4. Our Core Themes for Engagement

4.1 Climate Change

Climate change continues to reshape our world, with far reaching and systemic impacts. The costs for inaction are increasingly clear. To address these risks, we have seen an increasing focus and regulations on emissions reporting, risk management and the identification of new opportunities in the transition to a more sustainable future. This section outlines how we engage with companies on realising a low carbon economy and a just transition.

Our position

HSBC AM is a member of the Net Zero Asset Managers initiative[1]. In this context, we commit to supporting the goal of net zero greenhouse gas ('GHG') emissions by 2050, in line with global efforts to limit warming to 1.5°C ('net zero emissions by 2050 or sooner'). We also commit to investment aligned with net zero emissions by 2050 or sooner. Our engagements align and support these overarching strategic objectives.

In September 2022, we published a policy outlining our commitment to phase out active investment in thermal coal. Under this policy, we will continue to engage with issuers, prioritising those in which we have the highest exposure. By end of 2023, we will engage with all listed issuers in our actively managed portfolios with more than 10 per cent revenue exposure to thermal coal. Engagement concerning active holdings will be led by investment teams supported by stewardship specialists. By 2025, we will prioritise engagement concerning our passively managed portfolios, based on the size of the holding, with the aim to engage with all issuers with more than 10 per cent of coal exposure.

Companies above this threshold must provide suitable TCFD-aligned or equivalent reporting. The suitability of this disclosure will be determined in the first instance in reference to corresponding scores from the Transition Pathway Initiative ("TPI") and in reference to Bloomberg's Climate Tracker TCFD disclosure will be considered in our voting decisions, and we will vote against chairs where scores and transition plans remain weak following engagement.

What we do

When engaging with companies, we work with them to set realistic but stretching interim targets to identify pathways of decarbonisation, based on clear assumptions used in scenario analysis. Climate transition strategies must be sufficiently detailed on how such targets are to be achieved with corresponding capital allocation plans and strategy to access transition capital.

We participate in collaborative engagement and dialogue with issuers through various ESG working groups at both an international and local level.

1. For information can be found on the website of Net Zero Asset Managers initiative

How we engage

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 Science Based Targets Initiative. We also encourage comparable and industry-aligned climate reporting and engage with companies on the completeness in reporting scope and boundary.

Consistent reporting by companies raises their own internal awareness while providing a benchmark for assessing progress. 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. We actively engage in discussion with the International Financial Reporting Standards (IFRS) Foundation and the International Sustainability Standards Board (ISSB) on financial and sustainability reporting standards with the aim to promote consistent sustainability and climate change related disclosure.

We also engage with regulators on the development of frameworks and guidance. We encourage consistent reporting standards in the disclosure of climate risks, strategies and emissions information.

What we expect

Companies should adopt sector-based decarbonisation (SDA) strategies where appropriate and available, and actively take part in public policy engagements that enable industry wide progress for decarbonisation. Companies should also understand and measure climate change impact on business operations, strategy and financial planning.

We will engage with companies on four key areas, amongst other company specific topics:

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

1. **Net Zero Commitments**

- Their public commitment to net zero, and a just transition;
- Setting interim targets aligned with climate science;
- Adherence to guidance in target setting, where this is available;
- The scope and boundary for such a commitment, which accurately reflects an issuer's influence and impact

2. **Climate Strategy and Risk Management**

We expect companies to provide Climate Key Performance Indicators ("KPIs") or objectives aligned with international best practices on disclosure and reporting, including but not limited to:

- The role of board/management (sustainability committee or similar);
- How they monitor and disclose climate-related risk management procedures;
- Metrics used to assess climate-related risks;
- Timeframes for monitoring risks;
- Limiting real world emissions;
- Clear methodology and approach to carbon accounting including use of offsets;
- The use of carbon capture storage or utilisation;
- Strategies to develop climate resilience;
- Climate lobbying strategy to ensure transparency and appropriate membership of associations; and
- Strategies and capital expenditure to mitigate climate impact as well as to adapt and develop resilience to physical climate risk

3. **Emissions Reporting**

- Completeness in disclosure and emissions reporting, capturing an organisation's main areas of impact, including its scope 3 emissions;
- Alignment with international best practice, and where applicable, local regulation and standards in reporting; and
- Supporting the development of a global coordinated and transparent platform for carbon markets and trading

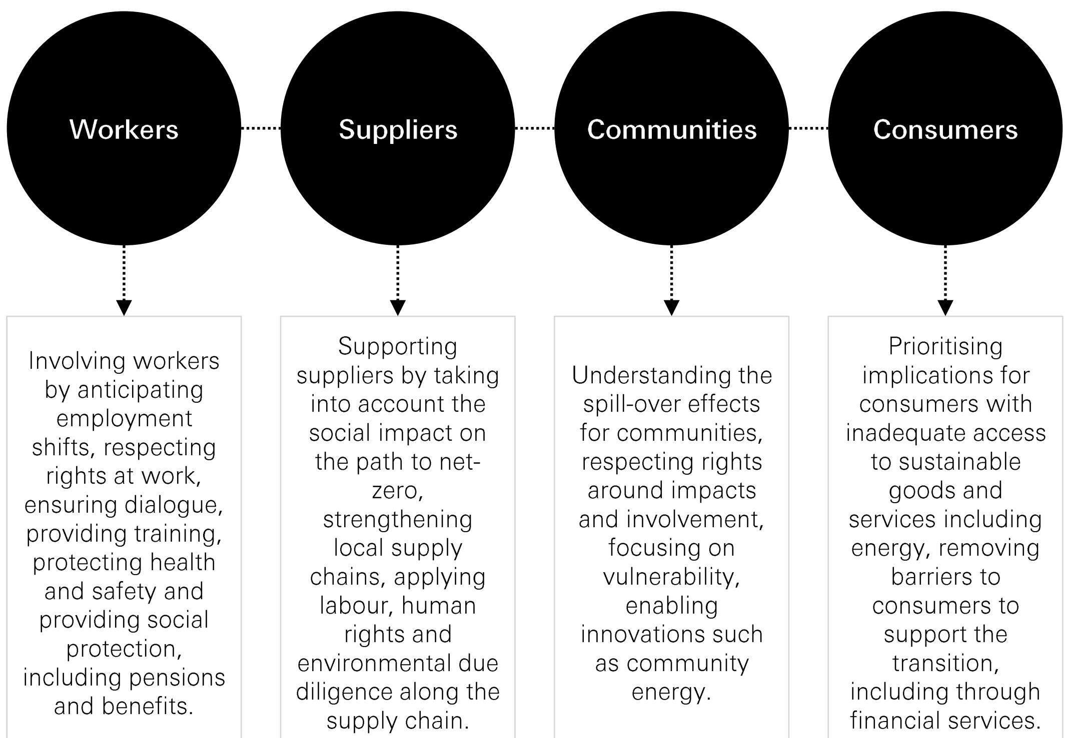
4. **A Just Transition**

We have 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[2].

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.

Steps to address stakeholder groups impacted by the climate transition[3]



2. Statement of Investor Commitment to Support a Just Transition on Climate Change, 26 October 2018
3. Robins N, Muller S, Tickell S and Szwarc K (2021) *Just Zero: 2021 Report of the UK Financing a Just Transition Alliance*. London: Grantham Research Institute on Climate Change and the Environment, London School of Economics and Political Science.

Specific to the just transition, we will engage with companies on the areas outlined below, with specific focus on energy and extractive sectors, developed in reference to the Principle for Responsible Investment's proposals for a just transition disclosure framework in China, and Climate Action 100+ beta indicators on the just transition. We also take reference from our approach and expectations in other key engagement themes, including Human Rights, DE&I and Inclusive Growth & Shared Prosperity.

a. **Public Commitments**

Awareness of risks and opportunities related to a just transition, and the need for public commitments from the company's leadership in committing to a just transition.

b. **Stakeholder Engagement**

How the company has engaged with stakeholders, including workers, suppliers and communities on identifying impacts associated with the energy transition in their climate strategy. We encourage that such engagements take into account specificities of gender and ethnicity to identify unique concerns and opportunities with these communities. Engagement should also consider provisions for proactive and pre-emptive mediation to address any issues that may arise among stakeholders.

c. **Strategy and Assessment**

After engaging with its stakeholders, the company should develop a suitable approach in addressing just transition considerations. This should follow suitable social impact identification and assessments from the company.

d. **Integration of Just Transition Objectives within Transition Plans**

Decarbonisation strategies should be implemented in line with just transition principles. This should include specific metrics or objectives in relation, but not limited to employee training and development, green job creation, safeguarding workers' rights, support to affected communities, social dialogue, among others.

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