

**Asset Management**

# Responsible Investment policy

January 2022



**HSBC**

Opening up a world of opportunity

Our Purpose is to help our stakeholders prosper – our clients, shareholders, the societies in which we operate, and our planet. We aim to deliver value by focussing on clients' investment needs, delivering on our philosophy of investment excellence and supporting the transition to a sustainable future.

Over the last twenty years HSBC Asset Management has developed its approach to responsible Investment, launching its first Socially Responsible Investment fund in 2001 and becoming an early signatory of the UN Principles of Responsible Investment (UNPRI) in 2006.

Since then, we have experienced growing interest in understanding how environmental, social and corporate governance (ESG<sup>1</sup>) issues can create and protect long term value for investors. This has been driven by both the interest of clients, as they become more focused on values as well as value, and regulatory change which is becoming increasingly rapid and unpredictable in markets around the world.

We believe that a deep consideration of ESG factors and commitment to active stewardship is integral to sound investment decisions in order to preserve and deliver long-term value for our clients. We support and recognise the contribution we can make to the United Nations' Sustainable Development Goals (SDGs), UN Global Compact and the global transition to a low-carbon economy as outlined in the Paris Climate Agreement.

Our ambition is to be a leader in responsible investment, driving the transition to a more sustainable economy for the long-term benefit of our clients and society. This policy sets out our ambitions and approach to responsible investment, how we implement our commitment to the UNPRI across our business, and describes how we meet the requirements of the EU Sustainable Finance Disclosures Regulation (SFDR).

Note:

1. ESG refers to the three central factors in measuring the sustainability and societal impact of an investment in a company or business.

## Scope

This policy is applied across all business lines and geographies within HSBC Asset Management<sup>1</sup>. Different investment approaches, for example active and passive index tracking management have very different associated ESG risks and opportunities, and therefore implementation of this policy will depend on the investment strategy employed, as laid out in the Responsible Investment Implementation Procedures document.

Note:

1. Historically, integration of environmental, social and governance (ESG) factors has been biased towards listed asset classes. Our proprietary integration methodologies for alternative asset classes such as hedge funds and private equity, are still emerging. ESG frameworks for alternative assets are evolving and will be finalised in 2022.



We recognise that **sustainability risks**<sup>1</sup> can lead to outcomes that have negative impacts on the values of financial products. We therefore aim to incorporate all material sustainability issues within our investment process. We support the UN Global Compact principles and have developed stand-alone policies and statements on Banned Weapons, Biodiversity, Climate Change and Human Rights alongside this Policy, that further outline our approach including how we integrate associated risks and opportunities, our engagement focus and collaborative activities. Details of exclusions are outlined in the Responsible Investment Implementation Procedures.

Note:

1. 'sustainability risk' refers to an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment. In HSBC Asset Management, we consider 'sustainability risk' and 'ESG' to be equivalent concepts, and use the terms interchangeably.

## UN Global Compact

For more than 10 years, the HSBC Group's commitment to the UN Global Compact and its principles in the areas of Human Rights, Labour, Environment and Anti-Corruption have helped shape our approach to sustainable business. As investors, we support the 10 fundamental responsibilities (listed at the end of this document) derived from the Universal Declaration of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption.



## Banned weapons

HSBC Asset Management's active, systematic and index portfolios do not have direct exposure to any listed or unlisted equities and bonds issued by corporations considered to have proven involvement with weapons banned by international conventions, including: anti-personnel mines, biological weapons, blinding laser weapons, chemical weapons, cluster munitions and non-detectable fragments.

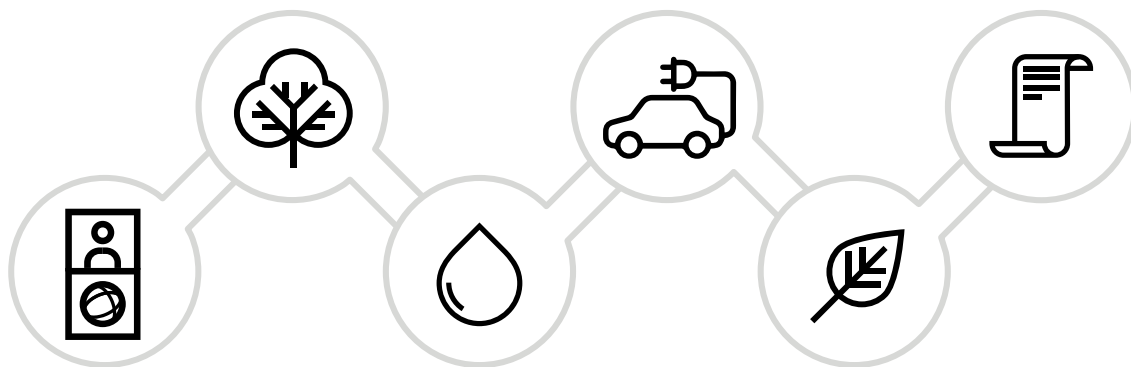
This policy does not apply universally to strategies incorporating third party funds such as our Fund of Hedge Fund business. Further detail on our approach and commitments is available in our Banned Weapons Policy.



## Biodiversity

Natural ecosystems are under threat as a result of deforestation, land degradation, pollution of the water, air and soil, hunting and harvesting, mining and climate change. This presents broad challenges for society and a systemic risk from an investment perspective. We therefore encourage our investee companies to:

- ◆ manage living natural resources, such as forests, in a sustainable manner
- ◆ avoid or minimise the release of pollutants to air, water, and land
- ◆ commit to 'No Deforestation, No Peat and No Exploitation' policies



- ◆ avoid or minimise impacts on biodiversity and ecosystem services
- ◆ improve efficiency in the consumption of energy, water, and other resources
- ◆ use independent certification systems such as FSC and PEFC for timber and RSPO for palm oil, which reduce the risk to biodiversity in forestry and agricultural commodity supply chains

Further detail on our approach and commitments is available in our Biodiversity Policy.

## Climate Change

A rapidly changing climate represents an urgent threat to habitats, societies and economies throughout the world. This was recognised in 2015, when 195 countries signed the Paris Climate Agreement, committing countries to transition to a lower carbon economy and limit the global average temperature rise to well below 2 degrees Celsius (° C) above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5 ° C.

We support the goals of the Paris Agreement and to play our part in reducing global carbon emissions we are:



- ◆ Integrating climate-related physical and transition risks to build resilient client portfolios



- ◆ Encouraging our investee companies to phase-out the use of unabated coal power by no later than 2030 in the OECD and EU, and no later than 2040 in the rest of the world



- ◆ Encouraging the setting of net zero commitments and appropriate transition plans



- ◆ Catalysing investment flows to support the transition to a low carbon economy

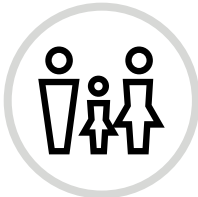
Further detail on our approach and commitments is available in our Climate Change Policy.



## Human Rights, social issues, including diversity and inclusion

We are committed to respecting human rights, and support international principles and standards including the United Nations Universal Declaration of Human Rights, the International Labour Organization's (ILO) labour standards and the United Nations Guiding Principles for Business and Human Rights.

We therefore encourage our investee companies to:

 <ul style="list-style-type: none"><li>◆ promote the fair treatment, equal opportunity and health and safety of employees</li></ul>	 <ul style="list-style-type: none"><li>◆ eliminate harmful or exploitative child labour or forced labour</li></ul>	 <ul style="list-style-type: none"><li>◆ protect the rights of local communities and indigenous peoples</li></ul>	 <ul style="list-style-type: none"><li>◆ identify, assess and respond to human rights risks in their supply chains</li></ul>
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Further detail on our approach and commitments is available in the HSBC Holdings plc Human Rights Statement.

A separate Responsible Investment Implementation Procedures document has been issued which details how sustainability risks and their principal adverse impacts are integrated into portfolio construction and investment decision making processes.

ESG risks and opportunities are identified and prioritised as a part of our research and analysis process. We use a proprietary ESG research platform that combines multiple ESG data points and assessments from independent third parties. We determine the materiality of ESG issues on both an absolute basis – in particular focusing on adherence to UN Global Compact principles, and on a relative basis – reviewing performance within sectors. Where material ESG risks or a potential breach of one or more of the 10 UN Global Compact principles are identified, enhanced due diligence is carried out by the portfolio manager/analyst, and investment committee approval is required before investments can be made.

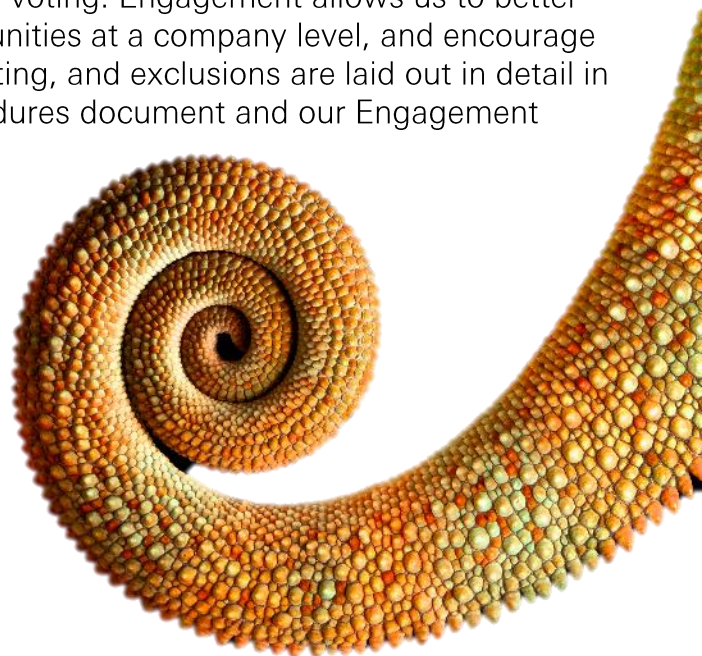
Our approach to implementation meets the requirements of Article 4 of the SFDR.

## Active Ownership

Active ownership is a key pillar of our approach to responsible investment, and of the way we deliver value to our clients. Our activities are focused on protecting and enhancing our clients' investments through both engagement and voting. Engagement allows us to better understand and evaluate the ESG risks and opportunities at a company level, and encourage better practices. Our approach to engagement, voting, and exclusions are laid out in detail in the Responsible Investment Implementation Procedures document and our Engagement Policy.

## Stewardship Codes

We are signatories to investor stewardship codes globally, including the UK Stewardship Code, the Hong Kong Principles of Responsible Ownership and the Taiwan Stewardship Principles for Institutional Investors. Further details regarding our implementation of these Codes are available from HSBC Asset Management.



## Managing conflicts

HSBC Asset Management is operationally independent from other HSBC Group companies. We identify and manage any potential conflicts that may arise internally, with clients, and Group companies in responsible investment-related activities with transparency, fairness and consistency. Our primary duty is to our clients' interests. Where necessary we will disclose and discuss conflicts in the HSBC Asset Management Conflicts of Interest Policy Summary.

## Remuneration

Our remuneration strategy is designed to reward competitively the achievement of long-term sustainable performance and attract and motivate the very best people, regardless of gender, ethnicity, age, disability or any other factor unrelated to performance or experience, while performing their role in the long-term interests of our stakeholders.

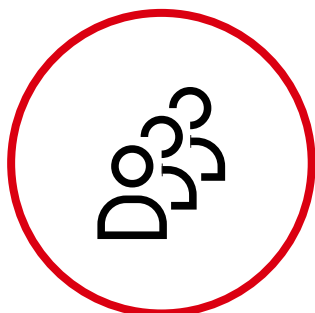
This includes consideration of the extent to which sustainability risks are incorporated into the investment-decision process and the setting of specific KPIs for portfolio managers and regional CIOs, in line with Article 5 of the SFDR.

Responsibility for the implementation of the Responsible Investment Policy ultimately lies with the HSBC Asset Management Senior Management Team.

Accountability for all investment management activities, including the integration of ESG considerations, lies with our Global Chief Investment Officer (CIO). Our Head of Responsible Investment, asset class and regional CIOs and investment teams are responsible for integrating ESG issues into their respective investment decisions, supported by ESG specialists. The ESG Oversight Committee approves specific changes to ESG integration methodology and oversees specific implementation decisions.

Oversight is provided by our Sustainability Forum (SF) comprising our Head of Responsible Investment (Chair), Chief Executive Officer, Global Chief Investment Officer, Chief Risk Officer and Chief Compliance Officer. The SF reports into our HSBC Asset Management Risk Management Committee.





We play an active and constructive role in supporting the development of a well-functioning and more sustainable financial system. This involves engaging with regulators and policymakers directly, for example by responding to consultations or attending in person bilateral meetings or roundtables, and indirectly through industry bodies. We are active members of a variety of industry bodies, initiatives and networks that advocate for progressive public policy development and action on sustainable investment.



We work closely with our HSBC Group Public Affairs colleagues to respond directly to consultations and discussion papers that contribute to shaping a more sustainable financial system.



We recognise the important responsibility we have to support the transition to a low carbon economy, improve market standards and transparency on ESG issues and mobilise capital to deliver on the SDGs and the Paris Climate Agreement. This is not something we can do alone. We are therefore committed to partnering and collaborating with relevant government, regulatory, industry and civil society groups to promote more sustainable outcomes. A list of current partnerships and collaborative initiatives is available from HSBC Asset Management on request.

We believe transparency and disclosure are an integral part of good governance. We expect it from the companies in which we invest, because it allows us to make better-informed investment decisions. We believe it is equally important for us to be transparent and to communicate clearly with clients (including pre-contractual disclosures) and relevant stakeholders. This includes:

- ◆ making our responsible investment policies available on our websites (as required under Article 3 of the SFDR),
- ◆ reviewing them and their implementation regularly, at least once a year, and
- ◆ providing additional disclosure in line with regulatory requirements (including Article 6 of the SFDR) and the voluntary commitments we have made, as set out below

## Voluntary disclosure commitments

- ◆ UNPRI Transparency and Assessment Reports
- ◆ Montreal Carbon Pledge
- ◆ Taskforce on Climate-related Financial Disclosure (TCFD) aligned disclosure
- ◆ Voting decisions – quarterly in arrears
- ◆ Annual responsible investment review – including disclosure in line with the UK Stewardship Code

## The Ten Principles of the UN Global Compact

### Human Rights

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2: make sure that they are not complicit in human rights abuses.

### Labour

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4: the elimination of all forms of forced and compulsory labour;

Principle 5: the effective abolition of child labour; and

Principle 6: the elimination of discrimination in respect of employment and occupation.

### Environment

Principle 7: Businesses should support a precautionary approach to environmental challenges;

Principle 8: undertake initiatives to promote greater environmental responsibility; and

Principle 9: encourage the development and diffusion of environmentally friendly technologies.

### Anti-Corruption

Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

# Important information

**The value of investments and the income from them can go down as well as up and investors may not get back the amount originally invested. The capital invested in the fund can increase or decrease and is not guaranteed. The performance figures contained in this document relate to past performance, which should not be seen as an indication of future returns. Future returns will depend, inter alia, on market conditions, fund manager's skill, fund risk level and fees. Where overseas investments are held the rate of currency exchange may cause the value of such investments to go down as well as up. Investments in emerging markets are by their nature higher risk and potentially more volatile than those inherent in some established markets. Economies in Emerging Markets generally are heavily dependent upon international trade and, accordingly, have been and may continue to be affected adversely by trade barriers, exchange controls, managed adjustments in relative currency values and other protectionist measures imposed or negotiated by the countries and territories with which they trade. These economies also have been and may continue to be affected adversely by economic conditions in the countries and territories in which they trade. Mutual fund investments are subject to market risks, read all scheme related documents carefully.**

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