customers, lenders and shareholders.

In our approach to engagement, we develop objectives in consideration of a company's ability to mitigate its climate impact, as well as identify and address material physical, transition, reputational and/or social risks posed to its business, workforce and communities.

We set specific, measurable, ambitious, relevant and time-bound objectives to achieve the desired outcomes, tracking progress and milestones over time. Climate risks are considered over a short, medium and long-term horizon, and are identified in consideration of the company's climate strategy, third party research, ESG disclosure, alignment with sectoral decarbonisation pathways and insights from discussion with senior management, among others. Direct engagement with a company's board or senior management often provides valuable insights into a company's culture and ability to manage climate risks and strategies to address related issues.

We engage with companies on the following areas amongst other company specific topics as they relate to the mitigation of climate impact and risk:

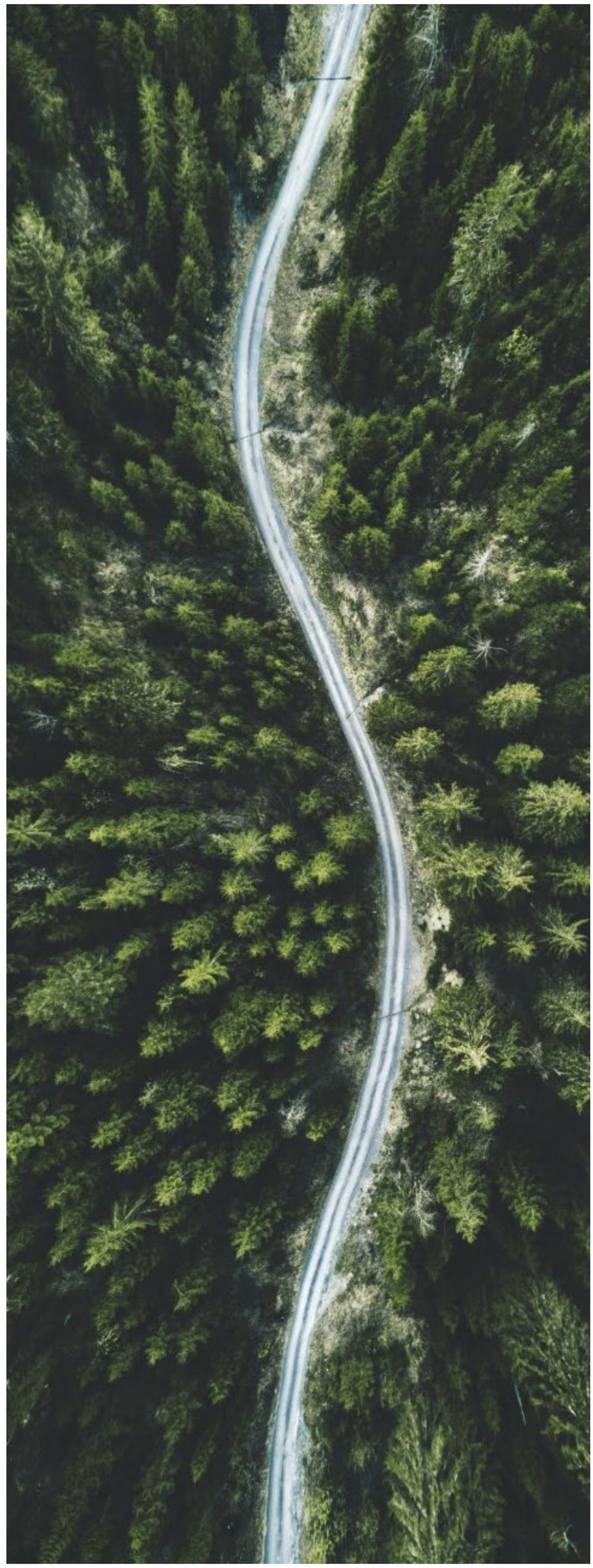
1. Net Zero Commitments
2. Climate Strategy and Risk Management
3. Emissions Reporting
4. A Just Transition



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

To promote transparency and improve management of climate impacts and risks, we expect the following from companies and sectors that we engage with:

- Companies should adopt sector-based decarbonisation (SDA) strategies where appropriate and available, and actively take part in public policy engagements that enable industrywide progress for decarbonisation. Companies should also understand and measure climate change impact on business operations, strategy and financial planning
- Company climate strategy and policy should specifically address climate change risks, impact and opportunities. We encourage that companies develop targets in-line with climate science, using guidance such as that provided by the SBTi. We also encourage comparable and industry-aligned climate reporting and engage with companies on completeness in reporting scope and boundary
- Consistent reporting by companies raises their own internal awareness while providing a benchmark for assessing progress. Better disclosure also means less uncertainty for investors, typically leading to lower costs of capital and the ability to finance positive change. We strongly encourage companies to align with the recommendations of the TCFD and report in accordance with recognised emissions accounting standards such as that of the Partnership for Carbon Accounting Financials (PCAF) and/or Greenhouse Gas Reporting Protocol



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

Case Study 1: Engagements with a power company in an OECD nation

Following concerns with the lack of a suitable transition plan and climate strategy, HSBC AM engaged with the company's treasury team to better understand its climate strategy, timelines for developing emissions reduction targets, and detailed capital expenditure plans. The CapEx for renewable energy and targets had yet to be set, while its emission reduction targets are not aligned with a 1.5°C scenario and unlikely to be in the near future, given that the company continues to rely heavily on coal within its energy generation mix.

The objectives that we set following discussions with senior management were as follows:

- Disclose emission reduction targets for 2030 in line with finalised national energy plan
- Develop and disclose a detailed climate strategy and CapEx plan on how such targets are to be achieved
- Develop a process for proactive engagement with community and Non-Governmental Organisations (NGO) stakeholders
- Commit to developing science-based emission reduction targets over the medium- long term

The company clarified that due to updates to its Nationally Determined Contributions and energy strategy, its targets will need to be revisited. This will result in delays in the development of a strategy, which is still unlikely to be 1.5°C aligned. The company will however continue to repurpose coal-fired power stations, using gas instead.

As the company's targets were not aligned with climate science and given the lack of a suitable transition plan and exposure to reputational risk, it was determined that there would be no purchase of any bonds directly issued by the company, in line with objectives in the thermal coal policy.

Stewardship: Governance and Integration

The HSBC AM Stewardship team, based in London and Hong Kong, provides both sectoral and thematic expertise in leading engagements and in assessing sustainability performance. Engagements on climate change are led by all portfolio managers and analysts, including the Stewardship team, as part of our ongoing dialogue with issuers.

HSBC AM's approach to stewardship spans across active and passive strategies, as part of our commitment to deliver sustainable value.

HSBC AM is also proud to be acknowledged as a signatory to the UK Stewardship Code.

Engagement with regulators and standard setters

Engagements with standard setters and regulators allow us to contribute to the improvement of climate disclosure and practices across sectors and geographies. Through HSBC AM we engage with regulators on the development of frameworks, guidance and in encouraging consistent reporting standards in the disclosure of climate risks, strategies and emissions information. We respond to consultation papers either directly or via our Trade Associations.

We have engaged with the International Financial Reporting Standards (IFRS) Foundation and the International Sustainability Standards Board (ISSB) with the aim to promote consistent sustainability and climate change related disclosure.

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

2. Collective Climate Engagements

HSBC AM was a founding member of the Climate Action 100+ initiative, a five-year collective engagement led by investors with systemically important greenhouse gas emitters and other companies across the global economy that have significant opportunities to drive the clean energy transition and help achieve the goals of the Paris Agreement.

HSBC AM participates in industry and investor groups in order to collaborate and share research and ideas, as we understand that there is more to be done and collaborative action can be an important tool in pooling perspective, expertise and driving change. Whilst we act independently and make our own decisions when engaging and voting on behalf of clients, we believe that membership of these groups is consistent with the interests of our clients and our responsibility to manage to their investment goals. We will continue to lead engagement with companies where we believe we have a strategic advantage to do so.

A Just Transition

HSBC AM has endorsed the Statement of Investor Commitment to Support a Just Transition on Climate Change committing to take action to support the transition by incorporating labour and social considerations within climate practices. This 2018 statement was signed by 49 investors representing assets of US$ 3.7 trillion.

For the energy transition to be effective, it must remain inclusive. At the centre of this transition are people whose livelihoods will be affected by this momentous shift, whether they are coal workers facing redundancy, consumers hit by higher energy prices, or indigenous communities that have depended for years on the socioeconomic benefits of oil extraction.

We encourage companies to consider proactive steps to remain inclusive, capitalising on the opportunities related to the transition, while mitigating risks and negative impacts on their stakeholders.

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

Case Study 2: Our engagements with a mining company, where we are a CA100+ co-lead

HSBC AM has co-led the CA100+ engagement with this company since 2019 and continue to press the company on their climate commitments through one-on-one discussions as well as via CA100+ group meetings. While recognising the company's efforts and alignment to 2°C, we highlighted the importance of setting science-based reduction targets aligned to a 1.5°C pathway.

HSBC AM expressed its concerns with the company's acquisition of captive thermal coal mines during the year and explained our position and expectation on thermal coal and expansion activities given the continued dependence on thermal coal for power in the short to medium term. Our thermal coal policy was shared with the company and offered to meet with the Board Sustainability Committee to further discuss investor expectations and best practices.

HSBC AM also highlighted the significance of just transition considerations in the company's net zero strategy and encouraged them to map out the stakeholder impact of their transition plans and strategy.

Following discussions with the company, HSBC AM set these objectives:

- Clear decarbonisation roadmap to achieve net zero by 2050, including short (2025) and medium (2030-2035) GHG emissions reduction targets aligned to SBTi
- Disclose details of capital allocation and research and development plans for each business segments to achieve net zero
- Board and senior management to have their long-term incentive plans aligned to net zero targets
- Company to develop an internal carbon price, publish a TCFD-aligned report and disclose its scope 3 emissions

The company provided further clarity and assurance on its commitment to decarbonisation and net zero, despite recent acquisitions of captive thermal coal mines. The tone and messaging from the company was positive, however we expected to see more concrete action in the coming year. Since our last meeting, the company has published its second TCFD report, providing more detail on its net zero plans, scenario analysis, scope 3 emissions mapping and short, medium and long-term priorities, as well as confirming the introduction of an internal carbon price, which has been positive.

HSBC AM acknowledged the company's clear plan and targets to reduce GHG emissions and will continue to monitor progress and examine how well they implement this plan.

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

3. Our Escalation Process

In situations where we continue to see a lack of action to address material climate issues, we will consider opportunities for escalation.

Escalation in stewardship prioritises engagement over divestment. If we divest, we will be in a disadvantaged position to influence companies. However, we will divest as a last resort if we deem engagement to be unsuccessful in a time frame we consider as reasonable for companies to implement desired changes.

A recent example is our collective engagement with a mining company. We observed the company's transition commitment to not be in line with sector decarbonisation timelines, while the company had also not committed to a sufficient CapEx programme. Our team, along with CA 100+ engaged with the company, which resulted in it withdrawing applications for approval of a new greenfield coal mine and committing to a just transition plan.

HSBC AM also led in the co-filing of a shareholder vote on the company, asking that its climate action plan be brought for a shareholder vote in 2024, in addition to disclosing how thermal coal production projections align with the Paris Agreement's objective to limit global temperature increase to 1.5°C. We also requested additional details of how the company's thermal coal production capital expenditure aligns with these objectives.

4. Climate Considerations in Voting

We may vote against the Chair of the Board or the relevant Board of Directors of companies operating in high emitting sectors who fail to implement adequate reporting on climate issues.

We apply a 'Say on Climate' watch list using Transition Pathway Initiative (TPI) climate transition and Influence Map's organisational metrics as reference. For carbon intensive sectors in the UK, Europe, United States, Japan, Hong Kong and in the remaining Developed Markets (DM) and Emerging Markets (EM), we may vote against the relevant Non-Executive Board Directors with poor climate risk management, as noted in unsatisfactory TPI or Influence map scores. Details of our approach to voting as well as the sectors that we consider are outlined within our Global Voting Guidelines.

Our objectives and approach also align with the HSBC Asset Management Climate Change Policy and the 2022 thermal coal policy published online. As outlined within the thermal coal policy, in addition to engaging with issuers who derive more than 10 per cent revenue exposure to thermal coal, we will also vote against the re-election of chairs at these companies whose transition plans remain inadequate, and/or who do not provide TCFD disclosure or equivalent reporting. We reference Bloomberg TPI climate score and CDP data when determining the quality of TCFD disclosure of companies.

Vote decisions may change if new information from the issuer is provided in a timely and comprehensive manner to address our concerns through proactive engagement from companies.

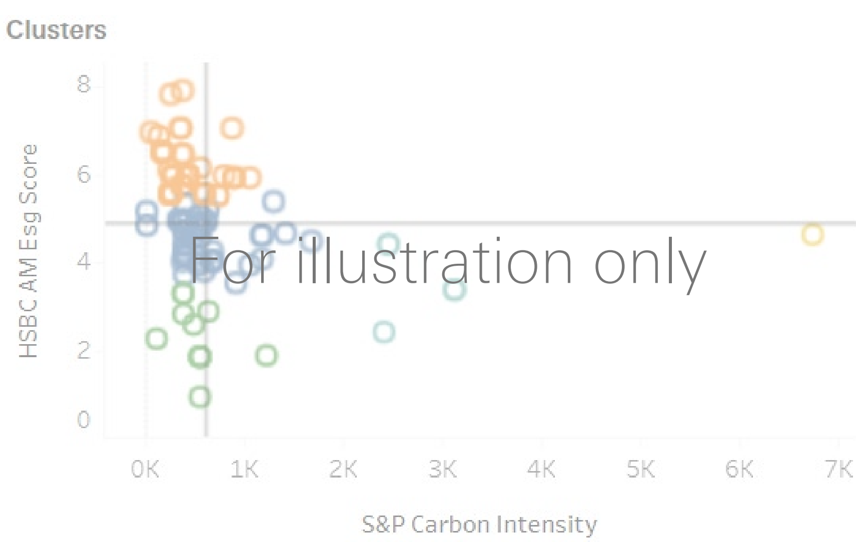
What resources and tools do we have to monitor climate-related risk

We have access to both a large quantitative team and a global network of on-the-ground equity and credit analysts. With our quantitative analytics tools, 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 approach has been acknowledged by the Morningstar award of 'ESG Advanced', recognising us as one of the companies who are among the industry's strongest ESG proponents'.

Here are just a few examples.

- Operationally, for sustainable funds we code a sustainability restriction on high ESG risk activities which are set up as a pre-trade restriction for investment teams. Our restriction lists are also configured in our Tableau visualisation tool and receive feeds from our data providers in order that our investment analysts and responsible investment specialists can filter and assess different climate-related risks as soon as they are fed from our data providers. Restrictions for our climate-related risks include:
  - No more than 10 per cent revenue in thermal coal generation for our article 8 SFDR products (2.5% for our article 9 SFDR products), subject to transition plan assessment
  - No more than 10 per cent revenue in thermal coal mining for our article 8 SFDR products (2.5% for our article 9 SFDR products), subject to transition plan assessment
  - Violation of United Nations Global Compact Principles 7-9:
    - Principle 7: Business should support a precautionary approach to environmental challenges;
    - Principal 8: undertake initiatives to promote greater environmental responsibility; and
    - Principal 9: encourage the development and diffusion of environmentally friendly technologies.
- Our other proprietary ESG risk toolsets, built in Tableau, include our **Tableau ESG Analysis Tracker**
  - The proprietary **Tableau** ESG Analysis tracker is a useful tool in analysing data by issuer and sector to analyse climate-related risk data from the bottom up.

Cluster Analysis: Carbon Intensity versus HSBC AM ESG score – a modified issuer-level vendor ESG score, augmented by our proprietary research. Each bubble represents an issuer per universe which can be filtered by sector.



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

Our overall ESG risk strategy, including climate, is driven by the Responsible Investments team, including our ESG integration team with asset class teams. The team has developed an extensive ESG scoring technique to overlay MSCI vendor ESG risk factors as well as developing climate scoring and climate scenario pathways. The process begins by re-assessing the materiality of E, S and G factors on a sector-by-sector basis. From there, we generate a proprietary sector-specific weighting for ESG factors to reflect the materiality of each set of issues to the sector. Each issuer then is assigned an ESG rating and rank (in percentile) within their industry sector. The ESG rating calculation engine helps us calculate an aggregate 0 (worst) – 10 (best) ESG rating for approximately 10,000 companies. Each rating is a combination of the MSCI vendor ESG score and the following factors.

Environmental factors

- Climate change risk
- Environmental impacts: carbon emissions, energy efficiency, renewable and alternative energies
- Material supply chain issues, including; water stress, biodiversity/land use and raw material sourcing
- Waste issues, including toxic emissions/waste, packaging material and waste, and electronic waste
- Clean technology and green buildings

Social factors

- Human capital management
- Health and safety
- Supply chain labour standards
- Product suitability
- Product safety and quality
- Chemical safety
- Privacy and data security
- Demographics and the digital divide
- Financial exclusion
- Access to healthcare, nutrition and health

Governance factors

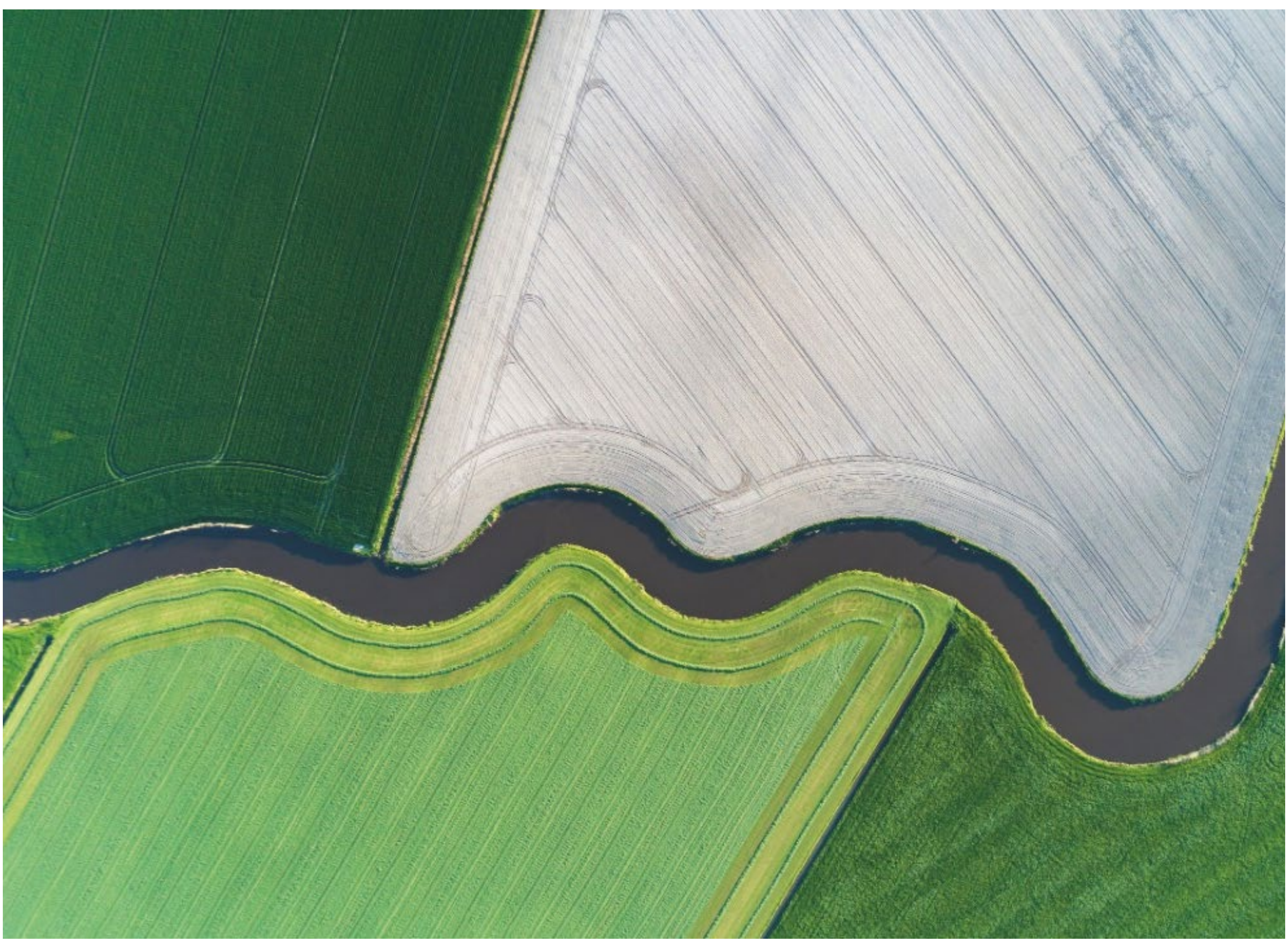
- Business ethics
- Cultures and values
- Corporate governance
- Bribery and corruption
- Financial system instability
- Anti-competitive practices
- Responsible tax practices
- Minority shareholder rights

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

Our strategy is constantly improving, and to help refine our ESG Risk scores, HSBC AM have set up Virtual Sector Teams (VSTs) to capture ESG and climate related sector specific knowledge across asset classes and geographies.

Run by our Head of ESG Integration and Research, these teams bring together RI specialists, and credit and equity analysts based in different regions. VSTs are made up of over120 participants from across asset classes and the RI Team to establish greater granularity in our ESG Risk Scoring process. The VST initiative enables us to combine "on-the-field" expertise and quantitative rigor. They 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 further down. This includes deeper analysis into the ESG Risk Drivers, a reweighting of E, S and G pillars as well as an HSBC specific sector overlay. The resulting ESG scores are to be built through aggregating ESG data points coming from a multiplicity of data vendors.

With a view to enhancing accuracy, these scores, which are meant to become the backbone of our ESG integration efforts, will be systematically back-tested by our Virtual quant team integrating equity and fixed income quant analysts. Outputs from VSTs then 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, proprietary ESG scoring, and data analytics generated by the VSTs. This information is synthesised to support our investment teams with decision making and new product development.



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 reinforced our product governance framework as follows:

Sustainable Investment Product Review Process:

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

Step 1 **SI Product Review Template** – To initiate the process, investment teams shall 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 SI Definition (ESG Aligned, Enhanced, Thematic, Impact) and SFDR Article (8 or 9) the product seeks to be considered for. The SI Product Template will include a series of questions as to how the fund achieves the qualifying criteria for SI Definition and SFDR 8 & 9 classification, as per the HSBC Frameworks and the SIDF. This will be extended to include FCA's Sustainability Disclosure Requirements (SDR).

Step 2 **Asset Class ESG Committee** – After the SI Product Template is completed, investment teams shall 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 shall be 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 SI Classification (ESG Enhanced, Thematic, Impact) 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. All opportunities to strengthen a product or areas of weakness shall be addressed. 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. Note that all SI Product Review templates shall include a summary of the Asset Class ESG Committee key finds, decision (recommend, not recommend) and areas where further deliberation/guidance is needed (if any). Note that only products that are 'recommended' are permitted to be presented to the ESG Investment Committee

Step 3 **ESG Investment Committee** – shall review all new SI products for validation before being submitted to the Global New Business Committee (GNBC) 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 GNBC. Note that all products that are reviewed at the ESGIC shall present completed SI product templates with notes, actions and summaries of key findings at the Asset Class ESG Committees. For any areas where there's further guidance required, investment teams shall present reference to previous situational circumstances and proposed recommendations for the ESG Investment Committee to opine on. Note final ESG Investment Committee decisions shall be documented in the SI Product Template as well as any areas of concern/further consideration for noting at the GNBC. Note that only products that are validated will be permitted to be presented at the GNBC

Step 4 **GNBC** – shall review and approve all final SI Product Review Templates, along with notes/actions/recommendations made at the Asset Class ESG Committees and ESG Investment Committees

Product level governance for climate-related risk

Sustainable Investment Product Review Process

Step 1	Step 2	Step 3	Step 4
Asset Class ESG Committees	**ESG Investment Committee (ESG IC)**	**Global New Business Committee (GNBC)**	**Sustainable Portfolio Review Committee (SPRC)**
Minimum of 1 RI team present, contributing to product review during Asset Class ESG committee(s)	Review of Items raised at Asset Class ESG Committee; benchmark, uplift, new instruments, etc.	Review and affirm product alignment with SFDR Classifications and Sustainable Investment Definitions	Review of alignment of product with ESG objectives; overseen by asset class CIOs.
Investment teams to submit product review templates for Committee discussion/consultation	Review and validate that product design; affirm that design meets stated ESG objectives.		Oversee data access, quality and frequency
Review product's ESG objectives(s) and process/design, features (eg ESG score uplift, benchmark, carbon intensity)	Review proposed SFDR classification and SI Definitions; establish agreement with ESG OSC views		Ensure appropriate application of sustainable investment methodology and process
Identify potential challenges/issues and proposed resolution	Confirm alignment with broader business strategy SFDR classification requirement		RI Team shall work in coordination with Asset Class ESG Committees and Portfolio Review committee
Initial discussion on SFDR Article classification (8 and/or 9)/ SI Definition			
Best Practices for sustainable investment eg for Article 9, net zero			
Consultation	**Review & Validate**	**Officiate (approve/reject)**	**Monitor**

Not all investments in our sustainable funds are required to be 'sustainable investments', eg positive contribution towards sustainable outcomes or goals. In identifying the proportion of assets of funds that are sustainable investment, we consider "Do No Significant Harm" (DNSH), which means that investments that are contributing towards sustainable goals/outcomes are not doing significant harm to other sustainable goals/outcomes. We employ various data sources to be tested for sustainable investment and that needs to consider all mandatory PAIs (Principal Adverse Impact), as required by some EU regulation.

HSBC AM has set forward an approach to measure and ensure DNSH requirements are considered within investment processes in order to be compliant. Issuers are required 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 exclusions policy)

We consider climate change and climate related risks as part of our PAIs consideration process. Principal Adverse Impacts are any negative effects that investment decisions or advice could have on sustainability factors. SIDF clearly requires DNSH criteria and that requires consideration of all mandatory PAIs.

Metrics and Targets

Financial Impact of Climate Change – Scenario Analysis

The TCFD rules recommend climate related scenario analysis as a tool to enhance strategic thinking. The scenarios used need to be plausible, consistent, relevant, and challenging. Outlined below are the scenarios provided by the Network for Greening the Financial System (NGFS). The scenarios cover 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 will increase the costs for companies engaging in high-emitting activities while subsidising activities and technology that accelerate the transition. Assets that can capitalise on the subsidies and limit their costs will increase in value. Under this scenario, there is a limit in 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 for the next 2-5 years before an aggressive tightening. The disorder from the tightening disrupts supply chains, strands assets and leads to significant costs for companies that are not able to adjust quickly. The abrupt changes will lead to a deterioration in assets across sectors and the delayed policies will 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.

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

Under the global current trajectory, temperature rise is expected to exceed 3.0°C if only currently implemented policies are preserved and there is no transition. The impact under this scenario is shown by the +3.0°C 'Hot House 2' scenario below.

Under an extreme scenario, where national security is prioritised, public and private sector favour existing carbon intensive energy sources and carbon emissions 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 world pathways, among a very large number of climate scenarios and potential real outcomes. Measuring the risks and opportunities under these scenarios is only a guide to understand the likely sensitivity of investments and should not be interpreted as a prediction of future investment value.

Financial Impact of Climate Change – 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 have tested 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 initial set of base scenario outputs at the HSBC AMUK entity level are outlined below:

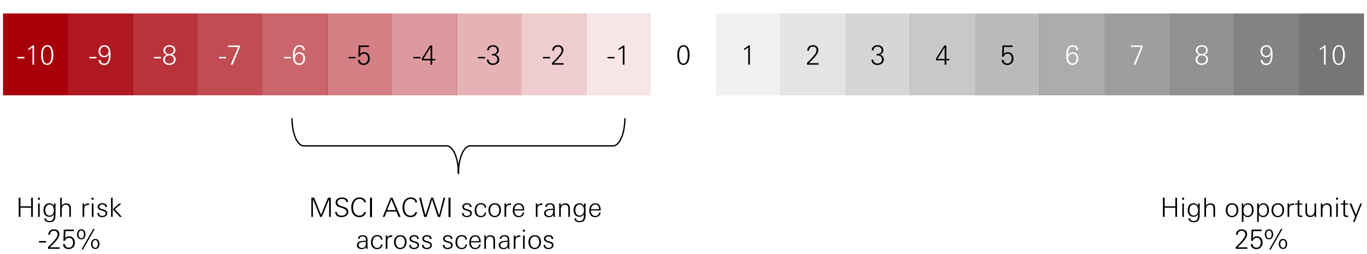
Climate Change Mitigation

	Low carbon transition		
Climate Scenario	**Opportunity**	**Costs**	**Aggregate**
1.5°C	1	-5	-4
2.0°C	0	-3	-3
3.0°C: Hot House 1	0	-1	-1

The scores are based upon the scale below.

Climate Change Impact

Climate Scenario	Physical Risk
1.5°C: Orderly	-2
2.0°C: Disorderly	-2
3.0°C: Hot House 1	-4
+3.0°C: Hot House 2	-4
+4.0°C: Hot House 3	-6



It should be noted that the current iteration of the MSCI cVaR model only covers corporate bond and equity asset types. Proxies are not used where data is missing. In our entity report cVaR coverage is around 76%. Our understanding is that the MSCI cVaR model is in the process of being enhanced to cover other asset classes.

Given some of the uncertainty of the model projections (for example the ability of companies 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. The absolute cVaR percentage bounds are roughly twice the maximum absolute cVaR of the MSCI ACWI index. This index has been referenced as a comparator in the scale above given it is a broad global index. We will look to further develop both our usage and coverage of assets as the model methodology is enhanced.

Financial Impact of Climate Change – Scenario Analysis

Scenario cVaR Impact Observations

- Transition profit increases as the temperature target lowers, as innovation is boosted by policy measures to support low carbon solutions and reduce the reliance on fossil fuel supplies
- Transition costs increase as the temperature target lowers, as the carbon price increases due to the same measures in the transition profit scenarios, and current high carbon emission exposure are assumed to have a high cost to decarbonise
- Physical costs increase as the temperature target increases, as the increase in carbon emissions continues to raise global temperatures leads to increase acute and chronic weather events causing wide scale business disruption and damages

It is important to note that the entity level climate scenario scores are the initial set of results for HSBC AMUK and provide the baseline reference. Similarly, an initial set of cVaR baseline metrics have also been included within product level reports. The next planned steps are to build upon the cVaR scenario analysis further, with a view to embedding it into the investment framework (where applicable) at a product level, and HSBC AMUK's financial and strategic planning.

HSBC AMUK is not using climate related scenarios in our financial planning at present. The time period we use in our financial planning process is 5 years and most of climate impacts are longer than 5 years. This is something we are looking to expand on and build in for future stress testing cycles.

Metrics to assess climate-related risk and opportunities

HSBC AMUK leverages multiple data sources and capabilities to report and assess climate-related risks and opportunities. 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 companies and portfolios based on their current climate relevant credentials, we are developing a forward-looking view as to how we consider climate impacts across our investments in the future. The features we measure include but are not limited to carbon intensity, total carbon emissions/footprint, fossil fuel reserve emissions, coal revenues and portfolio temperature. These will form part of the future KPI setting to support managing climate related risk across our portfolios.

- **At the issuer level**, investment teams use third party data to assess issuers' climate credentials and transition risks/opportunities. We are building on our existing set of proprietary capabilities to enable us to analyse companies in which we invest to assess the risks and opportunities climate presents to their business models; developing sector specific templates for key sectors critical to the transition; and assessing the quality and credibility of a company's transition planning. Combining insights from across AM (eg Responsible Investments team, credit and equity analysts, portfolio managers) along with multiple carbon data sources allows us to align portfolios, and set key priorities for engagement, etc

- **At the portfolio/fund level**, 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. This data is typically run on an aggregated basis for both funds and benchmarks. Additionally, the percentage coverage is also displayed. This data is mainly sourced from S&P TruCost and covers scope 1 and scope 2 emissions. For mandates where we serve institutional clients such as pension funds and insurance companies with bespoke solutions, we can customise our approach to meet the client's specific climate objectives. These include activities such as integrating the net zero objective directly into the mandate or adopting and tracking a net zero index (client customized or off the shelf) or a combination of the above with additional features such as ESG or SDG criteria to reflect client priorities. In line with regulation , we will publish product level reports aligned with the TCFD guidelines on our website. Data metrics for our products will include scope 1 and 2 greenhouse gas emissions; scope 3 greenhouse gas emissions (from 2024); carbon footprint; and weighted average carbon intensity. Products will also be assessed for their impact under different climate scenarios, and key drivers will be discussed and disclosed

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 qualitative assessments of the credibility of issuers' transition plans to support our net zero commitment.

In addition to the cVaR metric, we are testing other forward-looking metrics like implied temperature rise to facilitate our transition to net zero, which will help strengthen the resiliency of our products and organisation in a low carbon economy. We plan to include implied temperature rise metric in our future reporting. However, HSBC AMUK currently manages a number of Paris-aligned (to aim to limit global warning to 1.5°C) UCITS ETF products with total AuM USD253 million as at 31 December 2022.

Metrics to assess climate-related risk and opportunities

Our Greenhouse Gas Emissions

HSBC AMUK greenhouse gas emissions for assets under management are as follows:

Carbon Metric (scope 1 and 2 carbon emissions only)	**Value**
Weighted Average Carbon Intensity	133.48 tonnes CO2e/USD m
Total Carbon Footprint	47.29 tonnes CO2e/USD m
Total Carbon Emissions	9.16 million tonnes CO2e

Weighted Average Carbon Intensity

Carbon intensity measures the quantity of carbon emissions per million dollars of an issuer of a financial investment. It is a measure of environmental efficiency of an issuer, measuring issuer carbon emissions, relative to issuer economic output. Weighted average carbon intensity is the sum of all issuer carbon intensity, weighted by the allocation to that issuer, for all HSBC AMUK holdings.

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. It is a measure of carbon emissions ownership, as it takes into account the proportion of emissions per investment, relative to the total size of the issuer value. However, carbon footprint can fluctuate without a change in carbon emissions as a result of changes in 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. Total carbon footprint is the sum of all HSBC AMUK issuer carbon footprint, divided by the value of the HSBC AMUK portfolio.

Total Carbon Emissions

Total carbon emissions are calculated like the total carbon footprint, without dividing by the value of the portfolio (HSBC AMUK). Like the carbon footprint, it is the investment share of all HSBC AMUK issuer emissions, often referred to as 'financed emissions. Since it is not scaled to the value of the portfolio, it is sensitive to the value of the assets. When the value of the assets decline, so does the total carbon emissions if everything else is constant and therefore it is not appropriate to compare the total carbon emissions of different entities. However, it can be useful for providing a perspective of the amount of financing this fund 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.

Operational Greenhouse Gas Emissions

Our operational GHG, or HSBC AMUK's scope 1 and 2 emissions is calculated at the Group level as HSBC AMUK shares the facilities and resources of its parent company HSBC Holdings plc. Our 2022 greenhouse gas emissions in tonnes CO2e per full time employee was 1.30 down from 1.52 in 2021.

For more operational GHG metrics, refer to the 2022 Group's annual report.

Metrics to assess climate-related risk and opportunities

Our 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.

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.	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 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%) and is calculated as (tCO2e/$Mn invested). Our interim target will be reviewed annually and revised at least once every five years until 100% of AuM is in scope for net zero by 2050 as per the NZAM initiative commitment.	58% reduction in carbon intensity (Scopes 1 and 2)
5. Framework	Frameworks set the rules and guardrails on metrics, methodologies, and approaches to net zero to help drive consistency and credibility across the industry. This will support us to align our AuM in scope to net zero.	Net Zero Investment Framework
6. Scenario pathway	Scenario pathways are projections that estimate the economic activity required to limit global warming to a 1.5° temperature rise. It is used to calculate our necessary carbon emission reduction.	IEA NZE (International Energy Agency Net Zero Emissions by 2050)
7. Baseline emissions	Our baseline emissions include Scope 1 and 2 portfolio companies only. We aim to include Scope 3 once data is sufficiently available and of good quality).	131 tonnes of CO2e/$m invested

Policies references

HSBC AM & Group References	Cross References
HSBC AM Policies	https://www.assetmanagement.hsbc.co.uk/en/individual-investor/about-us/responsible-investing/policies
HSBC Group: Annual Report and Accounts 2022 (See pages 43-96 for ESG disclosures)	https://www.hsbc.com/-/files/hsbc/investors/hsbc-results/2022/annual/pdfs/hsbc-holdings-plc/230221-annual-report-and-accounts-2022.pdf?download=1

Abbreviations & Glossary

A		
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
C		
CapEx	Capital expenditure	Money spent by a business for ongoing operations maintaining fixed assets, such as land, buildings, and equipment
CEO	Chief Executive Officer	
CIO	Chief Investment Officer	
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
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	
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		
EMD	Emerging Market Debt	
ESG	Environmental, Social, and Governance	
ETF	Exchange Traded Funds	
EU	European Union	
G		
GHG	Greenhouse Gas Emission	Greenhouse gases in the earth's atmosphere that trap heat
GIF	HSBC Global Investment Funds ICAV	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	
Hurdle Rate		A hurdle rate is the minimum rate of return on an investment required by a manager or investor.
I		
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 CO2 emissions by 2050, with advanced economies reaching net zero emissions in advance of others.
IPOs	Initial public offering	The first offering of new securities by an issuer to the public
IPCC	Intergovernmental Panel on Climate Change	
K		
KPI	Key performance indicators	
L		
LNBC	Local New Business Committee	A governance committee within HSBC AMUK that considers new product and business proposals
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 CO2 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 CO2 by mid-century remain consistent with 1.5° C
NGO	Non-governmental organisations	
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 degrees Celsius; and to supporting investing aligned with net zero emissions by 2050 or sooner.

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 37 democracies with market-based economies collaborate to develop policy standards to promote sustainable economic growth
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
R		
RI	Responsible Investments Team	
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
SI	Sustainable Investments	
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 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.
V		
VST	Virtual Sector Teams	

Important Information

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Climate Paris Aligned UCITS ETFs including HSBC MSCI USA Climate Paris Aligned UCITS ETF fund is a sub-fund of HSBC ETFs plc ("the Company"), an investment company with variable capital and segregated liability between sub-funds, incorporated in Ireland as a public limited company, and is authorised by the Central Bank of Ireland. The company is constituted as an umbrella fund, with segregated liability between sub-funds. Shares purchased on the secondary market cannot usually be sold directly back to the Company. Investors must buy and sell shares on the secondary market with the assistance of an intermediary (eg a stockbroker) and may incur fees for doing so. In addition, investors may pay more than the current Net Asset Value per share when buying shares and may receive less than the current Net Asset Value per Share when selling them. UK based investors in HSBC ETFs plc are advised that they may not be afforded some of the protections conveyed by the Financial Services and Markets Act (2000), ("the Act"). The Company is recognised in the United Kingdom by the Financial Conduct Authority under section 264 of the Act. The shares in HSBC ETFs plc have not been and will not be offered for sale or sold in the United States of America, its territories or possessions and all areas subject to its jurisdiction, or to United States Persons. Affiliated companies of HSBC Global Asset Management (UK) Limited may make markets in HSBC ETFs plc. All applications are made on the basis of the current HSBC ETFs plc Prospectus, relevant Key Investor Information Document ("KIID"), Supplementary Information Document (SID) and Fund supplement, and most recent annual and semi-annual reports, which can be obtained upon request free of charge from HSBC Global Asset Management (UK) Limited, 8 Canada Square, Canary Wharf, London, E14 5HQ. UK, or from a stockbroker or financial adviser. The indicative intra-day net asset value of the sub-fund[s] is available on at least one major market data vendor terminal such as Bloomberg, as well as on a wide range of websites that display stock market data, including www.reuters.com. Investors and potential investors should read and note the risk warnings in the prospectus, relevant KIID and Fund supplement (where available) and additionally, in the case of retail clients, the information contained in the supporting SID.

Developed World Sustainable Equity Index Fund is a sub-fund of HSBC Index Tracker Investment Funds, an Open Ended Investment Company that is authorised in the UK by the Financial Conduct Authority. The Authorised Corporate Director and Investment Manager is HSBC Global Asset Management (UK) Limited. All applications are made on the basis of the HSBC Index Tracker Investment Funds prospectus, Key Investor Information Document (KIID), Supplementary Information Document (SID) and most recent annual and semi annual report, which can be obtained upon request free of charge from HSBC Global Asset Management (UK) Limited, 8, Canada Square, Canary Wharf, London, E14 5HQ, UK, or the local distributors. Investors and potential investors should read and note the risk warnings in the prospectus and relevant KIID and additionally, in the case of retail clients, the information contained in the supporting SID.

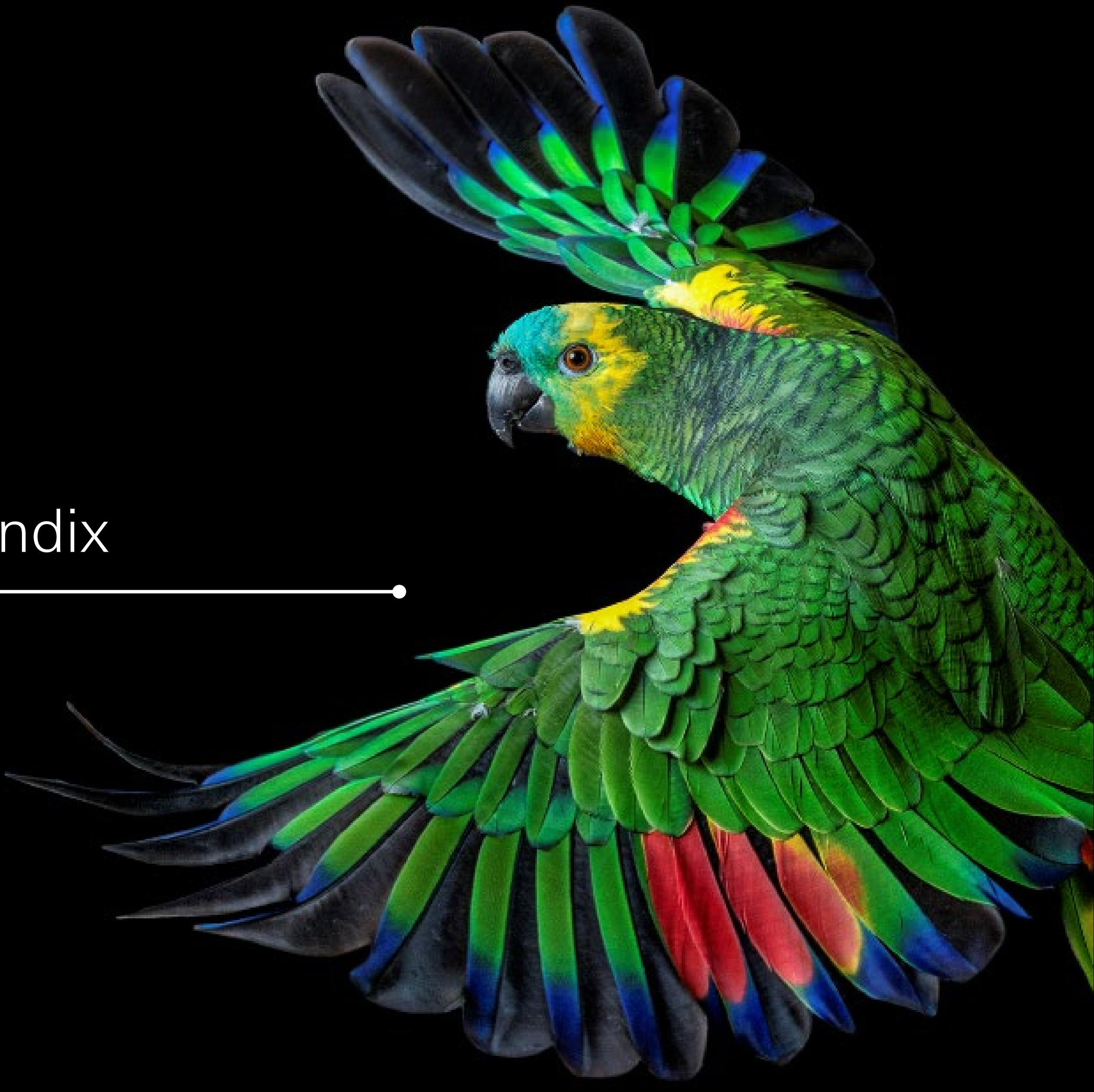
Detailed information for article 8 and 9 sustainable investment products, as categorised under the Sustainable Finance Disclosure Regulation (SFDR), including; description of the environmental or social characteristics or the sustainable investment objective; methodologies used to assess, measure and monitor the environmental or social characteristics and the impact of the selected sustainable investments and; objectives and benchmark information, can be found at: https://www.assetmanagement.hsbc.co.uk/en/intermediary/investment-expertise/sustainable-investments/sustainable-investment-product-offering.

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

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

www.assetmanagement.hsbc.co.uk

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	10	✓
Describe management's role in assessing and managing climate related risks and opportunities	11, 12, 13	✓

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.	21, 22, 23, 24, 26	✓
Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning	29, 31, 54	✓
Describe the resilience of the organization's strategy, taking into consideration different climate related scenarios, including a 2°C or lower scenario.	17	✓

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.	36, 37, 38, 40	✓
Describe the organization's processes for managing climate related risks.	37, 38	✓
Describe how processes for identifying, assessing, and managing climate related risks are integrated into the organization's overall risk management.	38, 41-46	✓

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.	56, 57	✓
Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.	18, 56	✓
Describe the targets used by the organization to manage climate related risks and opportunities and performance against targets	57	✓

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