HSBC Asset Management (Fund Services UK) Limited

Taskforce on Climate-Related Financial Disclosure (TCFD) Annual Report 2024

June 2025

HSBC Asset Management

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

Matthew Higginbotham

Chief Executive Officer

Welcome to the first HSBC Asset Management (Fund Services UK) Limited (HAMF) Task Force on Climate-related Financial Disclosures (TCFD) Entity report.

Following the successful transition of the UK Authorised Corporate Director (ACD) responsibilities from HSBC Global Asset Management (UK) Limited (HSBC AMUK) to HAMF in 2024, this is the first year HSBC Asset Management has published the Task Force on Climate-related Financial Disclosures (TCFD) Entity reports for both HSBC AMUK and HAMF.

The transition of ACD responsibilities to HAMF facilitates further independence between the management company (HAMF) and the investment manager (HSBC AMUK) for the UK domiciled fund range.

This HAMF TCFD Entity report will provide information about the climate impact and risks of all funds overseen by HAMF.

TCFD is an important framework for understanding and analysing climate-related risks, and HAMF is committed to regular, transparent reporting to help communicate and track our progress.

Over the course of 2024, HSBC Asset Management continued to develop its approach to climate-risk management, including:

- Further development of related investment management and metrics capabilities
- The continued review and refinement of existing Thermal Coal and Energy policies both of which are aimed at supporting our transition commitments
- Enhancing our control framework to avoid exposure to reputational / greenwashing risks and increase the resilience of our clients' investments
- Continued work on the implementation of the Financial Conduct Authority's (FCA) Sustainability Disclosure Requirements (SDR)
- Making enhancements to the way we oversee the sustainability credentials of the investments we make including an internal framework to define and classify the net zero alignment of companies
- The introduction of sustainability client reports for some of our ESG and sustainable strategies
- The development of a climate offering to enable us to meet client needs and a net zero stewardship toolkit to guide engagements and set objectives

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

Compliance Statement

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

Reflection

The Fund Management industry has continued to evolve, ensuring it can meet increasing sustainability regulatory developments. HAMF has been committed to working in collaboration with regulators, our peers and our clients to navigate this transition.

As we continue to make progress improving the quality and disclosure of our climate data, I hope the HAMF TCFD Entity report provides you with comprehensive information regarding the climate impact and risks of all assets managed by HAMF.

Thank you for your continued confidence in HSBC Asset Management as your trusted partner for investments.

Best wishes,

Matthew Higginbotham

Introduction

Purpose of this report

The Financial Stability Board created the TCFD framework in 2015 to improve and increase reporting of climate-related financial information. It aims to develop consistent climate-related financial disclosures that are useful to investors in understanding material climate-related information, risks and opportunities. The purpose of this report is therefore to provide investors with information on how HAMF takes climate-related risks and opportunities into account in managing or administering investments on behalf of clients.

The scope of this report covers assets managed by HSBC Asset Management (Fund Services UK) Limited, for the reporting period 1 January 2024 to 31 December 2024 (these assets were managed by HSBC Global Asset Management (UK) Limited as the previous ACD until 29 July 2024).

Its content is based on TCFD recommendations and the Financial Conduct Authority's (FCA) ESG sourcebook.

This report is relevant for individual and institutional investors as well as professional advisors. TCFD product reports are also published for products where HAMF is the Authorised Corporate Director.

Throughout this report we refer to activities of HAMF and our parent HSBC Global Asset Management Limited (HSBC AM), both of which form part of HAMF's approach to climate and sustainability. Depending on the context, 'we' means either or both HAMF or HSBC AM. HAMF shares policies and principles with the wider HSBC AM business, while respecting local regulatory requirements.

Sections in this report

This report is structured in four sections, in line with TCFD recommendations:

1. **Governance section**
   Here we discuss HAMF's governance around climate-related risks and opportunities.

2. **Strategy section**
   Here we discuss the actual and potential impacts of climate-related risks and opportunities on HAMF's business, strategy and investment management.

3. **Risk Management section**
   Here we discuss the processes used by HAMF to identify, assess and manage climate-related risks.

4. **Metrics and Targets section**
   Here we share the metrics and targets used to assess and manage relevant climate-related risks and opportunities.

To aide understanding of technical terminology within the report, we have included a glossary to provide more information on the abbreviations and technical terms used throughout the report.

Following HSBC's announcement to simplify the Bank's organisational structure and accelerate the delivery of its strategy on 5 December 2024, HSBC Asset Management will also transition to a simpler, more agile organisational structure to drive our strategy into the future. All relevant changes will be reflected in our future disclosures accordingly.

HSBC Asset Management's Net Zero Targets

HSBC AM's approach to addressing climate-related risks and opportunities is guided by our responsible investment policies and Net Zero Asset Managers (NZAM) commitment. 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. These may differ from the approach taken by HSBC Group in its financing and advisory activities, which involve different client obligations and information availability.

Our lead entity HSBC Global Asset Management Limited is a signatory to the Net Zero Asset Managers initiative. It has an interim target of reducing Scope 1 and 2 financed emissions intensity by 58%[1] between 2019 and 2030 for its in scope assets under management (AuM), consisting of listed equities and corporate fixed income managed within its major investment hubs. As of 31 December 2019, in scope assets amounted to USD193.9 billion, equating to 38% of global AuM. Our targets remain subject to consultation with stakeholders including investors and fund boards on whose behalf we manage the assets. Where we refer in this report to our NZAM commitments, it is to the commitments set out in this paragraph.

On 13 January 2025, the Net Zero Asset Managers (NZAM) initiative launched a review of the initiative. As the initiative undergoes this review, it is suspending activities to track signatory implementation and reporting. We are following closely and engaging on the review.

1. The 58% target is based on assumptions for financial markets and other data, including the IEA Net Zero emissions by 2050 scenario and its underlying activity growth assumptions. Carbon emissions intensity is measured as tonnes of carbon dioxide equivalent per million USD invested (tCO_2e/USD m invested), where emissions are scaled by enterprise values including cash.

HSBC Asset Management's sustainability business strategy

At HSBC Asset Management, we are committed to serving our clients to achieve their investment objectives. We offer international expertise and innovative investment opportunities to support these goals. We have designed and implemented a framework to offer a range of investment strategies and solutions, which include sustainability considerations alongside investment performance objectives.

Recognising that sustainability issues, including climate-related risks, may have a material effect on the risk profile and financial performance of companies and countries over various investment time horizons, we are incorporating sustainability issues into our investment analysis and decision making processes. We seek to assess significant climate-related risks where applicable, amongst other risks, which may impact the value of our clients' investments.

At the same time, we also recognise the potential investment opportunities arising from the transition to a more sustainable economy, for example, new technologies and infrastructure projects in climate-related areas. We seek to develop new investment capabilities to deliver investment performance, alongside the potential to contribute to more sustainable outcomes.

Assets under Management (AuM)

Figures as at 31 December 2024

HAMF – AuM

USD 69 bn

USD7.7bn (11.1%) of HAMF's AuM, was in ESG and sustainable strategies[1]

HSBC AM – AuM

USD 731 bn

HAMF's ESG and sustainable AuM represented 4.3% of HSBC AM's total ESG and sustainable AuM

HAMF operate and manage a range of investment solutions which do not have a specific climate-focused, ESG and/or sustainable objective. These account for circa 89% of HAMF's AuM as at the end of December 2024. These investment solutions offer exposure to traditional asset classes such as equities and fixed income. They are managed to various core strategies including index tracking, multi-factor and multi-asset.

While these investment solutions do not have a specific climate, ESG and/or sustainable objective, they are, where possible, managed in line with our responsible investment policy.

1. ESG and sustainable AuM, as defined in Section 2.1 of the HSBC Sustainable Finance and Investment Data Dictionary 2024. The definition of ESG and sustainable investment strategies is based on HSBC ESG and Sustainable Investing Framework. This approach is an HSBC internal classification approach used to establish our own ESG and sustainable investing criteria (recognising the subjectivity inherent in such approach and the variables involved) and promote consistency across asset classes and business lines where relevant and should not be relied on externally to assess the sustainability characteristics of any given product. There is no single global standard definition of, or measurement criteria for, ESG and sustainable investing or the impact of ESG and sustainable strategies.

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

In preparing the information contained in this report, we have made a number of key judgements, estimations and assumptions, and the processes and issues involved are complex. We have used ESG (including climate) data, models and methodologies that we consider, as of the date on which they were used, to be appropriate and suitable to understand and assess climate change risk and its impact, to analyse emissions, to set sustainability-related targets and to evaluate the classification of sustainable investments. However, these data, models and methodologies (including third party proprietary estimation models, methodologies, assumptions, techniques and model data inputs that are not made public) are often new, are rapidly evolving and are not of the same standard as those available in the context of other financial information, nor are they subject to the same or equivalent disclosure standards, historical reference points, benchmarks or globally accepted accounting principles. In particular, it is not possible to rely on historical data as a strong indicator of future trajectories in the case of climate change and its evolution. Outputs of models, processed data and methodologies are also likely to be affected by underlying data quality, which can be hard to assess and we expect industry guidance, market practice, and regulations in this field to continue to evolve. We also face challenges in relation to the lack of consistency and comparability between data that is available and the use of proprietary models, estimates and proxies by data vendors to address gaps in data from issuers. Consequently, the information and ESG metrics disclosed in this report carry an additional degree of inherent risk and uncertainty.

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

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

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

- **Climate change projection risk:** this includes, for example, the evolution of climate change and its impacts, changes in the scientific assessment of climate change impacts, transition pathways and future risk exposure and limitations of climate scenario forecasts
- **ESG projection risk:** ESG metrics are complex and are still subject to development. In addition, the scenarios employed in relation to them, and the models that analyse them, have limitations that are sensitive to key assumptions and parameters, which are themselves subject to some uncertainty, and cannot fully capture all of the potential effects of climate, policy and technology-driven outcomes
- **Changes in the sustainability regulatory landscape:** this involves changes in government approach and regulatory treatment in relation to sustainability disclosures and reporting requirements, and the current lack of a single standardised regulatory approach to sustainability across all sectors and markets
- **Variation in reporting standards:** sustainability reporting standards are still developing and are not standardised or comparable across all sectors and markets, new reporting standards in relation to different ESG metrics are still emerging
- **Data availability, accuracy, verifiability and data gaps:** our disclosures are limited by the availability of high-quality data in some areas and our own ability to timely collect and process such data as required. Even the most recent available data obtainable from vendors may relate to underlying data for periods earlier than the year ended 31 December 2024. Where data is not available for all sectors or consistently year on year, there may be an impact to data quality. While we expect data quality to improve over time, as issuers continue to expand their disclosures to meet growing regulatory and stakeholder expectations, there may be unexpected fluctuations within sectors year on year, and/or differences between the data quality across varied sectors. Any such changes in the availability and quality of data over time, could result in revisions to reported data going forward, meaning that such data may not be reconcilable or comparable year-on year
- **Developing methodologies and scenarios:** the methodologies and scenarios HAMF uses to assess emissions and set sustainability-related targets may develop over time in line with market practice, regulation and/or developments in science, where applicable. Such developments could result in revisions to reported data, including on emissions or the classification of sustainable investments, meaning that data outputs may not be reconcilable or comparable year-on year.

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

Governance

HAMF Board oversight of climate-related risks/opportunities

HAMF has designed and built its governance structure to meet, and account for, its regulatory responsibilities and industry best practices for an organisation of its scale. Good governance is designed to be at the core of how HAMF conducts business. The corporate governance framework lets the HAMF Board integrate climate-related risks and opportunities into its governance where relevant.

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

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

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

In 2024, the Board reviewed and approved the adoption of the updated HSBC AM Thermal Coal Policy and HSBC AM Energy Policy both of which support HSBC Group's net zero ambitions.

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

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

The HAMF Board Risk Committee

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

The Committee is responsible for overall oversight of HAMF's risk management framework and for reviewing top and emerging risk and escalations from the HAMF 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
- Head of Financial Crime Compliance and Internal Audit

The Committee meets as required, and at least quarterly.

HAMF Board oversight of climate-related risks/opportunities

The HAMF Risk Management Meeting (RMM)

The HAMF 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 HAMF RMM extends to the entire business of HAMF.

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

The RMM reviews the Sustainability Assurance Dashboard on a quarterly basis.

The HAMF Local Management Committee (LMC)

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

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

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

The HAMF 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 sustainability risks are considered where relevant.

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

HAMF Governance and Accountability Structure

	Mandate	Scope	Key membership	Frequency
1 HAMF 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 HAMF is fulfilling its obligations and is acting in the interests of clients at all times.	Chief Executive Officer (CEO), Chief Investment Officer (CIO)	Quarterly
2 HAMF 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 Non-Executive Director (NED). Also attended by CEO, Chief Risk Officer (CRO), Head of Regulatory Compliance and Head of Financial Crime Compliance	Quarterly
3 HAMF 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 HAMF operates, analysing the possible risk impact and addressing these risks accordingly.	Sets the HAMF 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.	CEO, CRO, Chief Financial Officer (CFO), CIO, Chief Operating Officer (COO), Head of Regulatory Compliance and Head of Financial Crime Compliance	Minimum 6 times a year
4 HAMF Local Management Committee (LMC)	Responsible for business oversight, monitoring and stewardship for HAMF and to drive business development and providing due consideration to local board and corporate management.	Where HAMF acts as the manager and/or distributor to approve proposals with global alignment to sustainability policies (eg thermal coal, energy policies), helps identify engagement priorities/themes, approve engagement plans, industry involvement, addresses controversial issues.	All HAMF Executive SMFs*	Minimum 6 times a year
5 HAMF New Business Committee (NBC)	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 HAMF is acting as the Authorised Corporate Director.	CEO CRO CIO Head of Product and Senior Compliance Manager	Minimum 6 times a year

Associated Bodies

HSBC AM Sustainability Forum (SF)

- Approval of responsible investment strategy, standards, policies and oversight of assurance and programme delivery
- Members: Global CEO, Sustainability Office, Global CIO, Global Head of Responsible Investment, Alternatives CEO, Global Head of Legal, Global Chief Risk and Compliance Officer, HAMF CEO

HSBC AM ESG Investment Committee (ESG IC)

- Highest responsible investment approval committee, responsible for alignment with responsible investment policies, ESG integration, escalations, engagement oversight, product sign-off
- Members: Global CIO, HAMF CIO, Asset Class CIOs, Global Head of Stewardship, Global Head of Responsible Investment

* SMF – Senior Manager Function (FCA Senior Managers and Certification Regime).
This structure was in place during 2024 and is currently under review and subject to change in 2025.

Sustainability Governance and Management Oversight

HSBC AM's sustainability governance framework is structured to provide ongoing strategic oversight and accountability, effective decision making, assurance and delivery across the key components of our responsible investment activities, including oversight on climate-related topics.

Responsible Investment activities are overseen globally by senior-level governance bodies. Senior management are accountable for strategy and execution on sustainability-related matters across the HSBC Asset Management business. 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. The senior-level governance bodies are supported by management-level sub-committees responsible for overseeing the delivery of our sustainability strategy and responsible investment activities, including HSBC AM's climate change investment strategy.

Senior-level sustainability governance bodies

Governance Body/Committee	Responsibilities
ESG Investment Committee (ESG IC)	◆ Senior investment decision making body overseeing implementation and execution of our responsible investment strategy and policies, including stewardship ◆ The ESG IC has oversight of all asset class specific ESG Committees. It monitors investments made by the asset classes, validates new ESG and Sustainable products, and assesses issues escalated by the asset class committees ◆ The committee typically meets monthly and forms part of the management structure of the global investment function ◆ Members include, but are not limited to, the asset class Chief Investment Officers (CIOs), Global Head of Stewardship, and Head of Risk ◆ **Co-Chairs:** Global Chief Investment Officer (CIO) and Global Head of Responsible Investment
Sustainability Forum (SF)	◆ The SF sets HSBC AM's overarching sustainability strategy, policies, and standards, and oversees ongoing alignment across our responsible investment activities ◆ The scope and remit of the SF extends to all HSBC AM businesses, subject to any necessary local entity and fund board approvals ◆ The SF typically meets monthly. It is a sub-committee of the HSBC AM Global Risk Management Meeting ◆ Members include a sub-set of our global senior leadership team responsible for overseeing and monitoring HSBC AM's responsibilities regarding sustainability, responsible investment and stewardship ◆ **Chair:** Head of Sustainability
Alternatives Sustainability Oversight Committee	◆ The Alternatives Sustainability Oversight Committee oversees the ESG practices and alignment with policies. It is responsible for alignment with RI Policy, escalations and best practice cross fertilisation ◆ **Chair:** Head of Responsible Investment and Strategy Execution, Alternatives

Sustainability Governance and Management Oversight

Management-level committees that have oversight on climate-related topics

Management Committee	Responsibilities
Sustainability Assurance and Delivery SteerCo (SADS)	◆ SADS is a sub-committee of the SF. It acts as the oversight forum for the delivery of priority initiatives set by the SF ◆ SADS is responsible for implementing the assurance framework to ensure we identify, assess, manage, monitor and report on sustainability risks. It works with the business to deliver policies, commitments and initiatives into the wider investment platform ◆ SADS escalates to SF and to RMM where it is unable to resolve any issues or that may cause conflict with the overall Sustainability Strategy ◆ The SADS meets at least eight times a year ◆ **Chair:** Head of Sustainability Advocacy and Assurance
Climate Investment Committee (CIC)	◆ The CIC is a sub-committee of the ESG IC ◆ The committee oversees the development and implementation of HSBC AM's climate change investment strategy, ensuring climate considerations and commitments are embedded across the investment platform where relevant ◆ It is the central point of tracking progress made against our roadmap, with workstreams across climate research and data, product and solutions, and engagement in place to mobilise the plan ◆ **Chair:** Global Head of Responsible Investment
Stewardship Committee	◆ The Stewardship Committee is a sub-committee of the ESG IC ◆ It oversees the implementation and delivery of HSBC AM's Stewardship Plan, Global Voting Guidelines and stewardship aspects of policies across the investment function ◆ It provides guidance to internal stakeholders on stewardship matters and thematic priorities, sharing market and industry best practices where relevant ◆ This committee meets at least quarterly ◆ **Chair:** Global Head of Stewardship
Sustainable Portfolio Review Committee	◆ The Sustainable Portfolio Review Committee oversees alignment of HSBC AM's ESG and sustainable portfolios against HSBC Group ESG and Sustainable Investing framework and relevant regulatory requirements
Asset Class ESG Committees	◆ The Asset Class ESG Committees oversee the ESG integration across asset classes, including active equity, fixed income, liquidity, quantitative equity, passives and multi-asset ◆ The committees typically meet monthly
Virtual Sector Teams (VSTs)	◆ VSTs have been set up to capture sector specific knowledge across certain asset classes and geographies. These teams bring together responsible investment analysts, Stewardship team, credit and equity analysts based in different regions ◆ VSTs are responsible for conducting sector research, overseeing ESG checklists, and aligning our engagement activities with high-risk issues, which makes them a key component of our ESG integration framework
Local management structures and fund supervisory bodies	◆ They adopt policies and receive sustainability-related reporting relevant to their responsibilities. For our main UK regulated business, our governance of sustainability risks and issues has been enhanced by the inclusion of sustainability as an agenda item on key business committees

This structure was in place during 2024 and is currently under review and subject to change in 2025.

Sustainability Governance Structure

Senior-level committees and sub-committees overseeing responsible investment activities

ESG Investment Committee

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

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

Sustainability Forum

Provides oversight for delivery of AM's Sustainability Strategy through review and approval of various matters, including approval of Sustainability Policies, Corporate Pledges and Business Standards. Also provides assurance on sustainability risks

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

Alternatives Sustainability Oversight Committee

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

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

	Mandate
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
Stewardship Committee	Oversee alignment to sustainability policies and implementation of stewardship commitments across investment function, approve engagement plans, facilitate/address controversial issues
Sustainable Portfolio Review Committee	Oversee alignment of ESG and sustainable portfolios against SRI Group Definitions and regulatory requirements. Validate compliance to SRI restrictions and tail risk policy
Asset Class ESG Committee(s)	Implement and review ESG Integration, monitor risks and engagement progress, oversight and approvals, engagement coordination
Virtual Sector Teams[2]	Oversee the development of sector materiality checklists and ESG scoring, conduct sector reviews, identify high risk issues, formulate engagement questions, supervise ESG overrides

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

Source: HSBC Asset Management, as of December 2024. For illustration only. Arrows denote flow of information or reporting. For illustration only. This structure was in place during 2024 and is currently under review and subject to change in 2025.

Embedding sustainability across our business and investments

HSBC AM's responsible investment activities are supported by our Responsible Investment (RI) teams.

The Responsible Investment team is responsible for:

- ESG integration (standards, best practices and implementation) throughout our investment activity for traditional asset classes
- Stewardship activities
- Developing new ESG and Sustainable products and solutions

For more information, please refer to "Resources and tools to monitor climate-related risk" in the Risk Management section of this report.

Strategy

Climate-related risks and our strategic response

HSBC AM's responsible investment policies set out our approach to key sustainability issues in our investment activity. This includes explaining how our approach to climate-related risk is based upon our clients' investment interest, as well as meeting their interest in transitioning to a low carbon economy.

There are two major categories of climate-related risk: risks related to the physical impacts of climate change (physical risks) and risks related to the transition to a lower-carbon economy (transition risks).

Our categorisation of each climate-related risk is as follows:

Physical Risk

Physical risks resulting from climate change can be event driven (acute) or longer-term shifts (chronic) in climate patterns. Physical risks may have financial implications for an issuer, such as direct damage to assets and indirect impacts from supply chain disruption. Issuers' financial performance may also be affected by changes in water availability, sourcing, and quality; food security; and extreme temperature changes affecting issuers' premises, operations, supply chain, transport needs, and employee safety.

We acknowledge that physical risk can negatively impact the entities in which we invest either directly (eg damage to assets) or indirectly (eg via supply chains). Further impacts can arise through changes to the availability of key inputs such as water, food and/or negative impacts to employee safety. This list is not exhaustive.

Transition Risk

Transition risk refers to the risk of being impacted by the global shift towards a low carbon economy. We may consider:

- Climate-related policy/regulatory changes (emission regulations, carbon pricing)
- Technology advancement and the fact of staying behind with loss of competitiveness
- Shifts in market preferences
- Opportunities born out of the changes required to meet the transition to a low carbon economy. Policy risks and technology opportunities are both labelled as transition risks

In considering our climate strategy, we seek to consider these two types of climate-related risks across our strategy and investment platform. We believe both transition risk and physical risk will impact society, the operating environment and the value of our investments, if not managed well. These impacts will vary depending on different factors such as location and type of industry. We recognise that sustainability taxonomies are not consistent globally, and evolving taxonomies and practices could result in revisions in our reporting going forward.

We also consider climate-related opportunities alongside risks. Climate opportunities can arise from activities to support climate mitigation and adaptation, as well as from managing climate-related risks. Mitigation refers to reducing the cumulative greenhouse gases into the atmosphere, like cutting greenhouse gases from main sources such as power plants, factories, etc[1]. Adaptation refers to physical and non-physical solutions that substantially reduce the most important physical risks[2]. We see mitigation and adaptation manifesting across a range of activities, including the adoption of lower-carbon energy sources, the development of technologies to support resource efficiency and cost-savings, more circular business models, new products and services that support a lower-carbon economy, and activities that support climate resilience across physical infrastructure and supply chains.

1. Climate Mitigation as defined by the EEA
2. https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32023R2485

Climate-related risks and our strategic response

Identifying transition risk

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

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

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

1. **Policies and associated exclusions –** set out our approach on sustainability issues, including climate transition, and how we identify companies which are considered to have high transition risk. For example, our thermal coal policy aims to phase out actively managed listed holdings exposed to thermal coal mining and power generation by 2030 in EU/OECD markets and 2040 in other markets. We believe this will help us to manage our transition risk.

2. **Climate research –** where applicable, we assess and manage climate-related risks and opportunities by leveraging our research capabilities to assess issuers with high transition risks leveraging Climate Value at Risk (cVaR). We can also measure and classify the net zero alignment of companies based on our views and guidance from the Institutional Investors Group on Climate Change Limited's (IIGCC) Net Zero Investment Framework.

3. **Product development –** where relevant, assessment of climate-related risks and opportunities informs our product development. This is done through our climate assessment of issuers and portfolio construction where we screen companies, set specific standards and parameters for ESG and climate metrics across ESG and sustainable portfolios. For example, our funds with low carbon objectives are managed with consideration of low carbon intensity investments compared to their benchmark. For ESG and sustainable strategies, additional and relevant sustainable metrics or factors can be embedded in the investment process. For example, climate metrics such as Carbon Intensity, Implied Temperature Rise (ITR), and the internal Net Zero Investment Framework (NZIF) classifications have been analysed and can be included in portfolio construction to cater to a range of client.

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

5. **Product disclosures –** Our UK TCFD product reports show each product's carbon intensity and exposure to six of the highest transition risk sectors.

6. **Business targets –** through the tracking of the flow of our AuM into ESG and sustainable assets through new and existing portfolios.

Climate-related risks and our strategic response

Identifying physical risk

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

To support this, we are increasingly integrating physical risk considerations into investment decision making tools that support our risk management processes, beginning with Climate Value at Risk (cVaR). This work aims to provide investment teams with access to both traditional backward looking carbon metrics and forward-looking scenario analysis estimates related to physical risk for relevant HSBC AM funds. We have a climate assessment process which aims to understand which companies are exposed to the highest physical risk across our listed equity and corporate fixed income holdings. We identify high risk companies with a high score for Physical Risk cVaR, flagging those companies with the highest costs due to physical acute and chronic weather events related to climate change. Once those companies are identified, we perform an assessment of the company's alignment to a 2050 net zero pathway. The outcomes of these assessments are communicated to relevant investment teams to inform them of the types of climate-related risks within these issuers.

For more quantitative climate-related scenario analysis on our HAMF AuM, refer to the section on 'Metrics and Targets'.

Climate-related risks and our strategic response

Climate-related risk time horizons

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

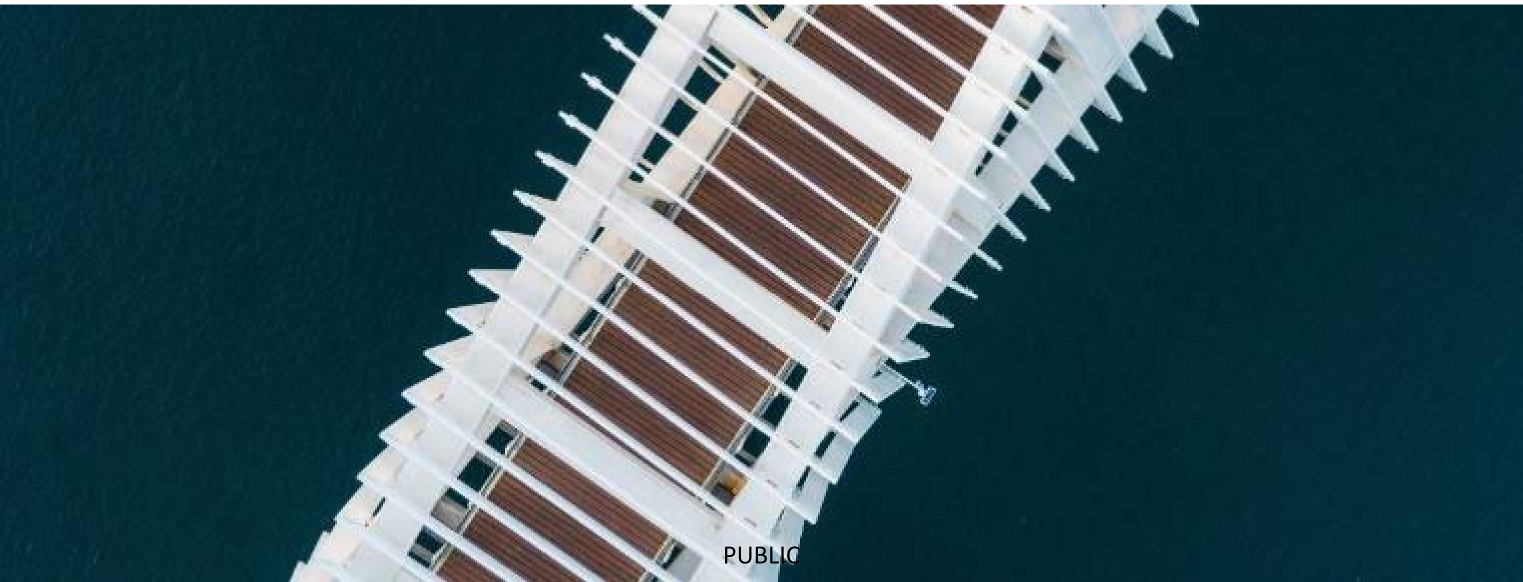
- Short-term → **Up to 2030**
- Medium-term → **2030-2040**
- Long-term → **2040-2050**

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

Climate-related orderly transition risk strategy

We are working to position our business towards an orderly climate transition scenario that would limit global temperature increase to well below 2°C, aligned with efforts to limit the temperature increase to 1.5°C. However, we recognise that under the policies already announced by governments by the time of COP26 in 2021, the Intergovernmental Panel on Climate Change believed it was likely that warming will exceed 1.5°C during this century and that it would be harder to limit warming well below 2°C if no additional commitments were made or actions taken[1]. Under the Paris Agreement, each country as a Party to the agreement must submit its Nationally Determined Contribution (NDC) for its emissions reduction to the United Nations Framework Convention on Climate Change (UNFCCC) every 5 years, ahead of the relevant COP. Each successive NDC is meant to reflect an increasingly higher degree of ambition compared to the previous version.[2]

1. Source: IPCC Sixth Assessment Synthesis Report, March 2023.
2. https://unfccc.int/process-and-meetings/the-paris-agreement



Climate-related risks and our strategic response

HAMF seeks to address the climate-related transition and physical risks identified as set out in the following table:

Risk	Risk description	Potential impact on issuer	HAMF strategy to mitigate risks with issuers	Timeframe
Transition	Cost from regulatory and governmental penalty for high carbon activity and/or support for low carbon activity	Potential regulatory penalty/fine and increased cost without transition to low carbon activity	◆ We have front-office tools to support portfolio analysis and monitoring to identify high-carbon assets ◆ We have a documented process in place which covers the end-to-end lifecycle of the implementation of all new regulatory change that may impact HSBC Asset Management, this includes relevant climate-related regulations ◆ Where applicable we seek to align our investments with our commitments and policies; including net zero, phasing out of actively managed holdings in thermal coal (by 2030/40) and assessing transition plans of the largest oil and gas and utilities greenhouse gas emitters in our portfolios	Short-term: 2030 Medium-term: 2030-2040
			◆ Our objective is to grow strategies that consider sustainability and climate-related risks and opportunities adherent to our criteria as referenced by our ESG and Sustainable Investing Framework. Our ESG and sustainable strategies include funds and mandates which are compliant with EU Sustainable Finance Disclosure regulation (SFDR) Article 8/9 and ESMA fund naming rules ◆ We aim to grow products with long-term climate objectives (eg, Paris-aligned). Generally, 'Paris-aligned' refers to activity that is consistent with the Paris Agreement	Long-term: Up to 2050
	Cost to replace high carbon emitting products with low ones	Increased costs from stranded high carbon assets and inability to continue activity with low carbon alternative	◆ We research and track high carbon issuers as part of our thermal coal policy and energy policy using metrics such as coal revenues and emissions intensity. These metrics enable us to monitor the degree to which coal and other emission intensive activities are material to issuers and therefore the potential current and future risk they may face with regards to transition ◆ We have a climate assessment process to identify which issuers are exposed to the highest transition risk	Short-term: 2030
			◆ Our commitment to growing our ESG and sustainable AuM is integrated within our investment strategy. We seek to include the latest approaches to integrating climate risk within our investment decision making and reduce the risk of having exposure to stranded assets	Medium-term: 2030-2040

Climate-related risks and our strategic response

HAMF seeks to address the climate-related transition and physical risks identified as set out in the following table:

Risk	Risk description	Potential impact on issuer	HAMF strategy to mitigate risks with issuers	Timeframe
Transition	Changing consumer demand from individuals preferring low carbon, sustainable products	Impact on product demand due to shift in client preferences and potential future declining profits for investee companies that continue to sell high carbon or non-sustainable products	◆ We acknowledge that our clients are at different stages of their decarbonisation journey. We have developed a climate offering which is designed to meet clients' specific objectives, preferences and constraints wherever they are on the decarbonisation journey ◆ We undertake structured independent feedback with key clients (institutional and wholesale distributors) via our client insights programme. This includes feedback on the quality of our products, propositions and client service across three areas – people, processes and product. We also use external consultant surveys to better understand client segment preferences and investment product trends ◆ Additionally, we hosted a series of roundtable sessions with our clients to share our overall plan and our focus themes. We look forward to continuing to exchange views with our clients including their stewardship priorities, growing areas of focus, concerns and challenges ◆ Active ownership, through engagement and global proxy voting, is a key pillar of our approach to responsible investment. We meet with issuers regularly to improve our understanding of their business and strategy, signal support or concerns we have with management actions and promote best practice. We engage with carbon-intensive issuers to encourage climate–resilient business strategies	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	◆ Our investment teams use tools and data sources to flag issuers that are involved in activity that goes against our support for climate action, or issuers that have been exposed to climate-related controversy ◆ We have an engagement strategy for priority issuers based on their contribution and materiality to HSBC AM's financed emissions (typically the top emitting issuers) and by setting company level engagement plans. This approach will enable us to support issuers along their transition journey	Short-term: 2030 Medium-term: 2030-2040 Long-term: 2050

Climate-related risks and our strategic response

HAMF seeks to address the climate-related transition and physical risks identified as set out in the following table:

Risk	Risk description	Potential impact on issuer	HAMF strategy to mitigate risks with issuers	Timeframe
Physical	Increased frequency and severity of weather events causing disruption to business operations (Acute physical risks) Longer-term shifts in climate patterns (eg sustained higher temperature, sea level rise, damage to ecosystems, shifting monsoons or chronic heat waves) (Chronic physical risks)	Increased costs due to disruption to business operations and cost to mitigate or adapt to changing weather for investee companies	◆ We view physical risk exposure of our assets as building over time so instead our overall climate risk strategy towards physical risk is currently preventative - working to reduce greenhouse gas emissions will limit the increase in physical risk exposure, compared to taking no action ◆ We have a climate assessment process to determine the exposure of our investments to the physical risks of climate change. For further details on this process, please refer to "Identifying issuers exposed to highest transition and physical risks" ◆ We also understand that nature and climate change go hand in hand, interacting in many complex ways. For instance, nature can play an integral role as part of the net zero transition through nature-based solutions aimed at removing carbon from the atmosphere; whilst climate change itself is a key driver of nature and biodiversity loss, impairing the potential for nature led carbon removal. We are working to incorporate nature and biodiversity-related risks into relevant investment activities. To identify companies with potentially high biodiversity risks we utilise several biodiversity triggers, including controversy flags and data indicators based on sectors with high biodiversity impacts and risk exposures. A subset of these companies is subject to ESG Due Diligence to consider the potential impact of nature-related risks on the financial performance of the company ◆ We have access to multiple data sources including Iceberg Data Labs which provides the Corporate Biodiversity Footprint (CBF) indicator[1]	Short-term: 2030 Medium-term: 2030-2040 Long-term: 2050

ESG Due Diligence

Due diligence is part of our research and governance process designed to address and manage sustainability risks associated with issuers in our traditional and sustainable active fundamental investment strategies. For instance, due diligence may be triggered by issuers in breach of our policies or risk thresholds, or if they do not meet the minimum requirements of an HSBC AM fund or product. Once due diligence has been conducted, a range of follow-up actions may be considered, including whether the issuer can remain in the portfolio.

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

Climate-related risks and our strategic response

Scanning the universe for climate-related risks and opportunities

Net zero alignment assessment of issuers

We have been strengthening our climate transition metrics into our product strategies, where relevant, in order to support our net zero commitment and our clients' objectives. In supporting this ambition, we have developed an internal alignment framework which assesses companies on their progress towards interim and longer-term net zero targets. This framework defines and classifies the net zero alignment of companies, based on relevant climate data, our insights on a company from our research and engagement, and guidance from the IIGCC's Net Zero Investment Framework (NZIF). Issuers are classified into different categories of alignment, from not aligned to achieving net zero. This framework is applied at the issuer level and represents progressive steps towards alignment with a net zero pathway.

For further details on this net zero alignment assessment, please refer to "Net Zero alignment analysis and other climate metrics" in the Metrics and Targets section.

Identifying issuers exposed to highest transition and physical risks

When assessing the impact of climate-related risks, we are increasingly considering both physical and transition risks. As a result, we have integrated climate analysis where relevant to help ensure that risks faced by companies are considered throughout the investment decision making process. Investment teams – through portfolio management tools – assess, examine, and determine the level of potential climate-related risks that could impact the current and future value.

In 2024, we have developed a climate assessment process which aims to understand which companies are exposed to the highest transition and physical risks. We leveraged MSCI Climate Value at Risk (cVaR) and Implied Temperature Rise (ITR) scores for companies held within our active equity, systematic listed equity and corporate fixed income portfolios. Once those companies are identified, we perform a detailed assessment of the company's alignment to a 2050 net zero pathway.

This process aims to establish whether a company's commitments, targets and activities are in line with limiting global temperature increase to 1.5 degrees. This framework is based on the industry recognised Net Zero Investment Framework 2.0[1]. The rationale for the comprehensive climate assessment is to establish whether the company has plans to transition its own business model. In addition, we also aim to assess whether the company has considered transition and physical risks to its own operations and whether it has a strategy to deal with these climate risks in place for various climate scenarios.

The outcomes of these assessments are communicated to relevant investment teams to inform them of the types of climate-related risks within these issuers. The launch of climate-specialised strategies emphasiing the energy transition and clients' requests have spurred more work in this area.

1. https://www.iigcc.org/net-zero-investment-framework

Climate-related risks and our strategic response

Identifying climate solutions leaders

Climate opportunities are also considered within the sustainability assessment of issuers we carry out for our ESG and sustainable products. We consider ESG and sustainable leaders as issuers that contribute positively to environmental and/or social outcomes, including climate-related outcomes. One way we currently assess whether an issuer is leading on ESG or sustainability is via our Sustainable Investment methodology as defined by the Sustainable Finance Disclosure Regulation (SFDR). Measuring a sustainable investment is typically through an assessment of the positive contribution on sustainable outcomes while complying with Do No Significant Harm (DNSH) and good governance practices.

Our methodology for measuring positive contribution has evolved from seeking historical revenue alignment to UN Sustainable Development Goals (SDGs), towards a more holistic view that also considers the compatibility of business models, operational activities and ambitions. These broader factors enable us to better assess the company's commitment and actions to address the climate challenge.

The methodology considers three key pillars within its assessment of positive contribution (i) sustainable products and services typically measured via revenues (ii) sustainable strategic business alignment typically focused on sustainability of business models (iii) green, social and sustainable bonds. Climate-related considerations are included across each – whether climate-related revenues, business models, or through specific issuances designed to support climate-related outcomes.

The DNSH principle entails assessing whether an investment in an economic activity that contributes substantially to an environmental or social objective does not significantly harm any environmental or social objectives. Our approach includes taking into account the 14 mandatory Principal Adverse Indicators (PAIs) as well as applying additional exclusions. Most of the 14 mandatory PAIs are environmentally related: 9 of the 14 indicators address issues such as greenhouse gas emissions, non-renewable energy consumption and production, waste generation and biodiversity loss. We also exclude issuers with severe controversies, including those related to climate.

Investee companies are also expected to follow good governance practices, in particular with respect to sound management structures and ability to implement the strategy for achieving climate ambitions.

How our products incorporate climate-related risk and opportunity

Our climate strategies ("offering")

Many of our clients consider climate as a risk and opportunity within their investment portfolios. We recognise the consumer demand for funds offering different approaches to the management of climate-related risk, and this runs parallel to our net zero ambition.

Our climate strategies consider our net zero alignment classifications as well as other metrics, to meet a range of client's climate objectives. Climate metrics such as carbon intensity or green solutions are measured and assessed across many of the climate strategies.

Responsible investment opportunity

HAMF manages 4.3% of HSBC AM's total ESG and sustainable AuM as at 31 December 2024. Over time we seek to further develop our ESG and sustainable fund strategies. For example, we are considering climate critical strategies and themes such as climate technology and climate transition. We also have Paris Aligned strategies that seek to support net zero goals. We are bringing new propositions to the market for investors, including sustainable exchange-traded and actively managed funds and transition investment solutions. HSBC AM is further developing our ESG and sustainable product range across asset classes and strategies, as well as enhancing our existing ESG and sustainable products where there is investor interest.

In 2024, HSBC AM launched 12 new ESG and sustainable strategies. We offer a range of sustainable investment products across asset classes, including equities, fixed income, liquidity, discretionary and alternatives.

How our products incorporate climate-related risk and opportunity

Case Study 1

Navigating sustainability in emerging markets

In the emerging markets, there are many urgent sustainability risks and challenges. Many countries are significant carbon emitters while also experiencing some of the more devastating impacts of climate change. However, we believe emerging market issuers are uniquely positioned to drive progress towards a more sustainable and resilient future, as we believe they have the capability to capture technological opportunities and adopt operational best practices which have been initially applied globally.

To support the transition to a low carbon economy, we launched in 2024 the HSBC Global Funds ICAV Sustainable Development Bank Bonds UCITS ETF. The fund is passively managed, aligned to Article 9 of the EU SFDR, and designed to track as closely as possible the FTSE World Broad Investment-Grade USD Multilateral Development Bank Bond Capped Index. The index only includes multilateral development banks (MDBs) that are supranational institutions with mission statements that state the intent to promote sustainable economic development in developing countries, by financially supporting their sustainable development goals (SDGs), or by providing non-financial support for infrastructure development, such as policy advice or technical assistance. The index also excludes issuers classified as violating UN Global Compact (UNGC) principles. Finally, all issuers must have all of the G7 countries as members and also disclose that they have safeguard policies in place to mitigate and reduce environmental and social risks, otherwise they will be excluded.

What are multilateral development banks (MDBs)?

MDBs consist of member nations from developed and developing countries and are international institutions chartered by two or more countries. They aim to promote economic and social development, supporting projects typically in the form of loans and grants. Climate change is central to the focus of MDBs, as sustainable development and poverty reduction cannot be attained without climate action. In particular, MDBs are committed to promoting low carbon, resilient transition by setting climate action policies and by financing projects that reduce greenhouse gas emissions and enhance climate resilience. All projects are being assessed to ensure they are supporting the goals of the Paris Agreement and contribute into keeping the global temperature rise well below 2°C.

Looking Ahead

We continue to develop new and innovative climate-related investment solutions for our clients. We have set up a climate product working group to bring together key business subject matter experts across the business to continue to build out our product offering and ensure the latest thinking on climate-risk management is built into our investment processes. This working group reports into the Climate Investment Committee.

Our climate-related opportunities

In 2023, the UK's Financial Conduct Authority (FCA) published its Sustainability Disclosure Requirements (SDR) and then in 2024 the European Securities and Markets Authority (ESMA) published guidelines on Fund Naming Rules. Both provide their own separate requirements on the use of ESG or sustainability-related terms in the naming and marketing of UK and EU domiciled funds. These guidelines aim to protect investors from misleading claims and greenwashing.

Climate transition products

Investment products that use 'transition' or other ESG-related terms should have 80% of their investments in securities that meet environmental or social characteristics and exclude investments according to the EU's Climate Transition Benchmark, while the investments need to be on a clear and measurable pathway toward net zero.

The Responsible Investment team, in collaboration with investment teams, designed an internal framework to assess whether investments products are on a clear and measurable pathway toward net zero. Within this framework, we combine our assessments of net zero alignment as well as other climate-related risks and opportunities such as the proportion of investments in high impact sectors or green solutions. Transition strategies will typically need to demonstrate an intentionality to invest in assets meeting a credible transition pathway leveraging our internal net zero alignment framework.

Case Study 2

Paris-aligned strategies

Our MSCI Climate Paris Aligned ETFs provide a means of ensuring investors encourage companies to align their environmental strategies with the Paris Agreement. 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 our business and strategy

We highlighted our strategic response to climate-related risks earlier in this section. At HAMF, we also see climate positively impacting business strategy in a number of ways including:

Climate-related opportunities

Recognising the potential investment opportunities arising from the transition to a more sustainable economy, we seek to develop new investment capabilities to deliver investment performance, alongside the potential to contribute to more sustainable outcomes.

New asset classes

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

Investment governance and decision making for climate-related matters

Outside of the Responsible Investment team, our research platform comprises of equity and credit investment professionals who conduct risk and opportunity analysis to identify climate risks, assess their materiality on company/country business and financial profiles, and evaluate how these factors influence stocks and securities valuations.

The portfolio managers and analysts use the research output from the Responsible Investment ESG Research and Integration team in their portfolio research and analysis. They leverage our "ESG Materiality Framework" which includes a suite of ESG sector checklists and research, identifying for each sector and industry the most financially material climate-related issues and suggested engagement approaches. These outputs support investment teams in conducting issuer-level research, complementing fundamental research considerations. They also use third-party ESG research and data as well as HSBC internal scores where relevant to ensure that they have appropriate metrics to identify and manage climate risks and opportunities.

Information gathered from issuer engagement is also integral to the fundamental research process. Our equity and credit analysts and portfolio managers engage with issuers as part of the investment process and cover relevant climate-related issues in their research and discussions. The stewardship team also supports investment teams where possible.

Climate-related impact on our operations

Our company's operational climate impact is summarised and calculated at the HSBC Group level (see page 58 of HSBC Holdings plc's Annual Report and Accounts 2024).

How will our products meet our net zero objective

We initiated activities to support achievement of our net zero target, focused on engagement, issuer net zero alignment and embedding net zero alignment into investment considerations for our listed equity and corporate fixed income assets. As part of this, we are initiating key activities in developing 4 key levers to support climate implementation across our investment platform and our client portfolios. Implementation of these levers will depend on the investment strategy employed and investment time horizons, alongside the fund prospectus and/or client agreement. These four levers will help support embedding climate and net zero considerations into our product offering. This will enable us to build solutions to support our clients' objectives and our own net zero commitment to reduce the financed emissions intensity of 38% of our assets under management, covering listed equity and corporate fixed income managed within our major investment hubs, by 58% by 2030.

The four levers are as follows:

Assessment of issuer net zero alignment

Use of forward-looking indicators to assess issuers and portfolio progress towards net zero targets

Targeted engagement strategy

Engagement strategy for high-emitting issuers and progress tracking to support issuers along their transition journey

Levers of decarbonising client's assets alongside their transition journey

Direct capital towards climate solutions

Invest in strategies that meet a range of client specific climate objectives and preferences

Divestment

Direct away from issuers that take no action or are slow to adopt action

How will our products meet our net zero objective

Assessment of issuer net zero alignment

As described in "Scanning the universe for climate-related risks and opportunities", we have developed an internal alignment framework for measuring issuers progress towards net zero based on IIGCC's Net Zero Investment Framework.

Targeted engagement strategy

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

Our objective here is to guide engagement with companies, outline our expectations, and ultimately contribute to an improvement in the issuer net zero classification based on our internal framework. Through our engagements and the objectives we set, we encourage companies to be aligned or aligning with a net zero pathway.

As part of this, we set out our engagement expectations, sample engagement objectives and questions for each pillar of our internal net zero alignment framework as explained above.

Direct capital towards climate solutions

As referenced in "Our climate strategies", we have developed guidelines to support the design of our climate strategies. The climate offering will typically consider net zero alignment classifications as well as other climate metrics, to meet a range of client's climate objectives.

Divestment

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

Climate-related impact on financial plan and strategy

HSBC Asset Management recognises that climate-related risks may impact the operational and financial performance of investee companies. The impact of these risks will vary depending on characteristics such as asset class, sector, business model and geography. HSBC Asset Management continues to integrate climate analysis into its actively managed product offerings and seeks to assess climate-related risks that could impact investment performance, where applicable and relevant.

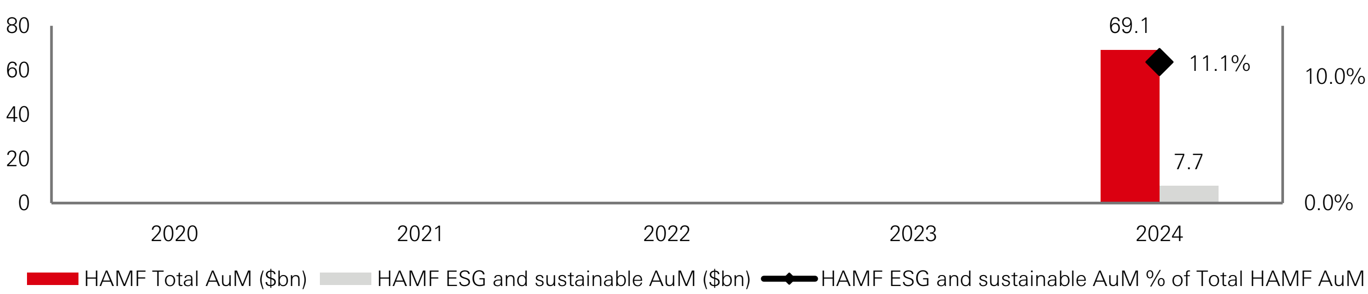
At the same time, we recognise the potential climate-related opportunities arising from the transition. We seek to develop new investment capabilities to help our clients' achieve their investment objectives, that may also address the climate-related issues that pose a systemic risk to the global economy.

We do not fully disclose impacts from climate-related risks and opportunities on financial planning and performance including on revenue, costs and the balance sheet, quantitative scenario analysis, detailed climate risk exposures for all sectors and geographies or physical risk metrics. This is due to transitional challenges in relation to data limitations, although nascent work is ongoing in these areas. We expect these data limitations to be addressed in the medium-term as more reliable data becomes available and technology solutions are implemented.

Our ESG and sustainable AuM represented 11.1% of HAMF's total AuM as at December 2024. Whilst our ESG and sustainable AuM calculation methodology has not changed since December 2020, in future it may change with evolving regulatory developments, including FCA's Sustainability Disclosure Requirements (SDR). The ESG and sustainable AuM across HSBC AM globally increased from 10.7% in 2023 to 24.6% in 2024 of HSBC AM's total AuM, largely due to re-categorising some liquidity products as ESG and sustainable AuM where they previously had not been included as such.

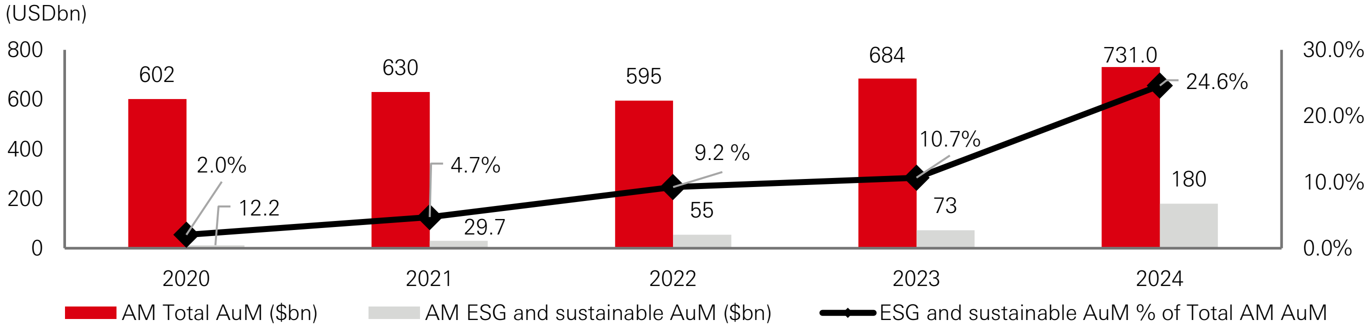
AuM and ESG and sustainable AuM – HAMF

(USDbn)



AuM and ESG and sustainable AuM – HSBC AM

(USDbn)



Risk Management

Risk Management Framework (RMF)

The HAMF Board has overall responsibility for ensuring that the RMF is adequate in light of the nature, scale and complexity of HAMF's business activities and setting the risk appetite. The RMF provides a comprehensive framework around managing risk, including climate risks. 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, including climate risks.
Assess the potential Impact.

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

HAMF 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.

Risk Management Framework (RMF)

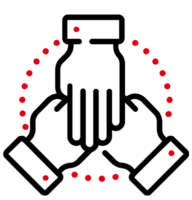
Three Lines of Defence

First line

Responsible for identifying, assessing and managing risks, and ensuring that the right policies, controls and assessments are in place to mitigate these risks.

Second line

Risk specialists (Risk Stewards) who provide subject matter expertise, advice, guidance and review and challenge of the First Line activities to help ensure that risk management decisions and actions are appropriate, within risk appetite and support the delivery of conduct outcomes.



Third line

Independently ensure the effective management of risk.

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

The RMF has been enhanced from a governance and controls perspective to integrate sustainability-related risk considerations, including climate risks. 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 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 HAMF Risk Management Meeting and the HAMF Board Risk Committee. The HAMF risk appetite statement sets out the key risks the business faces in the execution of its strategy, this includes sustainability related metrics.

Emerging cimate-related 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 HAMF 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

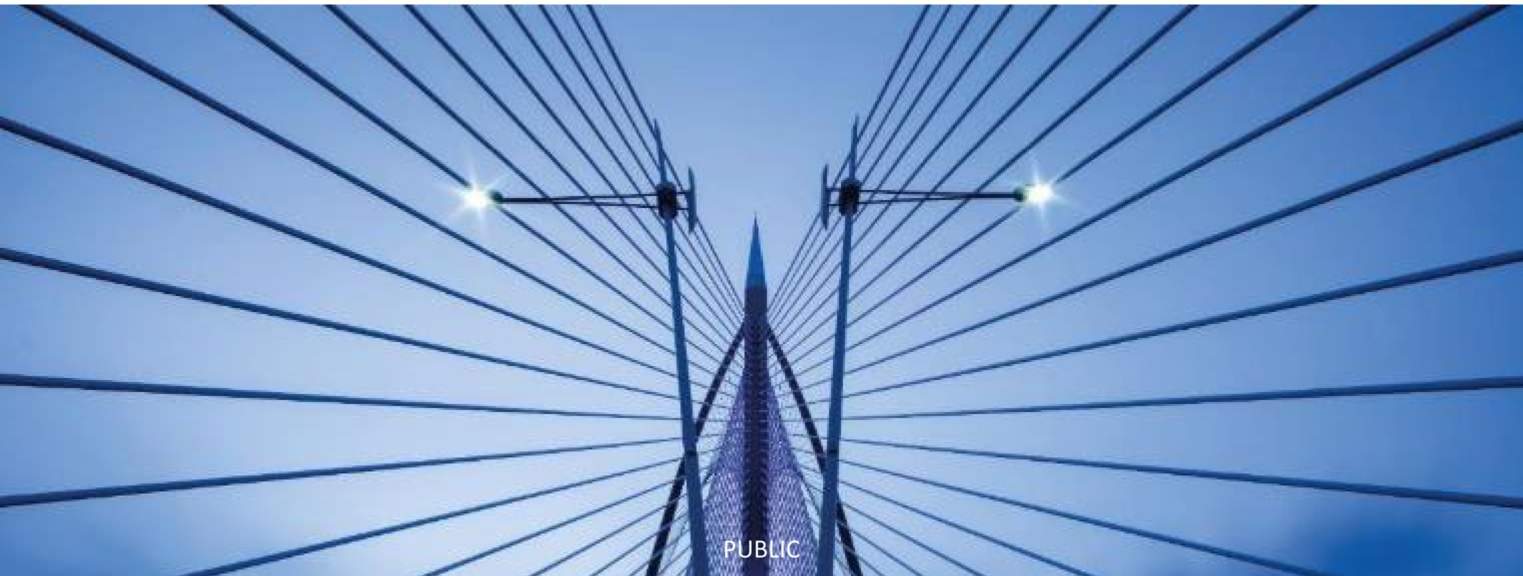
The HSBC AM responsible investment policies include our approach to managing climate risk. We recognise that climate risk may manifest as transition and physical risk over the short, medium, and longer term. The impact of climate-related risk will vary depending on characteristics such as asset class, 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.

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

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



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

Engagement approach

When engaging with companies, we consider our internal net zero alignment assessment of those constituting our top 70% of financed emissions. As outlined within our Stewardship Plan, we highlight good practices below and encourage priority companies, where climate change is a material issue, to work towards these.

Climate strategy including decarbonisation and emissions reduction

- Set a net zero ambition from the company that covers all material areas of business and operations, aligned with the objectives of the Paris Agreement
- Develop clear short and medium-term emission reduction targets, for scope 1, scope 2 and material scope 3 emissions
- Set out sector-based decarbonisation strategies supporting the achievement of the company's net zero target, including climate solutions and objectives to grow green revenue
- Set out capital expenditure plans to support the company's net zero targets and objectives
- For companies covered under our thermal coal or energy policies, set out a credible transition plan

Climate risk and reporting

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

Climate adaptation

- Evaluate and disclose potential risks, resilience gaps and opportunities related to physical climate impacts over short, medium and long-term horizons against established pathways. This should encompass the company's assets, operations and value chain
- Develop a clear plan to manage, monitor and adapt to physical risks, including measures to strengthen operational and value chain resilience
- Embed physical risk considerations into corporate strategy, capital expenditure plans and risk management processes to support long-term business resilience
- Disclose the impacts of physical events on the company's operations and value chain, where significant

Just Transition

- Set out how the company has engaged with stakeholders, including workers, suppliers, and communities to identify impacts associated with the energy transition in their climate strategy
- Identify risks and opportunities related to a Just Transition and develop a suitable approach to addressing these considerations
- Integrate Just Transition objectives within transition plans, for example, specific metrics or objectives in relation to employee training and development, green job creation, and dialogue, among others

Climate governance including lobbying

- Ensure senior management is accountable for the company's climate strategy and that there is sufficient board oversight of material climate risks
- To publish the company's climate policy engagement position and assess alignment of lobbying activities with the goals of the Paris Agreement

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

Responsible Investing Policies

Thermal Coal Policy

HSBC AM's thermal coal policy is developed in support of the transition from thermal coal-fired power and thermal coal mining (collectively 'thermal coal') within the 2030/40 timelines set out in the HSBC Thermal Coal Phase-Out Policy and is intended to help support the dual objectives of phasing out thermal coal within science-based timeframes and of energy transition in more coal-reliant economies.

Under the HSBC AM thermal coal policy, we engage with companies with more than 10% revenue exposure to thermal and/or metallurgical coal, prioritising those in which we have the highest investment exposure.

Actively managed portfolios do not participate in IPOs or primary fixed income financing by issuers engaged in thermal coal expansion. For other issuers with more than 10% revenue exposure to thermal coal, participation by actively managed portfolios in IPOs or primary fixed income financing is subject to ESG Due Diligence of transition plans to ensure alignment with our net zero objective. Where our analysis suggests transition plans are inadequate, we may consider divestment over time.

Energy Policy

Under our energy policy, HSBC AM engages with and assesses the transition plans of the largest oil and gas, and power and utilities companies for listed issuers responsible for around 70% of relevant emissions based upon all listed equity and corporate fixed income managed within our major investment hubs.

Transition plan assessments inform engagement objectives we set for issuers, as well as our assessment of progress towards meeting our 2030 interim emissions target and net zero objective.

Where issuer transition plans fall short of our expectations following engagement and there has not been adequate progress in meeting engagement objectives, we will consider escalation of our engagement as set out in our Stewardship Plan.

Key engagement and voting statistics

- In 2024, climate change topics were covered in almost 23%[1] of our engagements for the year
- We voted against over 200 individual directors for taking insufficient action to manage climate risks faced by their companies[2]
- We supported over 80% of shareholder resolutions asking companies to take more action to address climate risks and impact
- We supported 90% of 'Say on Climate' proposals from companies asking us to support their climate reports and/or policies

1. Although HSBC AM makes reasonable efforts to collate engagement data, actual figures may vary and you should not place reliance on the accuracy of the data.
2. Voting data covers our holdings across our offices where our global voting guidelines are applicable. Voting data from our offices in Argentina, Germany and Taiwan, as well as some from Japan, Mexico and Turkey is not included.

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

Case Study 3: Failed engagement leading to divestment

We engaged with a State-Owned Enterprise (SOE) who issued a sustainable bond in excess of USD 1.7 billion over two tranches. The SOE assured that they will also serve to accelerate the energy transition and the reduction of greenhouse gas emissions. We acquired a holding in this bond and held it in a sustainable strategy.

Objectives

- At a basic level, the obligation is on the issuer to report the use of proceeds. We were originally told to expect the use of proceeds report by the end of April 2024, but there was a delay in the publication of the report

Engagements

- Initial engagement took place in April 2024. Following this, we informed the issuer to publish the use of proceeds report by June 2024, failure to do so would result in portfolio action
- We communicated that our expectation, based on best market practice is that use of proceeds reporting is published 12-18 months following issuance. Timely publication of these reports is essential in communication to our own clients and stakeholders
- We explained that our commitment to our clients includes reporting on the impact of the fund in which we held this issuer's bond. Understandably we were unable to do this without use of proceeds reporting

Voting

- Being unlisted, our approach to escalation was through direct engagement

Outcomes

- This issuer was discussed within our Credit Research and Emerging Market Debt Teams, with Stewardship contributing to the engagement
- Following consensus, a decision was made to divest from the issuer

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

Case Study 4: Direct engagement with an Indian utility

We noted that a significant portion of the company's revenue was derived from thermal coal-related activities, exposing the company to transition-related risks. We noted the company's commitment to be net zero by 2045, however, its transition strategy lacked detail on how this objective was to be achieved.

Objectives

- Establish a near-term emissions reduction target
- Publish a coal plant decommissioning schedule in support of the company's own 2040 coal exit timeline
- Commit to a Just Transition and outline strategies and KPIs in support of this objective

Engagements

- We engaged with the company for the first time in 2023 and found management forthcoming and open to engagement
- We outlined our expectations in regard to what is an effective transition plan, including the need for clear interim targets, supporting capital expenditure plans, oversight from the board, and clear climate disclosure. We also asked about how the company considers just transition related impacts to its business
- The company noted our feedback and clarified that its strategy was to demise its entire coal fleet, moving entirely to renewable energy generation, complex and hybrid, with pump storage and solar systems. Through recent acquisitions and via projects under construction, the company is estimated to be at 70% renewable energy generation by 2030
- We also discussed overboarding concerns with the company's Chair who currently sits on more than 7 other boards within the same group

Voting

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

Outcomes

- Through engagement the company shared with us the estimated decommissioning schedules of their coal fleet
- A year after our initial engagement, the company published further detail on its strategy. We noted the company's new disclosure and validated Science Based Targets Initiative ("SBTi") target as well
- The company's strategy was discussed within our own internal expert body, the Utilities Virtual Sector team, which judged the company's climate transition strategy and eligibility to be held in a sustainable strategy
- Given the company's disclosure and performance, it was judged to be aligned with objectives of our own Thermal Coal Policy. The company was approved for participation in sustainability strategies and deemed eligible for primary issuances. The company was then included in one of our sustainable funds
- We continue to monitor and engage with the company on an ongoing basis

Resources and tools to monitor climate-related risk

Resources

To ensure a robust and consistent approach to risk management across all risk types, including climate risks, we have defined a Risk Management Framework (RMF) that is adopted across all business areas and geographies.

Our framework for managing risks, including climate risks, has been presented in section "Risk management framework" alongside our Three Lines of Defence Model.

Within the **First Line of Defence**, our overall sustainability risk strategy, including climate, is driven by the Responsible Investment team with support from our investment teams. The Global Head of Responsible Investment leads on our RI strategy, including enhancing our climate risk strategy.

The RI team works in collaboration with investment teams in integrating climate considerations into investment processes and in product development, where appropriate. Another key role of this team is to establish sustainable investment frameworks and analyse applicable regulatory regimes. This includes impact analysis of sustainability policies on investment strategies, creation of internal sustainability and climate scoring, product design standards, climate product approval and monitoring of these against sustainable objectives and targets.

Our Virtual Sector Teams also form part of this collaborative approach, including aligning our engagement activities with risk issues. Thematic leads in the Stewardship team provide additional direction on specific sustainability issues, aligning engagement objectives with sustainability risk assessments where relevant.

Resources and tools to monitor climate-related risk

Case Study 5: 2024 Thermal coal policy – Due Diligence and Engagement

How information gathered through stewardship has informed investment decisions

Sector: Utilities | **Region**: Global | **Themes**: Climate Change

Teams involved: Stewardship, Credit and Equity teams

Progress status: Acknowledged and addressing our concerns

Other tags: Escalation, Investment decision making

Background

- Our thermal coal policy commits us to engaging with all issuers whose revenue from thermal or metallurgical coal is greater than 10%. The policy also expects additional due diligence for companies above this revenue threshold for participation in any primary issuance and IPOs, and for inclusion in our sustainable fund range
- Our aims in 2024 were to:
  1. Communicate our expectations, as outlined within our thermal coal policy
  2. Understand and assess relevant companies' transition plans, particularly timelines for coal exit

Approach

- Companies were identified using thermal coal revenue data from a third-party provider. They were then subject to engagement and assessment on the quality of their transition plans, guided by an internal scoring framework
- Within our engagement, we outlined our expectations, speaking to sustainability and investor relations teams. We also provided recommendations in regard to disclosure on the company's climate transition. 40 engagements were held during 2024
- Scores were then assessed by the Utilities VST which provided additional commentary and review of transition plan assessments, providing a final recommendation on which issuers should be fully approved for participation in primary issuance and for inclusion in our sustainable funds, and which should be approved for participation in green bond issuance only
- Approval on the issuers was then subject to review from members of the Credit, Equity, Risk and Responsible Investment teams

Outcomes

- Following our due diligence and engagements over 2024, 23 companies were approved for participation in primary issuance and for inclusion in our sustainable funds with 6 companies recommended for green bond purchase only
- We also voted against relevant board directors in 2024 AGMs at companies who derived more than 10% of thermal or metallurgical coal revenue and where we also noted poor climate disclosure
- We continue to engage with and assess the transition plan of thermal coal companies into 2025

Resources and tools to monitor climate-related risk

Tools

We have made further progress in bringing different ESG and climate data sources onto a common internal platform. This has helped us to maximise access to ESG and climate data across our investment and client reporting functions.

We have notably set up an ESG Data Steering Committee which is an oversight and decision making forum that covers acquisition, utilisation, governance and distribution of ESG data in line with investment, reporting and regulatory expectations.

We also continue to invest in our internal tools by building in-house solutions to enhance our approach to ESG integration, including the management of climate-related risks and opportunities. This is an iterative process as we continue to refine the solutions based on stakeholder feedback. Examples include:

- Enhancing our approach for capturing and reporting climate engagement data with the launch of a new engagement recording tool available to investment and responsible investment teams
- Developing a model application to enable investment teams to view relevant ESG and climate data and monitor sustainability performance for select portfolios
- Developing a workflow tool to record ESG Due Diligence approvals

Other oversight measures to monitor climate risks have also been detailed in the "Risk Management Framework" section.

Metrics and Targets

Analysis of climate-related risk

The emission metrics we report are in relation to HAMF's own scope 3, category 15 (Investment) emissions. We use the following three key emission metrics to describe the exposure of our AuM to greenhouse gas (GHG) emissions as set out subsequently on pages 57-59 of this report: Weighted Average Carbon Intensity (WACI), Total Carbon Footprint and Total Carbon Emissions. We use two other forward-looking climate metrics in relation to climate-related scenarios: Climate Value at Risk (cVaR) and Implied Temperature Rise (ITR).

Comparator analysis

The change of emission profiles of our AuM is influence by multiple factors, including change in investment positions, market movement and actual emission change of our investee companies. To align with our investment management practices, we focus on the overall Weighted Average Carbon Intensity for our year-on-year comparisons.

We also use broad market indices such as the MSCI All Country World Index (MSCI ACWI) to put into context our AuM exposure and its associated climate risks. Although, it should be noted we are not managing our AuM against these indices.

Sector review

As sectors have vastly different emission profiles and climate risks, it is useful to understand the sector distribution of the broad market indices in comparison to the HAMF portfolio.

We have lower Weighted Average Carbon Intensity for the utilities, materials and energy sectors compared to MSCI ACWI, indicating that our investment in these sectors has better emissions performance than benchmarks on an average basis.

Analysis of climate-related risk

Scope 1 and 2 emission intensity by sector

Sector	HAMF Weight 2024[1]	MSCI ACWI Weight 2024	HAMF Carbon Scope 1&2 tCO_2/$mn sales 2024	MSCI ACWI Carbon Scope 1&2 tCO_2/$mn sales 2024	HAMF Carbon Scope 1&2 tCO_2/$mn invested 2024	MSCI ACWI Carbon Scope 1&2 tCO_2/$mn invested 2024
Information Technology	22.5%	26.0%	26.8	28.3	5.2	5.3
Communication Services	6.8%	8.2%	30.9	31.4	7.6	7.2
Consumer Discretionary	10.6%	11.3%	45.2	48.2	16.1	14.9
Real Estate	4.2%	2.0%	81.7	92.0	8.1	9.6
Industrials	10.9%	10.2%	77.8	83.3	44.4	36.1
Utilities	3.0%	2.5%	1024.0	1664.3	308.2	471.1
Materials	3.6%	3.5%	580.9	704.8	321.8	350.8
Energy	3.6%	3.8%	344.5	391.9	230.9	228.3
Financials	18.6%	16.8%	12.7	14.5	3.9	4.5
Consumer Staples	6.7%	5.9%	40.6	44.0	23.2	24.8
Health Care	9.6%	9.7%	17.1	18.5	4.9	5.0

1. HAMF numbers presented are reweighted to the covered portion of the portfolio for corporate assets. This contributes to 87% of total AuM.

Remuneration

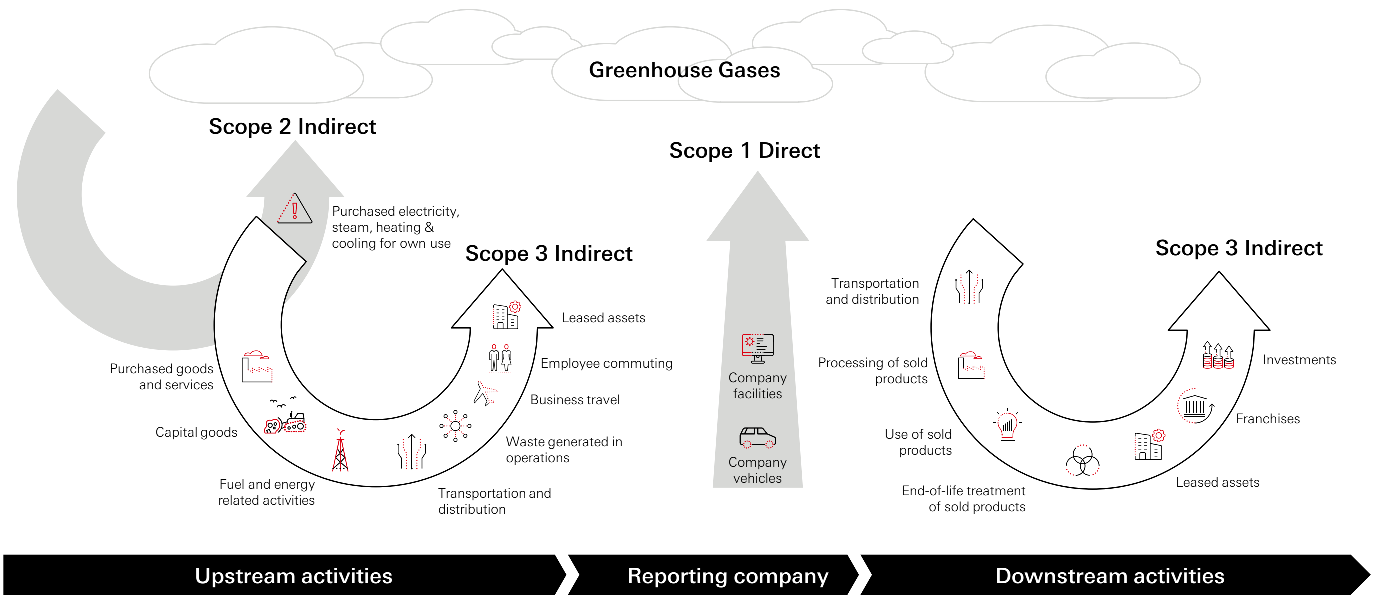
Given that climate risk management, where relevant, is reflected in investment processes, as outlined in this report, evaluation of portfolio managers and Chief Investment Officers (which feeds into remuneration setting), includes the extent to which they have managed in line with those processes, in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

Climate-related metrics

Methodological choices

Corporate carbon emissions

Below is a graphic of the different types of scope emissions. Greenhouse gases contribute to global warming and are released through different company activities. The emission metrics we report are in relation to HAMF's own scope 3, category 15 (Investment) emissions, which include the scope 1 and 2 emissions of our portfolio companies.



Climate-related metrics

Details of our financed emissions metrics definition

Scope

HAMF's financed emissions metrics apply to listed equities and corporate fixed income assets managed by HAMF. In addition, the WACI metric applies to sovereign instruments managed by HAMF.

The emissions metrics covers scope 1 and 2 GHG emissions of investee companies only for corporates. We continue to review our approach to disclosures and assess usefulness of information within our sustainable reporting. Scope 1 and 2 financed emissions are included in this report. Scope 3 emissions occur throughout the value chain and are further from HAMF's direct sight and control. Scope 3 emissions are reported in the TCFD product reports, and where applicable, published on the Fund Centre.

The WACI metric covers only production emissions (for domestic consumption and export) for sovereign investees, meaning scope 1 GHG emissions only.

Units

Weighted Average Carbon Intensity (WACI) – tCO_2e /USD million economic output (economic output = revenue for corporate and GDP Purchasing Power Parity (GDP PPP) for sovereigns)

Total Carbon Footprint – tCO_2e/USD million invested

Total Carbon Emissions – tCO_2e

Calculation methodology

Weighted Average Carbon Intensity (WACI)

Carbon intensity measures the quantity of carbon emissions per million dollars of economic output. Economic output is measured using revenues for corporates and Global Domestic Product Purchasing Power Parity adjusted (GDP PPP) for sovereigns, both in line with their respective methodology as per the Partnership for Carbon Accounting Financials (PCAF). Thus, it is a measure of the environmental efficiency of an issuer. Weighted Average Carbon Intensity (WACI) is the sum of all issuer carbon intensity, weighted by the allocation to those issuers, across HAMF's AuM. This is shown as tonnes of CO_2 equivalent per million USD of economic output (tCO_2e/USD m). For corporate issuers, WACI measures the covered portion of the portfolio's exposure to carbon-intensive companies. For sovereign issuers, WACI measures the covered portion of the portfolio's exposure to carbon intensive economies.

Climate-related metrics

Sovereign WACI

Country emissions include both its private and public sector emissions. In our TCFD reports, we focus on scope 1[1] weighted average carbon intensity, which is production-based emission intensity within a country's territory and represents the typical disclosures from countries emissions.

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

Sovereign WACI is not intended to cover supranational and sub-sovereigns (such as municipal or regional bonds) due to data and methodology challenges.

Carbon Footprint

Carbon footprint measures the quantity of carbon emissions financed by our investment divided by the AuM invested and is also referred as the financed emission intensity or emission intensity. It indicates the climate impact that an investor is responsible for per USD 1 million of financing. It is a normalised metric, carbon footprint allows comparing the carbon footprint across portfolios of different sizes or against benchmark indices. The carbon footprint can fluctuate without a change in carbon emissions due to movements in the issuer value. Understanding the change in investment or issuer versus the change in carbon emissions is an important step in monitoring the environmental progress of the investment. The Total Carbon Footprint is the sum of all issuer carbon emissions financed by our investment, divided by the value of the HSBC HAMF AuM with an emission coverage.

Note:
1. Scope 1 emissions for sovereigns is per Table 5-17 PCAF: Scope Definitions for Sovereign Debt

Climate-related metrics

Total Carbon Emissions

Total carbon emissions measure how financial institutions should account for the emissions attributed to their investments and is often referred to as 'financed emissions'. It is calculated based on guidance from PCAF.

Financed emissions in a company attributed to HAMF is HAMF's invested amount in the company shares or corporate bonds multiplied by the attribution factor, calculated as the company's emission divided by the company value. The total carbon emission of a portfolio or of HAMF's AuM is the sum of the financed emission in the companies that the portfolio invests in, defined as the sum of the following for all holdings: issuer's carbon emissions in tCO_2e multiplied by the current value of investment divided by the issuer's company values.

Company values

Company values are measured using enterprise value including cash (EVIC) for publicly listed companies, which is defined as the sum of the market capitalisation of ordinary shares and preferred shares, the book values of the total debt and minorities' interests and the cash, at fiscal year-end.

The value for private companies is measured by the sum of total company equity and debt, which can be found on the company's balance sheet, as no market value for equity is available in the case of private companies. If total debt or total equity are not available, financial institutions can use the total balance sheet value (ie. the sum of total equity and liabilities, which is equal to the company's total assets).

Green Bonds

Green bonds comprise an immaterial share of less than 0.25% of our overall AuM. In order to incentivise green finance and decarbonisation projects, green bonds are treated as having zero emissions. We do this because there is no clear and appropriate measure to calculate the avoided emissions that the projects financed by these bonds would have helped with. There is currently no industry-wide guidance as to how to estimate both the positive (ie avoided carbon emission) and negative (caused emission) impact of the projects financed by the green bonds. We will continue to review and adapt our position as the industry metrics evolve.

Climate-related metrics

Data sources

Company value data is collected from Bloomberg[1], an external data provider.

GDP PPP for sovereigns is collected from the International Monetary Fund (IMF).

Emissions data for both corporates and sovereigns is collected from S&P Trucost, an external data provider:

- The emissions data used by HAMF is based on the latest available data provided by S&P Trucost as at 31 December 2024 for scope 1 and 2
- S&P Trucost maintains a database of historic company emissions, based on company disclosures or estimated by S&P Trucost in the absence of company reported data
- HAMF incorporate all greenhouse gases (GHGs) included in the data of external data providers, including carbon dioxide (CO_2), methane (CH_4) Nitrous oxide (N_2O), Hydrofluorocarbons (HFCs), Perfluorocarbons (PFCs), Sulfur hexafluoride (SF_6). These GHG emissions are measured in tonnes of CO_2 equivalent (CO_2e) using the Global Warming Potential framework
- The company disclosed, non-modelled data used by the provider, comes from a variety of publicly disclosed sources such as company financial reports (Annual Reports, Financial Statements, 10-K/20-F reports, SEC/regulatory filings) and environmental data sources (CSR, Sustainability or Environmental Reports, the CDP, EPA filings) in addition to data published on company websites or other public sources
- When data is not disclosed, or does not cover all operations or GHGs, S&P Trucost produces estimates. The model uses data on direct emissions from various distinct industry sectors, like emission intensity factors in units of emissions per dollar of industry output (or company revenue), sourced from national, international industry and company databases. S&P Trucost uses country specific data when possible.
- When emissions data is not available from S&P Trucost, these holdings are not included in the emissions metric. We do not use proxies such as industry average to estimate non-covered companies. The coverage percentage disclosed alongside the emissions metrics indicates all holdings where data is available from S&P Trucost

Data quality

PCAF proposes a methodology for scoring the quality of a company's GHGs emissions data used by financial institutions in their carbon footprint disclosures. Scores of this methodology range from 1 to 5, the lowest number indicating the best quality.

Emissions data coming from S&P Trucost accounts for the majority of the HAMF portfolio holdings in scope. S&P Trucost assigns labels for data sources covering Scope 1 emissions derived from CO_2 only, which HAMF extrapolate across Scope 2 emissions and all other greenhouse gases in the absence of more granular data sourcing labels from S&P Trucost. This does not impact the overall financed emissions intensity calculation.

Note:
1. EVIC data was sourced from Factset in 2023

Climate-related metrics

Our Greenhouse Gas Emissions

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

Weighted Average Carbon Intensity (WACI)

WACI evaluates a portfolio's relative exposure to carbon intensive companies or economies. It is a common indicator for sustainable strategies or sustainable index construction.

Corporates and sovereigns comprise 86% and 8% of HAMF AuM, respectively. As the sovereign scope 1 emission intensity metric is an attribution of emissions by economic activity, we combine it with corporate carbon intensity to give a full picture. However, as sovereign emissions can include an element of duplication of private sector emissions, we present the metrics separately as well.

	Scope 1 and 2		
	Corporates Scope 1 and 2	Sovereigns[1] Scope 1	Combined
2024			
HAMF unadjusted WACI (A)[2]	79.47	14.70	94.25
Eligibility (B)[3]	87%	8%	95%
Data coverage (C)[4]	98%	95%	93%
Eligible data coverage (D = B * C)[5]	85%	8%	93%
HAMF WACI (E = A / D)[6]	93.77	185.07	101.69
MSCI ACWI WACI[6]	113.03	N/A	113.03
Eligible data coverage[5]	99%	N/A	99%
Bloomberg Corporate Aggregate WACI[6]	153.55	N/A	153.55
Eligible data coverage[5]	89%	N/A	89%

Source: HSBC. 2024 refers to data as of 31 December 2024. Units in tonnes of CO_2 equivalent per USD million of economic output (tCO_2e/ USD m). Reported metrics are dependent on the chosen vendor's data quality and availability of metrics as at the reporting date. Assets under management for this entity report includes all funds for which HAMF is the Authorised Corporate Director.

1. Sovereign production emission intensity is the scope 1 emissions of a country, defined as the domestic GHG emissions from sources located within the country territory, excluding those arising from land use, land-use change and forestry activity (LULUCF), divided by the PPP-adjusted GDP. This is also reported as a combined figure with corporate carbon intensity.
2. Unadjusted WACI refers to WACI prior to adjustments for share of holdings and data availability and is defined as the sum of the following for all holdings: % weight of holding within portfolio multiplied by issuer's carbon intensity in tCO_2e/USD m revenues of issuer (for sovereigns GDP PPP is used instead of revenues).
3. Eligibility refers to % of total AuM. Non-eligible items include cash and other assets not classified as corporate or sovereigns or both, respectively.
4. Data coverage refers to % of eligible AuM for which data is available.
5. Eligible data coverage refers to % of total AuM for which data is available.
6. WACI refers to unadjusted WACI divided by eligible data coverage.

Climate-related metrics

Total Carbon Footprint

Total Carbon Footprint measures the portfolio's normalized carbon footprint per million dollar invested. It allows comparison between portfolios of different sizes and with benchmark indexes.

	Corporates Scope 1 and 2
2024	
HAMF unadjusted Total Carbon Footprint (A)[1]	33.72
Eligibility (B)[2]	87%
Data coverage (C)[3]	97%
Eligible data coverage (D = B * C)[4]	84%
HAMF Total Carbon Footprint (E = A / D)[5]	39.94
MSCI ACWI Total Carbon Footprint[5]	42.11
Eligible data coverage[4]	99%
Bloomberg Corporate Aggregate Total Carbon Footprint[5]	54.68
Eligible data coverage[4]	88%

Source: HSBC. 2024 refers to data as of 31 December 2024. Units in tonnes of CO_2 equivalent per USD million of company value (tCO_2e /USD m). Please note that we are unable to report Total Carbon Footprint on approximately 0.27% of our AuM due to missing company values. We do not deem this to be material.

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

Climate-related metrics

Total Carbon Emissions

Total Carbon Emissions figure is an absolute figure, dependent on size of the assets, and not a ratio like Weighted Average Carbon Intensity or Total Carbon Footprint.

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

	Corporates Scope 1 and 2
2024	
HAMF unadjusted Total Carbon Emissions (A)[1]	2,360,198
Eligibility (B)[2]	87%
Data coverage (C)[3]	97%
Eligible data coverage (D = B * C)[4]	84%
PCAF Data Quality Score[5]	2.10

Source: HSBC. 2024 refers to data as of 31 December 2024. Units in tonnes of CO_2 equivalent (tCO_2e). Please note that we are unable to report Total Carbon Emissions on approximately 0.27% of our AuM due to missing company values. We do not deem this to be material.
1. Unadjusted Total Carbon Emission is a non-weight-adjusted figure and represents tonnes of emissions financed by eligible AuM with data coverage.
2. Eligibility refers to % of total AuM. Non-eligible items include cash and other assets not classified as corporates.
3. Data coverage refers to % of eligible AuM for which data is available.
4. Eligible data coverage refers to % of total AuM for which data is available.
5. PCAF Data Quality Scores where 1 is high and 5 is low. This is a weighted average score based on in-scope financed emissions.

Operational Greenhouse Gas Emissions

Our operational GHG, or HAMF's operational emissions are calculated at the Group level as HAMF shares the facilities and resources of its parent company HSBC Holdings plc. Our 2024 greenhouse gas emissions in tonnes CO_2e per full time employee reduced from 1.3 to 1.1 in comparison to 2023 for Scope 1, 2 and 3 (Category 6) and reduced from 5.9 to 5.7 for Scope 1, 2 and 3 (Category 1, 2 and 6).

Source: HSBC Holdings plc Annual Report 2024

Climate-related scenario analysis

Forward looking metrics

TCFD recommends climate-related scenario analysis as a tool to enhance strategic thinking. The scenarios used should be plausible, consistent, relevant, and challenging. We use two forward-looking climate metrics in relation to climate-related scenarios: Climate Value at Risk (cVaR) and Implied Temperature Rise (ITR). These metrics provide additional investment insights that are made available to our investment teams. These are being integrated into our risk management process where the worst scoring corporate issuers may be subject to an ESG Due Diligence due to their heighted climate risk.

cVaR explores the impact to market value under different climate scenarios based on the company's current emission and product profile and considers the costs associated with transition to a low carbon economy and costs associated with physical risks. It is important to note that these scenarios represent a range of end of the century projected global pathways, among a very large number of climate scenarios and potential outcomes. Measuring the risks and opportunities under these scenarios is only a guide to understanding the likely sensitivity of investments and should not be interpreted as a prediction of future investment value.

ITR, in contrast, does not factor in the costs associated with the transition to a low carbon economy or physical risk. It takes a carbon budget perspective and measures the company's projected emissions, including consideration of company decarbonisation commitment, compared to the budget allocated. The comparison gives understanding of how aligned the company or portfolio is aligned to the Paris Agreement to limit global warming to 1.5°C in the year 2100 compared to pre-industrial levels.

Methodologies for climate scenario analysis are still developing and evolving. While we use cVaR and ITR as our precursors for these analysis, we recognise the frequent updates and methodology enhancement is ongoing. The current analysis focuses on corporate investees and provides a view on the climate risks that potentially impact company's valuations or investor preferences in investing in more net zero aligned assets.

Climate-related scenario analysis

Outlined below are the scenarios provided by the Network for Greening the Financial System (NGFS), which outline the potential impact of climate change under different temperature assumptions.

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

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

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

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

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

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

Under an extreme scenario, where national security is prioritized, public and private sectors would favour existing carbon intensive energy sources and carbon emissions would rise consistently, leading to increasing temperatures of greater than 4.0°C. The impact under this scenario is shown by the +4.0°C 'Hot House 3' scenario below.

MSCI Climate Value at Risk (cVaR)

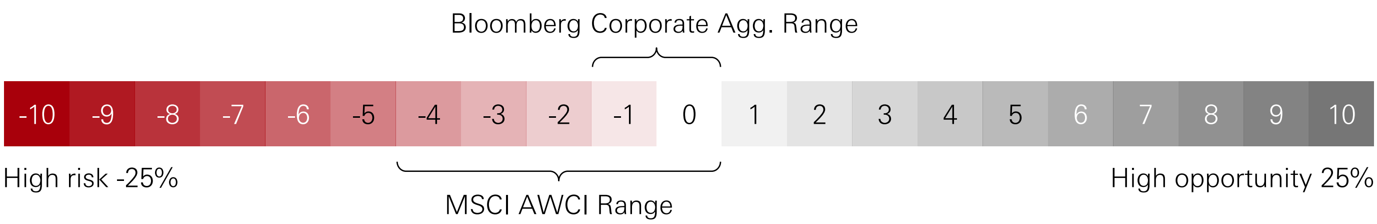
cVaR is a forward-looking climate risk metric which provides an assessment of both dimensions of climate change, transition risk and physical risk. To quantify the effects of climate change on our products, we use MSCI's cVaR model. The model estimates the present value of future transition costs and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

cVaR results HAMF as of 31 December 2024

	Climate Change Mitigation		Climate Change Impact
Climate Scenario	**Transition Opportunity**	**Transition Costs**	**Physical Risk**
1.5°C	1	-4	-1
2.0°C	0	-2	-1
3.0°C: Hot House 1	0	-1	-1
+3.0°C: Hot House 2	–	–	-2
+4.0°C: Hot House 3	–	–	-3

cVaR includes scopes 1, 2 and 3 combined

The scores are based upon the scale below.



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

Our cVaR metrics only cover corporate bond and equity asset types. We have not included sovereigns as the methodology is still evolving to include the broader climate risks that are covered for equities and corporate bonds. Proxies are not used where data is missing[1]. The cVaR results represent the portion of our AuM that has cVaR coverage. In our entity report cVaR coverage ranges from 78% for modelled data on opportunity, to 81% for physical risk and 83% for transition cost coverage.

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

MSCI Climate Value at Risk (cVaR)

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

It is important to note that the entity level climate scenario scores are broadly aligned with the comparator.

Financial Impact of Climate Change using scenario analysis

HAMF is not using climate-related scenarios within our financial planning at present. Financial planning is carried out on a 5-year cycle, as so as our sustainable product offering expands to form a greater proportion of our assets under management, this will be considered within our future financial planning utilising the cVaR scenarios that we are already monitoring as part of our risk assessment process.

MSCI Implied Temperature Rise (ITR)

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

How to interpret the ITR – Scale/Score

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

	ITR
Implied Temperature Rise	**31/12/2024**
HAMF	> 2.0 – 3.2
Coverage	86%
Reference Comparator (MSCI ACWI)	> 2.0 – 3.2
Coverage	99%
Reference Comparator (Bloomberg Global Agg)	> 2.0 – 3.2
Coverage	95%

ITR includes scopes 1, 2 and 3 combined

Net zero alignment analysis and other climate metrics

Measuring net zero alignment

Our lead entity HSBC Global Asset Management Limited is a signatory to the Net Zero Asset Managers (NZAM) initiative. NZAM signatories measure their corporate issuers' alignment to net zero, understand their risk and opportunities and focus on engaging with issuers that are that not aligned to a net zero transition pathway.

In support of our net zero commitment, we have developed an internal framework to define and classify the net zero alignment of companies, based on our views and guidance from the IIGCC's Net Zero Investment Framework (NZIF) Implementation Guidance. Our framework measures the status of transition and alignment to net zero pathways for corporate issuers. This is an input to our transition strategies, that intend to include 'transition' in their fund name under the ESMA ESG naming regulation issued in June 2024.

The assessment of NZAM classification has two main components:

1 Paris Alignment Assessment, comparing issuer's current emission performance and/or projected emissions based on emission reduction targets compared to the net zero pathways

2 Climate Management Assessment, incorporating the IIGCC's NZIF implementation guidelines on corporate issuers and assessing the robustness of the issuers' climate management approach

Net zero alignment analysis and other climate metrics

As part of our alignment framework, we provide an analysis of the issuer's various greenhouse-gas (GHG) emissions reduction targets (Scopes 1, 2 and/or 3 where appropriate), for the short, medium and long-term. We also analyse the consistency between the trajectory defined by issuer's emissions targets and sectoral scenarios aligned with the climate objectives of the Paris Agreement.

Emission targets and trajectories are evaluated through a combination of methods and metrics, such as production-based emission intensity, implied temperature rise and emission intensity reduction rates. Sectoral scenarios are also drawn from various sources including NGFS, IEA, IPCC, SBTi pathways, and selected for benchmarking depending on the specific metric that is being evaluated.

Drawing on multiple data sources (eg S&P Trucost, MSCI Implied Temperature Rise, Transition Pathway Initiative's carbon performance and management quality data), we create quantifiable indicators and thresholds to score and evaluate issuers on their ambition, target, emission performance, disclosure, climate governance, decarbonization plan, capital allocation alignment. This informs us about the strengths and weaknesses of an issuer's climate management approach.

In particular, when evaluating decarbonisation plans and capital allocation alignment, we analyse the resources committed by the issuer and their relevance to achieving the targets set. This includes, but not limited to, the action plans in place and the financial resources allocated. We use relevant metrics to quantitatively measure and monitor the extent to which issuers are investing and dedicating resources to green economic activities that contribute to net zero.

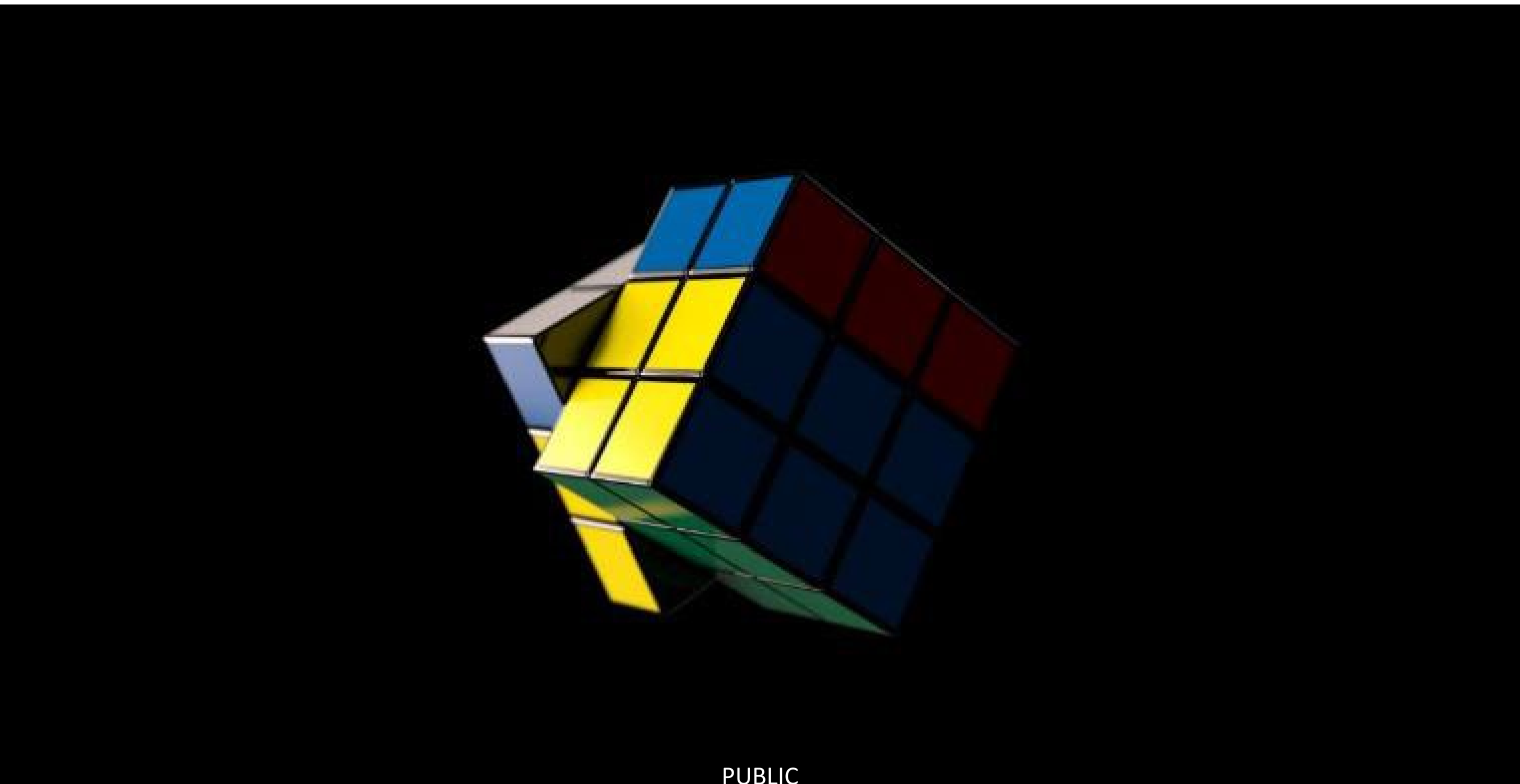
Lastly, we perform an analysis of the company's governance structure and its ability to implement the strategy for achieving its climate ambitions. Companies are evaluated based on the presence of executive oversight over environmental issues and sustainability linked renumeration.

Our alignment framework has been leveraged to screen and input into portfolio construction, including in designing our transition strategies. It also informs company engagement processes.

Net zero alignment analysis and other climate metrics

Other climate metrics

HAMF also uses multiple data sources and capabilities to report and assess climate-related risks and opportunities that extend beyond company net zero alignment analysis. Assessments take place at multiple levels, from the issuer to the portfolio, depending on the nature of the investment objective. Our data sources and metrics enable us to evaluate issuers and portfolios based on their climate-related credentials. The features we measure include, but are not limited to, carbon intensity, climate value at risk, avoided carbon emissions, climate solutions and green revenues, fossil fuel exposure, coal revenues and portfolio temperature. We use these metrics to inform our investments and engagement activity for all relevant strategies. We have also built automated workflow tools that monitor issuer level data and send flagged issues to our analysts for further review, which is then cascaded to our investment teams.



Net zero targets

Our lead entity HSBC Global Asset Management Limited is a signatory to the Net Zero Asset Managers initiative. It has an interim target of reducing Scope 1 and 2 financed emissions intensity by 58 per cent between 2019 and 2030 for its in-scope assets under management (AuM), consisting of listed equities and corporate fixed income managed within its major investment hubs. As of 31 December 2019, in scope assets amounted to USD193.9 billion, equating to 38 per cent of global AuM. Its targets remain subject to consultation with stakeholders including investors and fund boards on whose behalf it manages the assets. The 58 per cent target is based on assumptions for financial markets and other data, including the IEA Net Zero emissions by 2050 scenario and its underlying activity growth assumptions. Carbon emissions intensity is measured as tonnes of carbon dioxide equivalent per million USD invested (tCO_2e/USD million invested), where emissions are scaled by enterprise values including cash. HSBC Asset Management is closely following the review that the NZAM Initiative has launched on the future of the initiative.

Our HAMF greenhouse gas emissions targets are embedded in our HSBC AM targets, described by the summary below.

Key net zero target setting decision	Explanation/context	HSBC AM's decision
1 **AuM in scope**	AuM in scope for interim target, ie, % of AuM which is currently covered by a quantified financed emission reduction target. Our target applies to listed equity and corporate fixed income assets managed within our major investment hubs (including the UK), excluding those held in multi asset strategies. As of 31 December 2019, in scope assets amounted to USD193.9bn, equating to 38% of global AuM.	38%
2 **Target year**	The target year we commit to achieving our interim emissions reduction target.	2030
3 **Baseline year**	The year we are using as a starting point for calculating our interim emissions reduction target.	2019
4 **Quantified targets**	The necessary reduction in financed emissions intensity needed to align our in-scope portfolio to a 1.5°C temperature increase as per the Paris Agreement (ie, an interim target on the way to net zero by 2050). Target is applied to AuM in scope and is calculated as tonnes of carbon dioxide equivalent per million USD invested (tCO_2e/USDm invested), where emissions are scaled by enterprise values including cash. Our targets remain subject to consultation with stakeholders including investors and fund boards on whose behalf we manage the assets.	58% reduction in financed emissions intensity (Scopes 1 and 2) – based on assumptions for financial markets and other data, including the IEA Net Zero emissions by 2050 scenario and its underlying activity growth assumptions.
5 **Framework**	Frameworks and methodologies help drive consistency and credibility across the industry and support us to align our AuM in scope to net zero.	Net Zero Investment Framework (for target setting). Partnership for Carbon Accounting Financials (for financed emissions calculation methodology).
6 **Scenario pathway**	Scenario pathways are projections that estimate the economic activity required to limit global warming to a specific temperature rise (eg a pathway aligned to a temperature increase well below 2°C above pre-industrial levels). It is used to calculate our necessary financed emissions intensity reduction.	IEA NZE (International Energy Agency Net Zero Emissions by 2050).
7 **Emissions scope**	The portfolio companies' scope of carbon emissions which are included in our target.	Scope 1 and 2 of portfolio companies.

Reducing emissions in our assets under management

Our lead entity HSBC Global Asset Management Limited continues to work towards its interim target[1] of reducing scope 1 and 2 financed emissions intensity by 58% between 2019 and 2030 for its in scope assets under management (AuM), consisting of listed equities and corporate fixed income managed within its major investment hubs. As of 31 December 2019, in scope assets amounted to USD193.9bn, equating to 38% of global AuM.

2019 re-baselined metrics

In 2024, we improved our methodology for calculating financed emissions intensity, including a revised mapping logic for issuers' carbon intensity and EVIC (enterprise value including cash) data. We have re-baselined our 2019 intensity figure due to an error in the data mapping and it is now 124 tCO_2e/USDm invested versus 131 tCO_2e/USDm invested reported in the Annual Report and Accounts 2022, representing a decrease of 5.6%.

The Partnership for Carbon Accounting Financials (PCAF)[2] recommends that financial institutions should, in line with the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard requirement, establish a restatement policy to ensure consistency, comparability and relevance of the reported greenhouse gas emissions data over time. HSBC AM has defined an internal financed emissions re-baseline and restatement framework which adapts HSBC Group's approach and defines relevant circumstances for HSBC AM.

Our financed emissions metrics

As at 31 December 2023, the scope 1 and 2 financed emissions intensity of HSBC AM's in scope assets stood at 69.8 tCO_2e/USDm invested. The PCAF data quality score for our 31 December 2023 financed emissions intensity was 2.63.

Reported metrics[3]	**2019**	**2023**	**Unit**
Scope 1 and 2 financed emissions intensity	124.0*	69.8	tCO_2e/USDm invested
AUM in scope	193.9	223.0	USD billions
PCAF Data Quality Score	2.63	2.63	

*indicates that this metric has been re-baselined

1. Our targets remain subject to consultation with stakeholders including investors and fund boards on whose behalf we manage the assets. The 58% target is based on assumptions for financial markets and other data, including the IEA Net Zero emissions by 2050 scenario and its underlying activity growth assumptions. Carbon emissions intensity is measured as tonnes of carbon dioxide equivalent per million USD invested (tCO2e/USDm invested), where emissions are scaled by enterprise values including cash.
2. PCAF defines and develops greenhouse gas accounting standards for financial institutions. Its Global GHG Accounting and Reporting Standard for Financed Emissions provides detailed methodological guidance to measure and disclose financed emissions. PCAF Standards are available at: https://carbonaccountingfinancials.com/standard.
3. The re-baselined 2019 financed emissions intensity metric, and 2023 metrics were subject to independent third-party limited assurance in accordance with the International Standard on Assurance Engagements 3000 (Revised) 'Assurance Engagements other than Audits or Reviews of Historical Financial Information', and with respect to the greenhouse emissions, in accordance with the International Standard on Assurance Engagements 3410 'Assurance Engagements on Greenhouse Gas Statements', issued by the International Auditing and Assurance Standards Board. The independent third-party's limited assurance report and the reporting criteria methodology used is available at Our path to Net zero - HSBC Asset Management - UK.

Policies References

Policies References

HSBC AM and Group References	Cross References
HSBC AM Policies	https://www.assetmanagement.hsbc.co.uk/en/institutional-investor/about-us/responsible-investing/policies
HSBC Group: Annual Report and Accounts 2024 (See pages 41 to 84 for sustainability disclosures)	https://www.hsbc.com/-/files/hsbc/investors/hsbc-results/2024/annual/pdfs/hsbc-holdings-plc/250219-annual-report-and-accounts-2024.pdf?download=1

Abbreviations and Glossary

A		
ACD	Authorised Corporate Director	The ACD is legally responsible for the day-to-day management of the company's funds and must ensure that the funds are managed within the applicable regulations.
AGM	Annual General Meeting	An annual general meeting is a meeting of the general membership of an organization.
AuM	Assets under Management	Assets under Management (AuM) is the market value of the investments managed by HAMF on behalf of clients.
B		
Bloomberg AIM	Bloomberg Asset and Investment Manager	Bloomberg AIM is a premium enterprise service by Bloomberg that is fully integrated with the Bloomberg Terminal that enables users to take advantage of Bloomberg news, data and analytics.
C		
CO_2e	Carbon dioxide equivalent	CO_2e is a metric measure used to compare the emissions from various greenhouse gases on the basis of their global-warming potential, by converting amounts of other gases to the equivalent amount of carbon dioxide.
COP26	Conference of the Parties (COP 26)	The 2021 United Nations Climate Change Conference Glasgow.
cVaR	Climate Value at Risk	Climate Value at Risk is a model based metric which estimates the present value of future transition costs and opportunities of a company through to 2050 – and physical cost through to 2100 – for a given climate scenario.
D		
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		
ESG	Environmental, Social and Governance	Environmental, social, and governance issues that are identified or assessed in responsible investment processes. E, S and G issues and factors can be characterised using industry standard definitions, such as the UN PRI Reporting Framework.
ETF	Exchange Traded Funds	An exchange-traded fund (ETF) is a basket of securities that tracks or seeks to outperform an underlying index.
EVIC	Enterprise Value Including Cash	A measures of company's total value, often used as alternative to market capitalization.
F		
FCA	Financial Conduct Authority	HSBC UK's regulator.
Framework		HSBC AM's ESG and Sustainable Investment Framework, setting out the internal requirements for our ESG and sustainable strategies.

G		
GDP	Gross Domestic Product	GDP measures the monetary value of final goods and service produced in a country in a given period of time.
GHG	Greenhouse Gas Emission	Greenhouse gases in the earth's atmosphere that trap heat.
H		
HAMF	HSBC Asset Management (Fund Services UK) Limited	HSBC's Authorised Corporate Director for the HSBC UK fund range to which this report relates.
HSBC AM	HSBC Asset Management	HSBC's global asset management business.
HSBC AMUK	HSBC Global Asset Management (UK) Limited	HSBC's Investment Manager for its UK fund range where HAMF is the Authorised Corporate Director.
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 CO_2 emissions by 2050, with advanced economies reaching net zero emissions in advance of others.
IFRS S2	International Financial Reporting Standards	IFRS S2 sets out the requirements for disclosing information about an entity's climate-related risks and opportunities.
IPOs	Initial public offering	The first offering of new securities by an issuer to the public.
IPCC	Intergovernmental Panel on Climate Change	The Intergovernmental Panel on Climate Change is an intergovernmental body of the United Nations, which aims to advance scientific knowledge about climate change caused by human activities.
ITR	Implied Temperature Rise	The MSCI Implied Temperature Rise (ITR) model, is a metric which indicates whether an equity or fixed income portfolio is aligned to a sustainable, low carbon trajectory.
J		
Just transition		Seeking to improve the economy in a way that is as fair and inclusive as possible to everyone concerned, creating decent work opportunities and leaving no one behind, as defined by The International Labour Organization (ILO).
K		
KPI	Key performance indicators	A quantifiable measure of performance over time for a specific objective.
L		
LULUCF	Land use, land-use change and forestry activity	Defined as a "greenhouse gas inventory sector that covers emissions and removals of greenhouse gases resulting from direct human-induced land use such as settlements and commercial uses, land-use change, and forestry activities."
M		
MSCI	Morgan Stanley Capital International	Index vendor, and model supplier for cVaR and ITR.

N		
Net Zero		Net Zero refers to a state in which greenhouse gases going into the atmosphere are balanced by removal out of the atmosphere. The term net zero is important because for CO_2 at least- this is the state at which global warming stops. The Paris Agreement underlines the need of net zero; to 'go net zero' is to reduce greenhouse gas emissions and/or to ensure that any ongoing emissions are balanced by removals. The IPCC concluded the need for net zero CO_2 by mid-century remain consistent with 1.5°C.
NGFS	Network for Greening the Financial System	A network of central banks and financial supervisors, launched at the Paris One Planet Summit in December 2017, that aims to accelerate the scaling up of green finance and develop recommendations for central banks' role for climate change.
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°C; 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 38 democracies with market-based economies collaborate to develop policy standards to promote sustainable economic growth.
P		
PAIs	Principal Adverse Indicators	Indicators of the adverse impacts investments may have on environmental and social measures, which form part of metrics required by the EU's Sustainable Finance Disclosure Regulations.
PCAF	Partnership for Carbon Accounting Financials	An industry-led partnership to facilitate transparency and accountability of the financial industry to the Paris Agreement.
PPP	Purchasing Power Parity	A measure of the price of specific goods in different countries and is used to compare the absolute purchasing power of the countries' currencies.
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).
SDR	Sustainable Disclosure Requirements	UK legislation that imposes mandatory sustainability disclosure obligations for asset managers and other financial markets participants.
SFDR	Sustainable Finance Disclosure Regulation	EU legislation that imposes mandatory ESG disclosure obligations for asset managers and other financial markets participants.

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.
U		
UCITS	Undertakings for Collective Investment in Transferable Securities	A retail investment fund structure used in the UK (UK UCITS) and the EU.
W		
WACI	Weighted Average Carbon Intensity	A measure of the environmental efficiency of an issuer. It is the sum of all issuer carbon intensity, weighted by the allocation to those issuers, across HAMF's AuM. This is shown as tonnes of CO_2 equivalent per million USD of economic output (tCO_2e/USD m).

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Appendix

TCFD Recommended Disclosures

Governance

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

Recommended Disclosure	Page	
Describe the board’s oversight of climate-related risks and opportunities	13 - 15	✓
Describe management’s role in assessing and managing climate-related risks and opportunities	14 - 18	✓

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	24 - 32	✓
Describe the impact of climate-related risks and opportunities on the organization’s businesses, strategy, and financial planning	25 - 27, 33, 36, 42 - 45	✓
Describe the resilience of the organization’s strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	24	✓

TCFD Recommended Disclosures

Risk Management

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

Recommended Disclosure	Page	
Describe the organization's processes for identifying and assessing climate-related risks	38 - 48	✓
Describe the organization's processes for managing climate-related risks	38 - 41	✓
Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management	40 - 48	✓

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	57 - 64	✓
Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks	57 - 59	✓
Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets	68	✓

List of Mandatory 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 UN Global Compact 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)