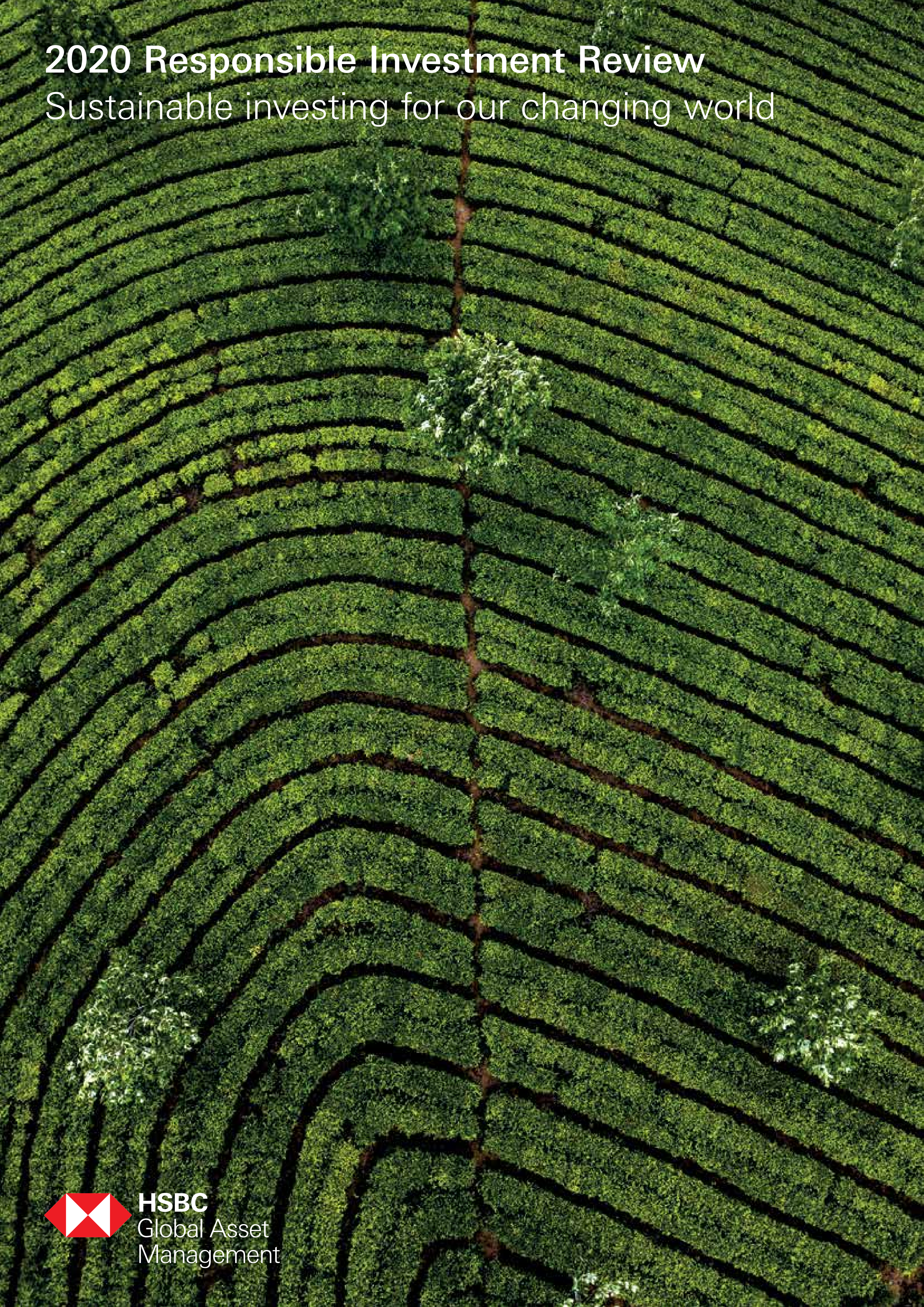
2020 Responsible Investment Review

Sustainable investing for our changing world



HSBC
Global Asset
Management

Contents

Foreword

Nicolas Moreau
Global Chief Executive, HSBC Global Asset Management

As we enter a new decade, finance and investment continue to play a critical role in tackling climate change and meeting the UN Sustainable Development Goals. We are committed to supporting and enabling the low-carbon transition across our global business.

We believe that a deeper consideration of environmental, social and governance (ESG) factors is integral to sound investment decisions in order to preserve and deliver long-term value for our clients, and supporting the transition to a more sustainable economy and society. We do this through the way we invest, the products we offer, and the role we play in shaping a more sustainable financial system.

This report provides an overview of how we integrate ESG factors, and climate-related risks in particular, into our investment decisions, the importance we place on stewardship and how we engage on systemic market issues.

Looking ahead 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 Sustainable Development Goals and Paris Climate Agreement.

I hope you find this report of interest.

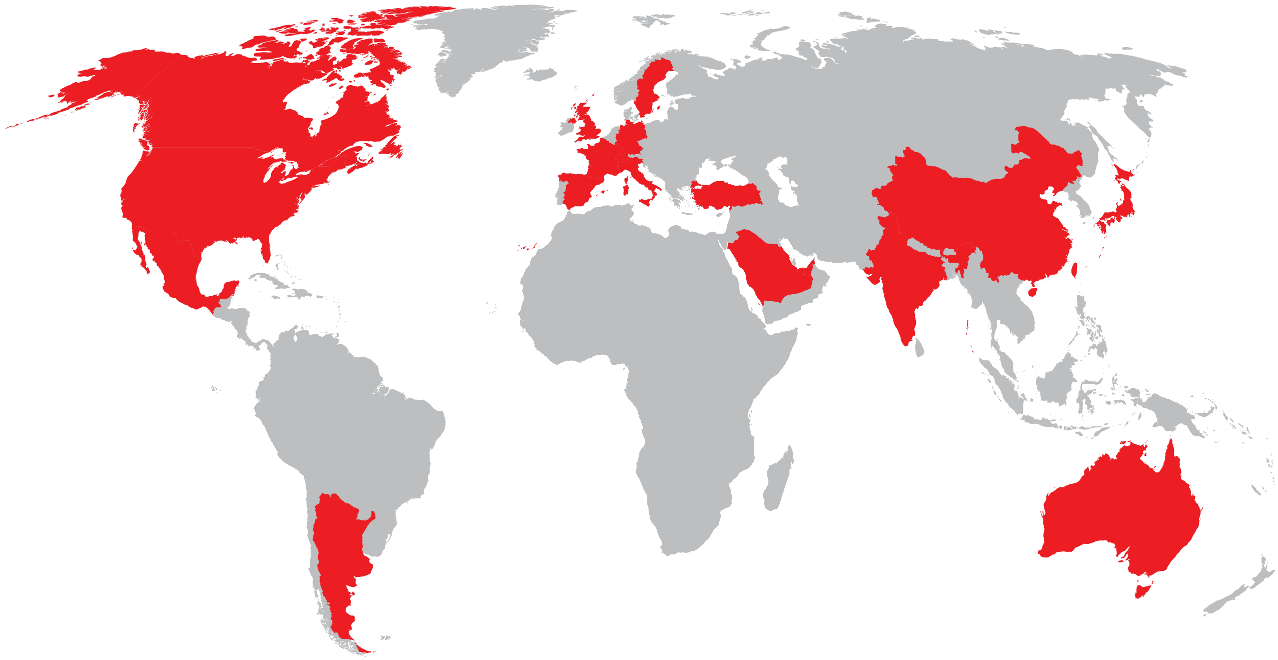
Nicolas Moreau
Global Chief Executive, HSBC Global Asset Management

About us

At HSBC Global Asset Management, we invest with purpose and discipline to unlock sustainable investment opportunities for our investors and deliver sustainable growth and reduce risks through the consideration of ESG factors. We, as a global investor, have a unique perspective and expert insights on ESG factors and their associated risks and opportunities.

We combine these strengths with a long-term commitment to our clients and a structured and disciplined investment approach. We deliver solutions that support our clients' financial ambitions as well as contributing towards financing the transition to a low-carbon economy.
We see this as consistent with our fiduciary duties to our clients.

Presence in 25 countries and territories



As of end of December 2019, we managed USD517.1 billion globally for a range of clients, from some of the largest institutional investors in the world to commercial and corporate clients, financial intermediaries, retail and private banking clients.

We believe that considering ESG factors while investing with purpose and discipline across all portfolios is critical to delivering sustainable growth and reducing risks for each client we serve.

HSBC Global Asset Management offices

Countries and territories where our investment teams sit are in bold.

Americas

- **Argentina**
- **Bermuda**
- **Canada**
- **Mexico**
- **USA**

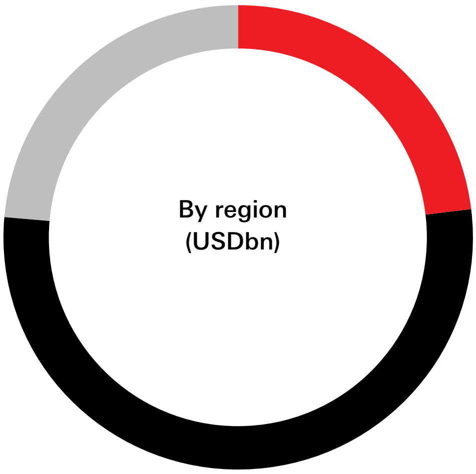
EMEA

- **France**
- **Germany**
- Italy
- Jersey
- Luxembourg
- **Malta**
- **Saudi Arabia**
- Spain
- Sweden
- Switzerland
- **Turkey**
- UAE
- **UK**

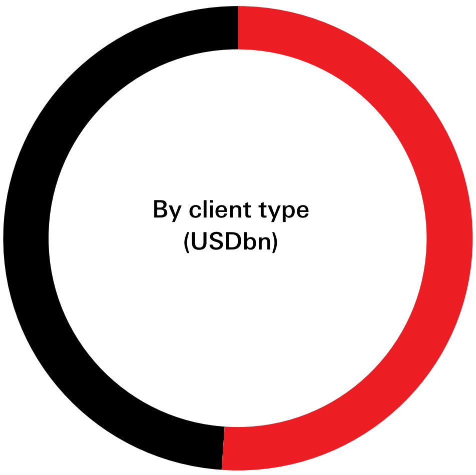
Asia Pacific

- Australia
- **Mainland China**
- **Hong Kong**
- **India**
- Japan
- Singapore
- **Taiwan**

- Fixed Income (158.1)
- Equity (82.8)
- Multi-Asset (121.1)
- Liquidity (98.1)
- Alternatives (30.6)[1]
- Other (26.4)[2]



- Americas (119.8)
- EMEA (275.6)
- Asia Pacific (121.8)



- Wholesale (264.7)
- Institutional (252.5)

1. Alternatives assets include USD6.4 billion from committed capital ("dry powder").
2. Other is the assets of Hang Seng Bank, in which HSBC has a majority holding, and of HSBC Jintrust Fund Management, a joint venture between HSBC Global Asset Management and Shanxi Trust Corporation Limited.

Source: HSBC Global Asset Management as at 31 December 2019. Any differences are due to rounding.

Asia-Pacific includes employees and assets of Hang Seng Bank, in which HSBC has a majority holding.
HSBC Jintrust Fund Management Company is a joint venture between HSBC Global Asset Management and Shanxi Trust Corporation Limited.

Commitment to sustainability since 2001

Launched first Socially Responsible Investing (SRI) equity fund

2001

Joined the UK Sustainable and Finance Association

Launched first SRI bond fund

2006

Signatory to the Principles for Responsible Investment

Joined Institutional Investor Group on Climate Change

2007

Signatory to the Montreal Carbon Pledge

2015

2019 highlights and looking ahead to 2020

2019

In 2019, we further developed our responsible investment principles across all asset classes, expanded our work on scenario analysis and updated key policies related to our responsible investment process. For example, we published our Green Impact Investment Guidelines. These guidelines include activities that contribute to the United Nations' Sustainable Development Goals (SDGs) and the global transition to a low-carbon economy. This framework also outlines the eligible investments for our Real Economy Green Investment Opportunity (REGIO) Bond fund.

We engaged with companies both individually and collaboratively on ESG risks, disclosure and management. As chair of the global steering committee of the Climate Action 100+ initiative, we led engagements with ExxonMobil and BP, co-filing shareholder resolutions. These engagements led to improvements in climate governance, risk management and disclosure.

We also continued our membership in key initiatives. As part of the Strategic Advisory Group to the British Standards Institute, we are helping develop standards on sustainable finance. We support Sovereign Wealth Funds in managing climate risks as a founding member of the One Planet Asset Manager Initiative. Additionally, we produced thought leadership with the Investor Leaders Group of the Cambridge Institute for Sustainability Leadership (Impact Framework and Virtual Investment Experiment).

Joined the Cambridge Institute of Sustainability Leaders – Investment Leaders Group (ILG)

2016

Launched Climate Action 100+ initiative in collaboration with other investors

2017

Founding member of One Planet Asset Manager Initiative supporting the One Planet Sovereign Wealth Fund Working Group

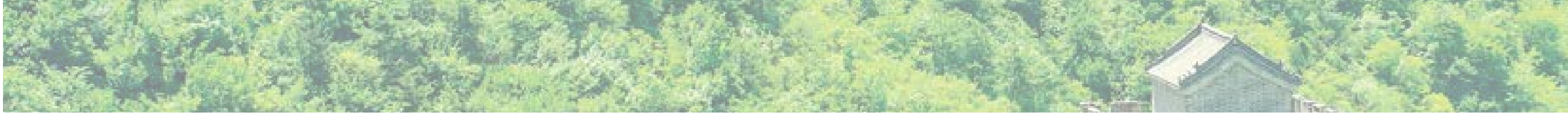
2019

2020

Looking forward to 2020, we will continue to develop sustainable investment products that support our clients' investment and financial goals and timelines, contribute to the United Nations Sustainable Development Goals (SDGs) and the global transition to a low-carbon economy and integrate ESG factors into our investment decisions.

The UN has called 2020 to 2030 the 'decade of delivery' and we will continue to deliver specific innovative solutions that provide real world impacts. Our focus will be on increasing access to climate finance and supporting the transition to the low-carbon economy. We plan to develop investment products across asset classes and geographies, including both active and passive solutions.

Our approach to responsible investment



Building a sustainable future

As part of our fiduciary duty to clients we are focused on increasing the climate resilience of our clients' investments. Alongside climate issues, we formally integrate ESG factors into our investment decisions. We believe that ESG factors can have a material effect on the financial performance of the securities and assets in which we invest.
Since we signed the Principles for Responsible Investment (PRI) in 2006 we have integrated material ESG factors into our investment analysis and decision-making, to reduce risk and enhance returns.

We recognise the contribution we can make to the United Nations' Sustainable Development Goals (SDGs) and the global transition to a low-carbon economy. The SDGs and Paris Climate Agreement set a long-term transformational framework with the objective of ending poverty, fighting inequalities and tackling climate change.
We will continue to collaborate with institutional investors, development finance institutions and policy-makers to deliver tangible investment flows into the real economy.

We have a long-term commitment to our clients and a structured and disciplined investment approach to deliver solutions that support their financial ambitions while transitioning to a more sustainable future through:

- Creation of solutions based on client needs designed to mitigate risk and capture opportunities around ESG issues
- Engagement with companies, improving market transparency and sustainability disclosure to better understand investment risks and opportunities
- Work with policy makers and industry leaders to the benefit of our clients and the long-term health of the financial system and to support the transition to a low-carbon economy

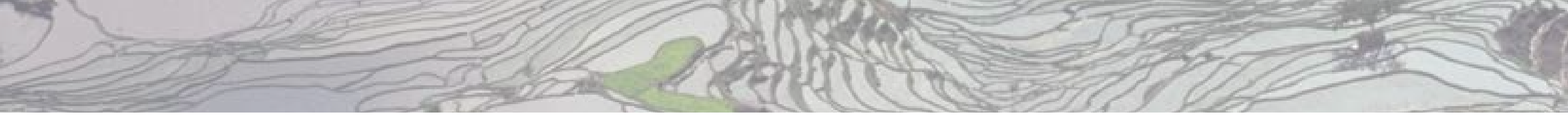
Integrating ESG considerations

Our approach to addressing ESG issues and climate change

At HSBC Global Asset Management, we believe that Environmental, Social, and Governance (ESG) issues can have a material effect on company performance. Issues including climate change, water scarcity and availability, deforestation, health and safety, and executive pay, are generating risks and opportunities for companies which financial markets may not price appropriately. Therefore, material ESG considerations are an integral part of security analysis alongside fundamental financial considerations. Our analysts and portfolio managers use ESG data, including carbon emissions metrics to enable us to identify and manage ESG risks and opportunities and make well-informed investment decisions.
We see it as consistent with our fiduciary duties to our clients to review the climate resilience of investments and contribute towards financing the transition to a low-carbon economy. We achieve this through:

- Identifying low-carbon investment opportunities
- Assessing the risks and opportunities presented by climate change
- Engaging with investee companies
- Reporting on the actions we have taken and the progress we have made in addressing climate risk
- Working with policymakers

Furthermore, we have a responsibility to exercise active stewardship on behalf of our clients. We meet with companies regularly to improve our understanding of their business and strategy, signal support or concerns we have with management actions, and promote best practice. We believe that good corporate governance ensures that companies are managed in line with the long-term interests of their investors. We also engage with carbon-intensive companies to encourage climate–resilient business strategies.
This approach allows us to integrate material ESG factors into our investment analysis and decision-making during every step of the investment cycle in order to reduce risk and enhance returns.



Managing ESG integration

Data

We use our own analysis and engagement to evaluate company performance along with information from third parties to develop our own in-house ESG ratings for issuers. We use a range of third-party data providers to ensure that we have comprehensive coverage of issuers and ESG data.

We continually evaluate this data, ESG data providers and our research process. Over the past year we have reviewed the material ESG factors used across all sectors to ensure our database is capturing emerging ESG trends and issues. Additionally, our internal ESG intranet has been upgraded to facilitate greater access to and improve the usability of ESG data across our investment teams. We provided numerous training sessions on using the upgraded intranet to ensure that analysts and portfolio managers are able to efficiently access and utilise our ESG data.

The Global Chief Investment Officer (CIO) has accountability for the integration of ESG issues. For each asset class, our specialised investment teams are responsible for integrating ESG issues into their respective investment processes. To support our investment teams, we have ESG specialists, ESG research analysts and engagement personnel globally.

We review our policies on an annual basis. In 2019, we updated our Climate Change, Responsible Investment, Banned Weapons, Voting Guidelines and Engagement Policies.

Training

Over the past year, we have held a number of training sessions on ESG ratings and broader ESG integration for our investment teams.

We conducted sector-specific training to provide sector analysts with an update regarding the evolving ESG regulatory frameworks, disclosure guidelines, best practices and new technologies within their respective sectors.

Group Management Board members for each of the boards of the regional entities (e.g. HSBC Hong Kong) have attended masterclasses on ESG and responsible investment.

In 2020, we will roll out a global training update for relationship managers and other non-investment personnel. This training will cover recent responsible investment trends and drivers and further enhance the understanding of responsible investing across the business.

Active ownership

What active ownership means to us

Active ownership is a key pillar of our approach to responsible investment. It helps to understand and evaluate the ESG risks and opportunities at a company level, drive positive behaviour and promote high standards.

We use our influence as investors to encourage corporate behaviour that protects and enhances value. We fulfil this responsibility through proxy voting and company engagement.

Where we undertake significant investment activities, we have become signatories to investor stewardship codes, including: the UK Stewardship Code, the Hong Kong Principles of Responsible Ownership and the Taiwan Stewardship Principles for Institutional Investors.

Analysis and research	Fundamental analysis including ESG research	Identification of possible areas of concern	Meet companies to understand issues	Stakeholder due diligence
Company engagement	Seek commitments from company to address concerns	Follow up meetings with board members	Monitor issues and company progress	Engage with company to raise concerns and encourage action
Voting	Vote against management	Publicly declare our voting intentions in advance	Support shareholder resolutions	
Further escalation	File shareholder resolutions	Public communication	Engage with other investors	Attend selected AGMs

Key Documents Voting guidelines | Engagement policy | Stewardship statements | Voting disclosure

Voting

We aim to vote on all equities for which clients have given us voting authority[1].

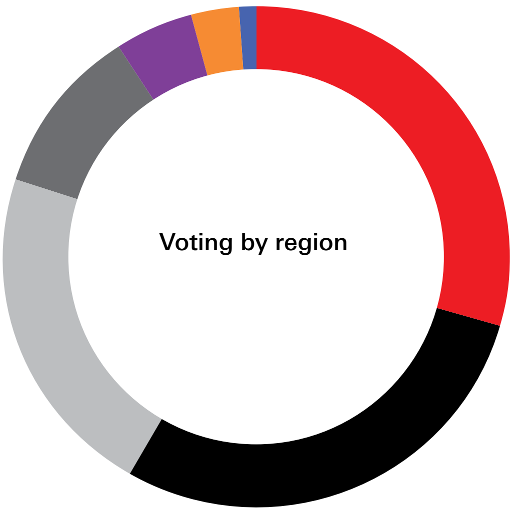
Our voting aims to support and encourage companies to follow local governance codes and international principles of good governance, social practice and environmental sustainability.

As global investors we recognise that corporate governance codes, standards and practices vary across different markets. We expect companies to apply governance good practice for their market of listing and for larger companies, to meet globally-recognised good practice standards. We look to directors of companies to provide effective stewardship and ensure that the companies act in the long-term interests of all shareholders. Our voting guidelines help us to hold them accountable.

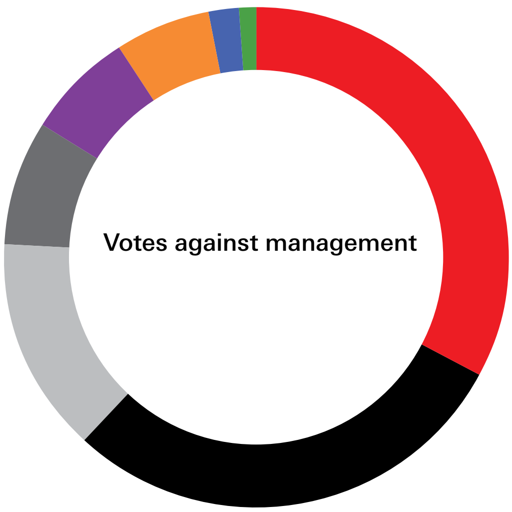
Voting in practice

In 2019, we voted on more than 78,000 resolutions at over 7,400 company meetings across 74 markets, representing 96% of the ballots which we were entitled to vote. This compares with more than 73,000 resolutions at over 7,000 companies in 2018.

We supported management on 90% of resolutions, abstaining or voting against on 10%. The issue we most frequently opposed was director re-election (33% of votes against management) predominantly for reasons of lack of independence, followed by compensation (29%), followed by capitalisation issues.

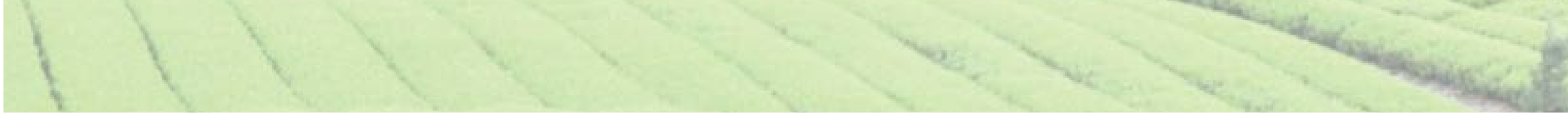


- Asia Pacific - Emerging Market (30%)
- North America - Developed Market (29%)
- EMEA - Developed Market (22%)
- Asia Pacific - Emerging Market (11%)
- EMEA - Emerging Market (5%)
- Americas - Emerging Market (3%)
- Frontier and others (<1%)



- Director elections (33%)
- Compensation (29%)
- Capitalisation (14%)
- Transactions (8%)
- Shareholder resolutions - G (7%)
- Routine (6%)
- Shareholder resolutions - E&S (2%)
- Anti-takeover (1%)

1. This may not always be practical due to reasons such as share blocking or power to attorney requirements.
Source: HSBC Global Asset Management as at 31 December 2019. Totals may not add up to 100% due to rounding.



Voting-related engagement

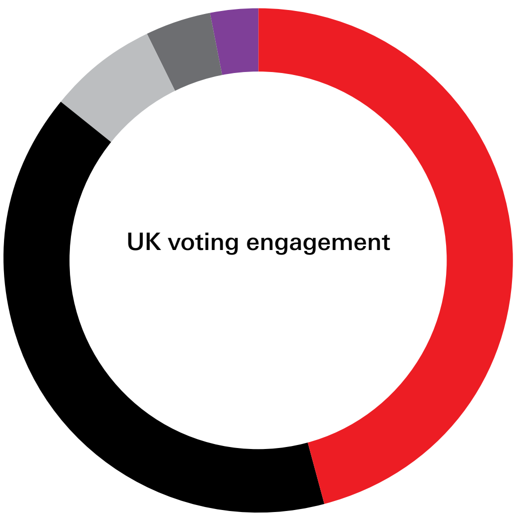
Voting-related engagement in the UK

In 2019, we engaged with 282 companies to discuss our voting decisions on resolutions where we felt unable to support management. These companies were prioritised based on our largest holdings and markets and represented just over 20% of our global equity AUM.

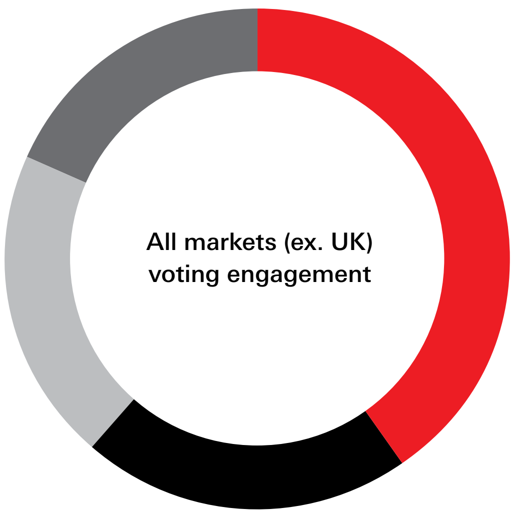
A large proportion of these companies were in the UK, where we engaged with 138 companies in advance of voting at their shareholder meetings. Issues discussed included compensation (46%), director elections (40%), capitalisation (7%), routine (4%) and transactions (3%).

Voting-related engagement outside the UK

We engaged with companies in another 15 markets to raise concerns on issues including compensation and board composition.

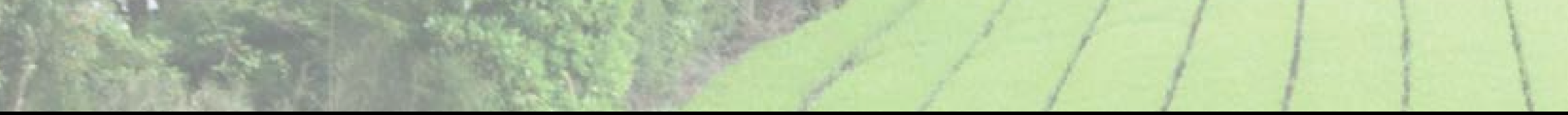


- Compensation (46%)
- Director elections (40%)
- Capitalisation (7%)
- Routine (4%)
- Transactions (3%)



- Compensation (40%)
- Director elections (21%)
- Shareholders resolutions - G (20%)
- Shareholders resolutions - E&S (18%)
- Capitalisation (<1%)
- Routine (<1%)

Source: HSBC Global Asset Management as at 31 December 2019. Due to rounding figures might not total 100%.



Holding directors accountable

One of the most important stewardship roles of shareholders is to vote on the election of company directors. Directors are the first stewards of listed companies, with duties to protect shareholders and advance the interest of companies in accordance with local laws and regulations.

In the past year we have strengthened our voting guidelines for the election of directors in a number of ways. We have extended our expectation for boards to have at least one-third independent directors to emerging and frontier markets. For larger Japanese companies we have enforced this standard by voting against some executive directors as well as non-independent non-executive directors. We have voted against the re-election of the Chair of some companies in energy intensive sectors who are not meeting recognised standards in climate reporting. We also voted against nomination committee chairs for developed market companies with no female directors.

Independent directors
Appointing directors that do not have business or family links with the company or fellow board members is an important element in ensuring that a company's board will act in the interest of all shareholders. Some markets require at least half the board to be independent; others set different standards reflecting local ownership structures and evolving governance practices. Along with our requirement on board independence mentioned above, we also require at least half the members of audit and remuneration committees to be independent. We voted against almost 150 directors in emerging and developed market companies as a result.

In Japan, there is a particular problem of low independent representation on company boards. The market requirement is for at least two outside directors, who do not necessarily need to be independent. Company boards are often large – many with more than fifteen members – comprised mainly of executives. Whilst we are sensitive to local market standards, we believe that the principle of independent representation on boards is important and well established.

In particular, we believe that large companies seeking international investors should meet this standard. We had previously engaged with large Japanese companies to explain our view. Our voting already reflected this, with votes against non-independent outside directors at large Japanese companies where there was less than one-third independent board representation.

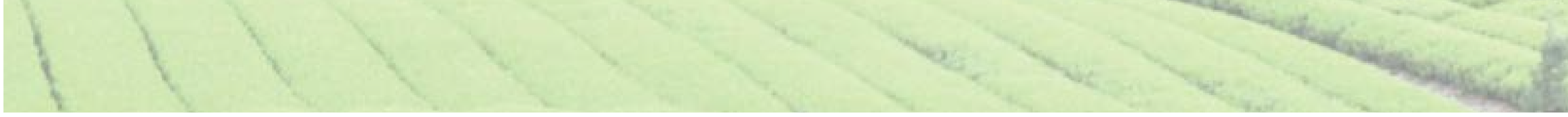
In 2019, we amended our application of voting guidelines for companies listed in the Topix 100, to vote against executive directors as well – excluding the CEO, President or Chair – at companies which did not meet this standard. More than half of the companies in the index already met the standard. We engaged in advance with the companies that did not. We voted against directors at 37 companies as a result.

Climate disclosure
Companies' disclosure of emissions and of climate risk governance are important for shareholders to assess responses to the threat of climate change. We have engaged with companies on this issue for a number of years and encourage them to disclose in line with the recommendations of the Task Force on Climate-related Financial Disclosure (TCFD).

Ahead of the 2019 voting season, we amended our voting guidelines to link our voting to this engagement. Where companies in energy-intensive sectors have persistently failed to disclose their carbon emissions and climate risk governance, we generally vote against the re-election of the Chair. We voted against the Chairs of 10 such companies in 2019; the Chairs of some other companies either did not face re-election in 2019 or had appointed new Chairs. We engaged with a further 20 companies which had made progress in their climate reporting but which still did not meet expected disclosure standards.

Gender diversity
Boards need a diversity of outlook and experience to exercise good judgment. It can be hard for a shareholder to form a view on board diversity but one clear criterion on which we can assess boards is gender diversity. Whilst we recognise that gender diversity at board level is partly influenced by societal and sectoral norms, companies with no female directors may not have an open and meritocratic approach to recruitment.

In 2019, we amended our voting guidelines to vote against the chairs of nomination committees for boards of developed market companies which had no female representation. This resulted in votes against committee chairs at 78 companies.



Shareholder resolutions

Shareholder resolutions are used as an engagement tool to encourage changes in corporate behaviour. We support shareholder resolutions on ESG issues where these are in line with the principles of good governance outlined in our voting guidelines or where we consider the issue to be material and the proposal to be in the best long-term interest of clients.

This means we support greater disclosure and the introduction of appropriate policies (provided the proposal is not overly prescriptive).

In 2019, we supported 1,702 shareholder resolutions, 67% of the 2,522 resolutions on which we could vote. This compares to 1,074 shareholder resolutions supported in 2018, 61% of the 1,764 resolutions available.

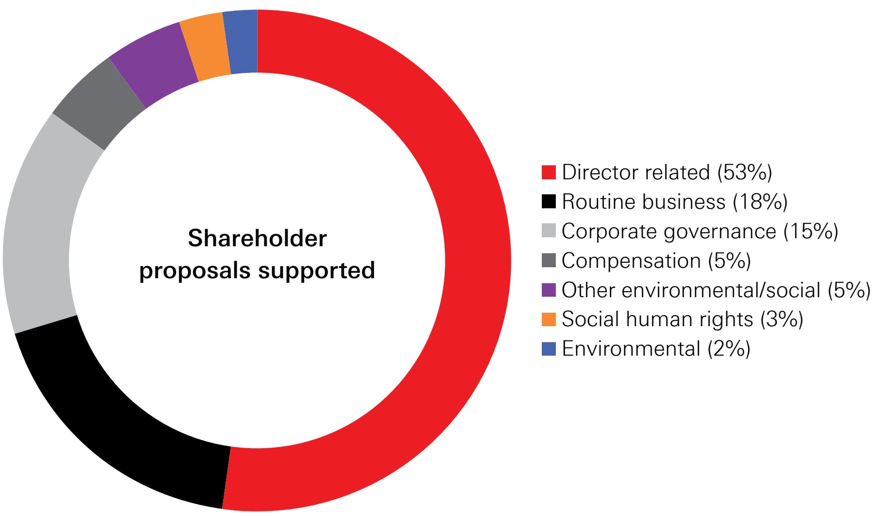
Among these, we supported more than 170 resolutions on environmental and social issues.

On climate change, we typically support resolutions asking for the adoption of climate change policies, two-degree transition plans and/or quantitative greenhouse gas emission reduction targets, and resolutions asking for annual assessments of portfolio resilience.

Our record on supporting climate-related shareholder resolutions was recognised in a November 2019 study into asset managers' voting undertaken by ShareAction. We were placed in the top five out of 44 asset managers surveyed for their voting on key climate change resolutions over three years.

Shareholder resolutions have been used under the Climate Action 100+ initiative as a means of promoting better management of climate risks.

In 2019, we co-filed two resolutions in our role as support investors for the Climate Action 100+ engagements with the companies below. At BP, we were amongst the early co-filers of a resolution that was embraced by management as an expression of their commitment to a marked improvement in management of climate risk. The resolution was supported by a very large proportion of shareholders. In that same role for the Climate Action 100+ at ExxonMobil, we were amongst the co-filers of a resolution which called for improved climate reporting and targets for emission reductions, including Scope 3 emissions. No action was taken on this resolution, however we are continuing our engagement with them.



Source: HSBC Global Asset Management as at 31 December 2019.
Totals may not add up to 100% due to rounding.

Engagement approach

Overview

We use our influence as a global asset manager to engage directly with the companies we invest in on behalf of our clients. We do this to protect and enhance the long-term value of our investments.

We meet with companies on a range of issues including delivery of corporate strategy, financial and non-financial performance and risk, allocation of capital and management of ESG issues.

We have a clear set of general engagement objectives which include:

- Improving our understanding of a company's business and strategy
- Monitoring performance
- Signalling support or raising concerns about company management, performance or direction
- Promoting good practice

Prioritising companies for engagement

We undertake a risk assessment of our global equity portfolio on an annual basis. This process helps us to identify ESG practices of concern in different regions and where we have the most exposure on an absolute and relative basis.

For both fixed income and equity we prioritise themes, sectors or key stocks on the basis of scale of client holdings, salience of the issues concerned and our overall exposure. This process results in the development of an annual engagement plan.

We have developed a clear process for each formal equity engagement based on setting defined company specific objectives, tracking progress made, measuring company action and recording engagement.

How we engage and where we escalate our engagement

We engage across both our equity and fixed income holdings, leveraging our strong research capabilities across both asset classes. Where we have identified company specific or systemic risks we will raise these concerns through meetings, site visits, conference calls or correspondence. This engagement may include contact at many different levels of an investee company. Where we feel that regular communication has not demonstrated that an issue is being adequately addressed, we might decide to escalate our engagement in order to protect client interest.

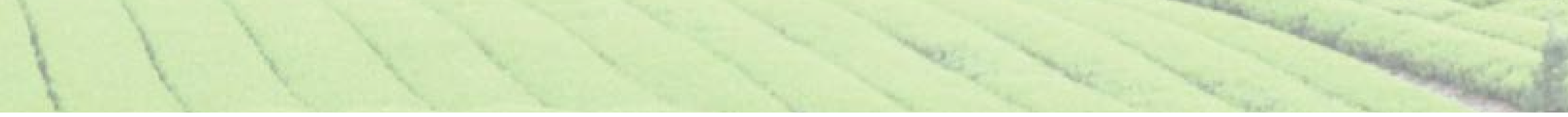
How we decide to escalate an engagement may vary according to issue, fund, assets and geographies. We give thought to the time a company has had to address a concern, the scope of our engagement to date, a company's responsiveness, as well as the likelihood of a particular approach actually being successful.

Initial escalations may include raising the concerns with the company Chair, independent board directors, or using our votes to express our concern over inaction. Where these fail to yield results we may engage collectively with other investors and consider more public interventions such as statements, letters to the press, AGM attendance, filing shareholder resolutions or requisitioning general meetings.

Achieving outcomes

The overarching goal of engagement is assurance that risks are being managed and changes in practice where we believe they are not. Companies may decide to address investor concerns after one interaction, others require a multitude of engagements. Not all engagements result in an outcome, but this in turn may impact our view of a company.

We regard stewardship as integral to our long-term approach to investment. We prioritise engagements based on our holding, issue and exposure, not necessarily whether we expect change and will be able to demonstrate outcomes.



Engagement in numbers

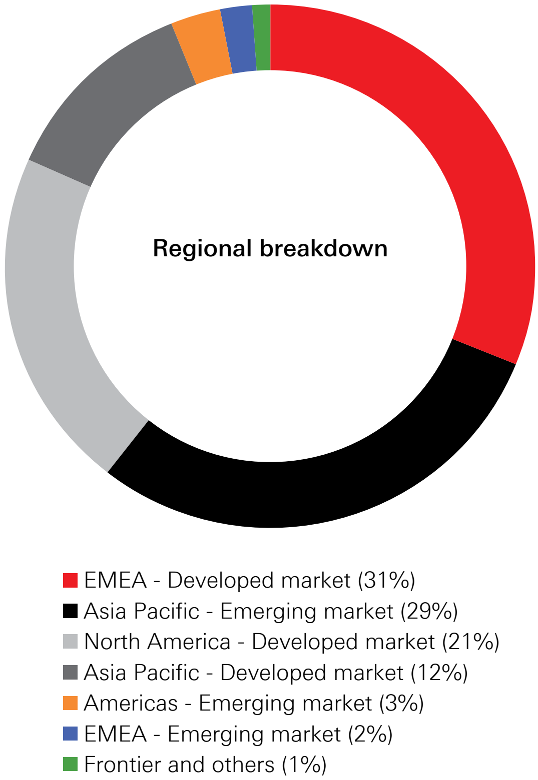
Engagement is integral to the fundamental research process. Our active equity and credit analysts – as well as our portfolio managers – engage with issuers as part of the investment process, both before and during the period of investment and they also cover relevant ESG issues in their research and discussions.

Over the last three years our stewardship team has grown alongside our integration efforts and understanding of the materiality of ESG issues on company returns. We have seen a corresponding increase in engagement on ESG issues.

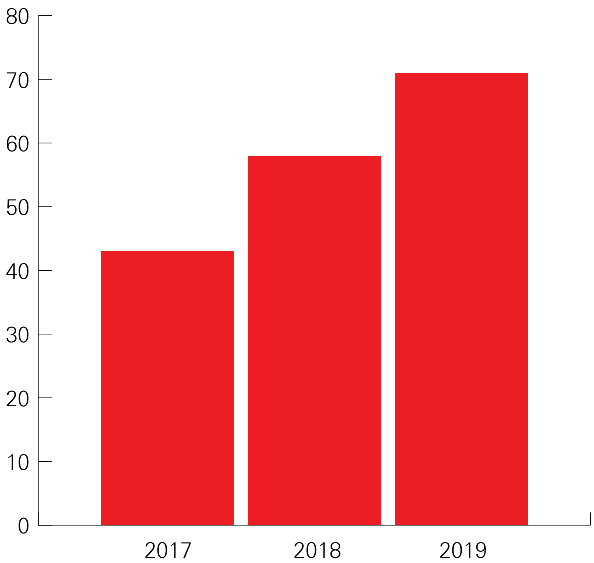
Overall ESG issues were raised in engagements with over 2,300 corporate and non-corporate issuers in 71 markets (up from 1,219 issuers in 58 markets in 2018). Breaking these down by asset class, in 2019 our equity teams raised ESG issues with 986 companies and featured in 67% of routine equity meetings (up from 28% in 2018). For our fixed income teams, ESG issues were raised with 1,305 companies, governments and other issuers (up from 306 in 2018) and were raised in 81% of routine meetings (up from 29% in 2018)*.

Regional breakdown

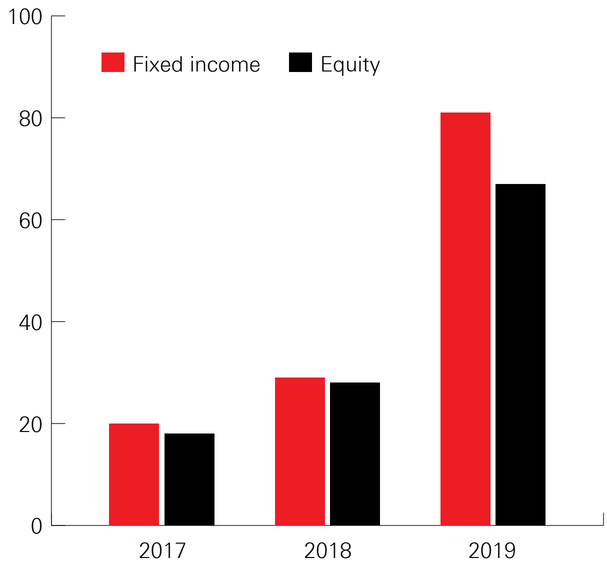
We have dedicated engagement specialists in London, Paris and Hong Kong. This enables us to engage globally, across developed and emerging markets.



Markets where engagements took place



ESG issues raised in meetings (%)

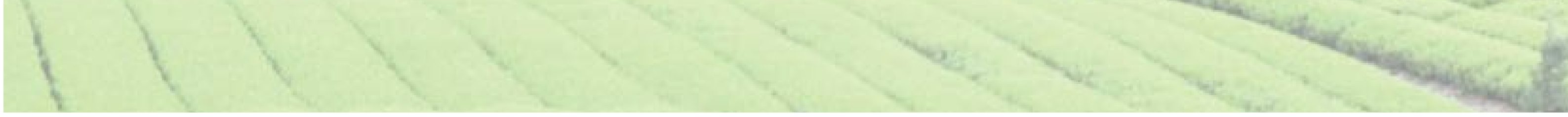


*These figures include some engagement with the same companies.
Source: HSBC Global Asset Management as at 31 December 2019.
Totals may not add up to 100% due to rounding.

Engagement on climate change

Limiting global warming to 1.5°C will require rapid, far-reaching and unprecedented changes in all aspects of society. The scale and speed of the transition that is required, means that even an orderly transition will impact how companies operate now and in the future. Given the systemic nature of the challenge, our participation in Climate Action 100+, has formed a central role in our engagement on this critical issue as this global initiative with over 370 investor signatories provides us with greater ability to influence companies. Below are a few examples of the changes we have seen in 2019.

Sector	Company	Commitments & changes in 2019
Oil & Gas	Equinor SA	We met with the company regularly in 2019 to discuss our expectations. This resulted in a joint statement between HSBC Global Asset Management, UBS Asset Management and Equinor in May 2019 setting out the following commitments: 1. Business strategy alignment with Paris Climate Agreement 2. Upgrade of emission reduction targets 3. Upgrade of remuneration with climate targets 4. Scope 3 emissions disclosure 5. Global review of lobbying on climate change We were pleased that in February they announced the following commitments: - 50% reduction carbon intensity including Scope 3 emissions by 2050 - Carbon neutral global operations by 2030 - 40% reduction of absolute emissions in Norway by 2030 and 100% in 2050
Coal	China Shenhua	We held an in person meeting with company in Beijing to discuss carbon emissions management. In 2019 the company committed to provide the enhanced climate risk disclosure via the CDP climate questionnaire. Going forward we would like to see a detailed carbon footprint (scope 1, 2 and 3), a short term reduction target as well as net zero 2050 target.
Metals and Mining	BHP	In 2019 BHP made some significant commitments. These included: 1. Establish a medium term (2030) emission reduction target 2. Allocate USD400m to reduce scope 1, 2 and 3 emissions 3. Produce new climate portfolio analysis report in 2020 including a 'well below' two degree scenario 4. Strengthen link between executive remuneration and GHG emissions performance **Trade Association Review** In 2017 the company was one of the first to publish a review of trade association alignment with its policy position. In 2019 a shareholder resolution was filed asking the company to suspend trade association membership where policy advocacy was inconsistent with the Paris Climate Agreement. In response to this resolution, the company committed to produce a second review. BHP was at the time one of only 15 companies out of the 161 CA100+ companies to disclose a process to ensure consistency between its climate policy and the positions taken by its trade associations. Whilst we supported the principle of the resolution, we were concerned that the wording was overly prescriptive. We did not support the resolution but instead lead a USD10tn investor coalition in setting out expectations on climate advocacy for the Australian extractive sector.
Metals and Mining	ArcelorMittal	We met with the company on several occasions in 2019 to discuss our expectations. In line with their December 2019 ambition to be carbon neutral in Europe by 2050, the company established a Europe target of 30% reduction on Scope 1 and 2 emissions by 2030. This is a significant step for a company in this carbon intensive sector. The company has also committed to enhanced climate governance disclosure and will be publishing a review of their trade association memberships in 2020.



Engagement on climate change

Focus on land use

Deforestation in cattle supply chains

We continued our involvement in the PRI coordinated engagement on deforestation. The objectives of the engagement are for companies to improve their:

1. Awareness and governance
2. Risk management and traceability
3. Strategy and risk mitigation
4. Metrics and monitoring

During 2019, we lead the engagement with four companies. We have had positive discussions with Nike and Adidas. Both companies agreed that their transparency on this topic is still limited and committed to make improvements. In addition to this, resources will be dedicated to reply to the CDP questionnaire on forests.

Nike will scale up the use of 'flyleather', a synthetic material which will drastically reduce the need for pristine hides. Neither company has set time-bound commitment to be deforestation-free.

Amazon deforestation

The IPCC Special Report on Climate Change and Land highlighted the importance of addressing deforestation and forest degradation. Sustainable forest management can maintain or enhance forest carbon stocks, and carbon sinks. The extreme fires in the Amazon, the world's largest rainforest, prompted a collective response from investors due to both the climate and biodiversity impacts. We were signatory to an investor statement on deforestation and forest fires in the Amazon which was endorsed by over 250 investors representing approximately USD17.7 trillion in assets. The statement called on companies to publicly disclose and implement a commodity-specific no-deforestation policy and establish a transparent monitoring and verification system for supplier compliance.

Animal protein

Following up on earlier work on sustainable fisheries, in 2019 we focused on meat production. As long-term investors we question the sustainability of the growth trajectory of global meat production and consumption.

The emissions associated with pre- and post-production activities in the global food system are estimated to represent 21-37% of total net GHG emissions. Animal meat production uses 77% of the earth's agricultural land yet only supplies 17% of the world's calories. Most of the land use for meat is in the production of the food the animals eat, and feed conversion is the key cause of the inefficiency; just 7% of feed is converted into meat[1]. Some projections suggest 70% more land will be required in Asia to keep up with rising demand for meat[2].

Policy responses to address these emissions could operate across the food system and include those that reduce food loss, waste and influence dietary choices, enable more sustainable land-use management, enhance food security and low emission trajectories and could have significant implications for food service businesses. Some businesses could face higher costs as the negative externalities of meat production are priced in and slowdowns in revenue growth as plant protein products become more widely available to consumers.

We met with four restaurant brands to get a better understanding of the link between revenue and animal protein consumption, strategy, consumer changes, governance and climate change. All of the companies recognised the issue and have begun to increase their offering of plant-based foods. While for some, these new products are starting to generate positive returns, to date this has not impacted their meat offering.

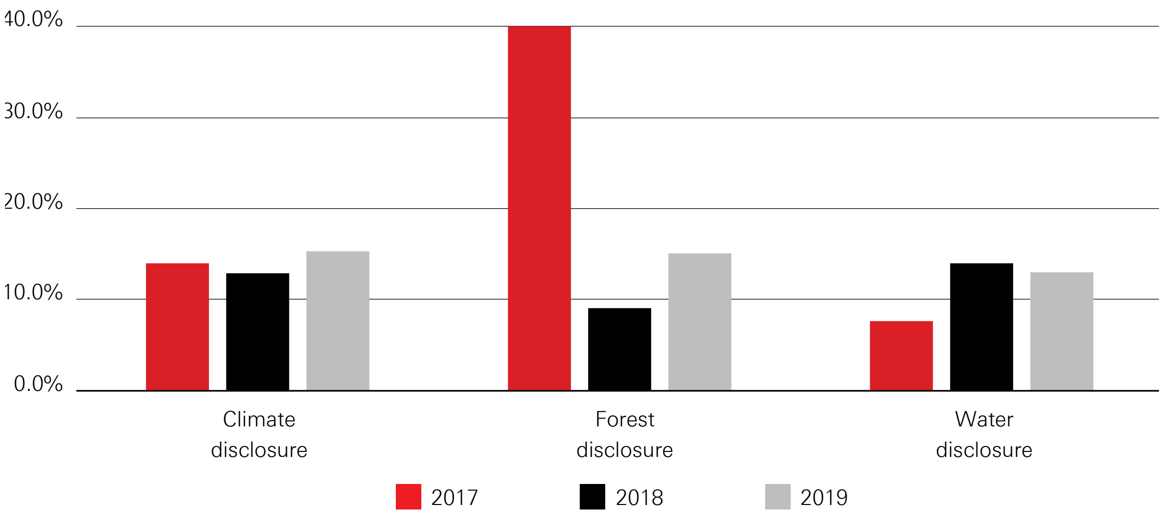
1. Source: HSBC
2. Source: CSLA

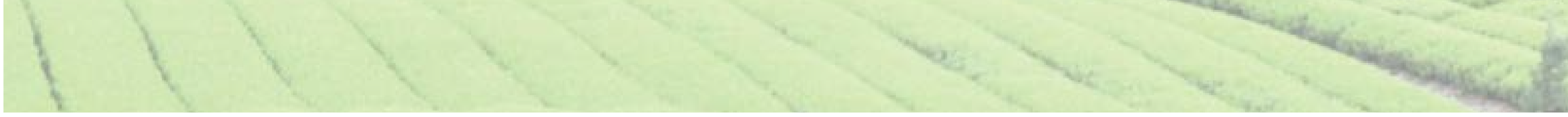
The need for greater disclosure on climate risk

We have participated in the CDPs non-disclosure campaign since 2014, drafting and signing letters to companies in high emitting sectors yet to disclose meaningfully on the relevant environmental risk metrics. We recognise that completing these questionnaires (and others) can be time consuming for companies, but the CDP database is widely used by investors, including ourselves, and we strongly believe that the process of measuring emissions allows companies to manage and ultimately reduce them.

Over the years we have seen a steady increase in companies reporting to the CDP and in particular a positive response from those companies we have written to (see chart below). As a result we have increased the number of companies we have written to on an annual basis; in 2019 we wrote to 817 companies up from 256 in 2017.

Positive response rate from companies written to





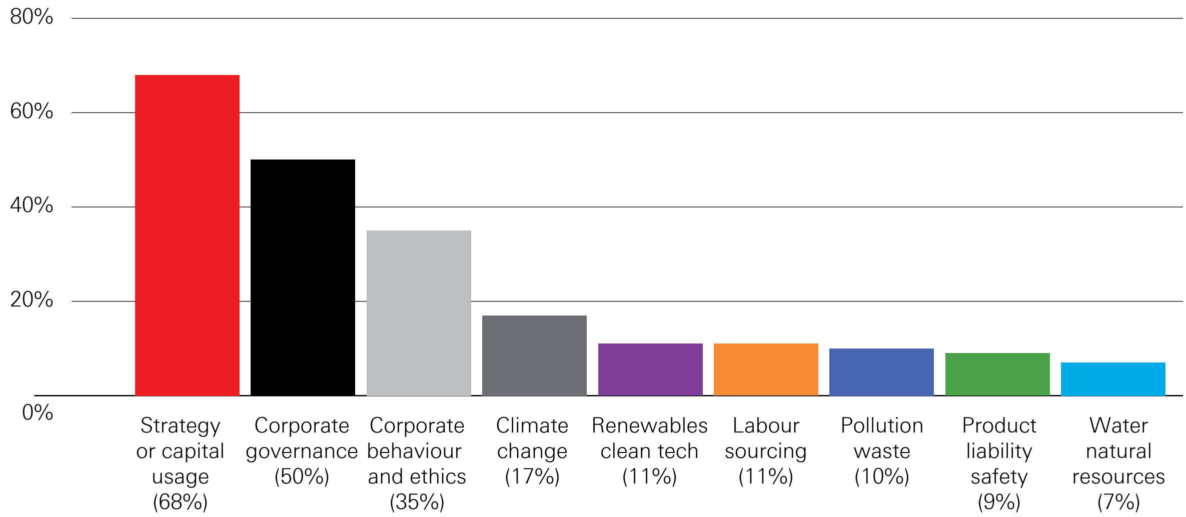
Engagement by theme

Based on an analysis of our global equity portfolio, we identified priority ESG issues for 2019. Working with our global investment teams - both fixed income and equity - we prioritised themes, sectors and key stocks on the basis of scale of client holdings, salience of the issues concerned and our overall exposure.

In 2019 this engagement plan focused on climate change – looking at carbon emission disclosure and reduction across a range of sectors, biodiversity and land use, labour standards and corporate governance.

We engage on a range of environmental, social and governance issues, identified from a bottom-up perspective. We often raise issues spanning several themes – such as climate change and supply chain labour standards. The breakdown of issues we raise when engaging with companies or institutions on ESG topics is illustrated below.

ESG themes discussed during company engagements



Source: HSBC Global Asset Management as at 31 December 2019.
Totals may not add up to 100% as multiple topics are covered during the same engagement.

Engagement by theme

	Issue	What we did	Changes at the companies
Governance	In the US executives and directors can hedge and pledge - as collateral - company securities they hold, unless this is formally prohibited by company policy. Executives receive these shares as part of annual compensation packages on the basis that equity awards align executives with shareholders and they are therefore motivated to increase shareholder value. Executives seeking to reduce the sensitivity of their equity awards to company performance are altering the incentives of equity ownership and may be reducing the incentive to increase shareholder value	In 2018 we wrote to 65 US companies to express our concerns about ongoing pledging of shares by executives and directors. We asked the companies to introduce a policy to prohibit share pledging and the procedures to phase out the practice. In 2019 we wrote to 33 companies, requesting they introduce a policy to prohibit hedging and pledging, to remove any waivers and gradually phase out outstanding positions. We have held follow up meetings with some of these companies.	Ten companies from those engaged in 2018 acted upon our request - they now prohibit pledging and started to phase out outstanding pledging positions. Of the 33 companies we engaged with in 2019 two committed to review their policies with a view to limiting the capacity of executives to hedge their shares. Changes to SEC rules for 2020 will result in enhanced disclosure from companies on this topic providing investors with a better understanding of company practices in relation to the hedging and pledging of shares.
Social	According to the International Labour Organisation (ILO) the majority (59%) of all child labour occurs in agriculture, equating to 98 million child workers globally. Most child labour can be found on small-holder farms, but also in livestock production, fishing and aquaculture. Agriculture sits alongside construction and mining, as one of the three sectors with the highest work-related fatalities, with at least 170,000 workers killed each year. Workplace accidents involving agricultural machinery or pesticides, as well as accidents caused by physically demanding work in harsh weather conditions are also common. Aside from forced labour, child labour and high fatality rates, workers in agriculture can face issues such as no right to freedom of association and collective bargaining, hazards to occupational health and safety, poor working conditions, no access to medical care or pensions, long hours and insufficient wages.	In 2016 we began engaging with eight US companies as part of a collective engagement initiative coordinated by the PRI. This was a 3 year engagement initiative ending in 2019 during which time we have had numerous meetings with the companies to encourage the following: 1. Supplier code of conduct 2. Governance 3. Traceability and risk assessment 4. Monitoring and corrective action 5. Target setting and disclosure	We have seen improvements to practice and disclosure at all eight companies, highlights include: **Walmart** ◆ Enhanced commitment to human rights ◆ Improved communication of expectations with direct and sub-suppliers ◆ Collaboration with peers on systemic issues ◆ Annual reporting on progress **Tyson** ◆ Appointment of a Chief Sustainability Officer who reports into the board ◆ Enhanced supplier code of conduct ◆ Application of supplier code beyond first tier to include labour brokers and agents ◆ Introduce process for mapping supply chain beyond first tier ◆ Established process for monitoring suppliers and disclosing audit findings **Costco** ◆ Enhanced commitment to human rights in supply chain ◆ Training and capacity building for suppliers ◆ Mechanism for reporting grievances in supply chain established and details provided ◆ Joined multi-stakeholder initiative to address systemic issues ◆ Annual reporting against goals

Company	Issue	What we did	Changes at the companies
Facebook, Alphabet and Twitter	Engaging with the social media companies on the issue of live-streaming and distribution of content that promotes or supports, or tends to promote or support, acts of torture, terrorism or the infliction of extreme violence or extreme cruelty.	Following the transmission of the violent attacks in New Zealand we joined a collective engagement initiative with Facebook, Alphabet and Twitter to encourage the companies to establish robust policies and procedures to manage these risks. This engagement is led by NZ SuperFund.	We were signatory to letters raising our concerns to the companies. Subsequent meetings with Facebook and Twitter have provided greater clarity on the different company approaches although it is not clear whether changes implemented are proportional to the scale of the issue and risk. Alphabet have not replied to investor engagement and declined questions at a recent meeting.
Teleperformance	Since 2017 French companies have been required by law to identify and prevent risks to human rights and the environment that could occur as a result of their business activities. This requirement goes beyond that of UK Modern Slavery Act and the California Transparency in Supply Chains Act, by requiring companies to implement a 'vigilance plan'. In July 2019 a global union federation and French NGO sent legal notification to the company challenging the company's compliance with the law.	We met with the Deputy CEO of the company to discuss these concerns as well as labour standards.	In September 2019 the company published an updated Vigilance Plan addressing some of the concerns raised. The company has a large global workforce (approx. 300,000) with the majority in countries without human rights legislation. We will continue to monitor reports and engage with the company on labour standards. Historically we have encouraged the company to include ESG metrics as part of their executive remuneration plan. We were pleased to see this was introduced in 2019.
Samsung Electronics	We have concerns regarding Samsung's approach to working conditions, health and safety standards and related disclosure. There have been serious allegations of human rights and labour rights violations including health and safety practices linked to worker deaths, poor wages, unpaid overtime, obligatory overtime and extended work hours, no time off work, exploitation, intimidation and union busting at the company's factories.	We have met with the company regularly over a number of years to raise our concerns and seek company commitments that they will be addressed.	We were in the process of escalating our engagement when at the end of December the Chair and several other Executives of the company were sentenced to time in prison for sabotaging labour union activities in South Korea. We will continue to engage with the company on labour standards including Freedom of Association across all geographies where they operate.
Ashmore plc	We had concerns regarding the company's structure and disclosure of their executive remuneration and its impact on shareholder value. There is no upper limit to share awards made as part of the long term incentive plan and the criteria for granting and vesting of awards is poor.	We met with the company Chair and Chair of Remuneration Committee to raise our concerns on several occasions.	During the meeting the Chair acknowledged our concerns and committed to improve the transparency of the practices. The company somewhat enhanced their disclosure and we voted for the remuneration report at the AGM. We are considering how to encourage further improved practice at the company.

Company	Issue	What we did	Changes at the companies
SSP plc	The company Chair had eight other directorships raising the concern that he was 'overboarded' and had insufficient time to dedicate to his SSP plc Chairmanship.	We met with the company to share our concerns. We later voted against the Chair's re-election when we did not receive the assurances we required. At the AGM in February 2019 36% of shareholders voted against his re-election. We met with the Chair and Senior Independent Director (SID) to repeat our concern and communicate our view that a delay in addressing it created unnecessary risk for the business.	During our meeting the Chair and SID acknowledged the issue and committed to address it by the next AGM. In November 2019 the Company announced the appointment of a new Chair with immediate effect.
WH Smith plc	There had been some significant changes at the company in terms of strategy (two acquisitions) and management (a new CEO). We sought a better understanding on the rationale behind these decisions.	We met with the Chair to discuss changes to operations, management, capital allocation, CEO succession, board composition and employee engagement.	This engagement was part of our ongoing monitoring of investee companies. We sought a better understanding of strategy following recent changes. We have continued confidence in management.
Hyundai Motors	We have a number of governance concerns regarding the protection of shareholder value and interests including: ◆ Circular shareholding relationships that disadvantage minority shareholders ◆ Poor capital management and low shareholder returns	In March 2019 three new outside directors were appointed, a positive development for minority shareholders. We met with the newly appointed independent directors privately in July and at a more public engagement with other investors in September to explain our concerns and seek board assurance that these governance issues be addressed.	We will continue to engage with the company and the independent directors. We will highlight governance issues to be addressed to enhance shareholder value.

Public policy and advocacy

Supporting a sustainable financial system

We are committed to playing 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. These include the PRI Global Policy Reference Group, the IIGCC Policy Group, the UK Investment Association Sustainable and Responsible Investment Committee and UKSIF.

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 have identified three focus areas for our activities:

- **Supporting the transition to a low-carbon economy** – we recognise climate change as a top and emerging risk and therefore support policy and action to support the transition from high carbon to low carbon.
- **Improving market standards and transparency on sustainability** – transparency enables markets to operate more efficiently with better information. We focus on corporate sustainability disclosure to strengthen the identification of investment-relevant ESG risks and opportunities and greater transparency to clients to help build the market. The development of appropriate standards is playing an increasingly important role.
- **Mobilising private capital to deliver on the Sustainable Development Goals and Paris Climate Agreement** – the investment gap to deliver on the SDGs and Paris Climate Agreement is considerable and requires capacity building across markets and innovation in new investment models and instruments.

Selected consultation responses

- FCA (UK) Climate Change and Green Finance discussion paper (January)
- EU Technical Expert Group (TEG) report on climate-related disclosures (January)
- ESMA (EU) consultation on integrating sustainability risk and factors in MiFID II (February)
- EU TEG consultation on taxonomy and usability (February)
- Investment Association (UK) Consultation on Sustainability and Responsible Investment
- IOSCO´s Growth and Emerging Market Committee (GEMC) consultation on 'Sustainable finance in emerging markets and the role of securities regulators' (April)
- EU Green Bond Standard: interim report consultation (April)
- UK Parliament Treasury Select Committee inquiry into Decarbonisation of the UK Economy and Role of Green Finance (July)
- HKEx Consultation on their ESG reporting guide and listing rules (July)
- EU TEG publishes EU taxonomy for consultation (September)

Supporting the transition to a low-carbon economy

As global investors, we are aware of the risks and opportunities climate change presents to the investments we make on behalf of our clients and as such we are committed to playing our full part in addressing this challenge. Policy is one of the key drivers of the scale and speed of the transition to a low-carbon economy. We therefore join public investor statements and participate in industry body working groups where we believe this will signal support for policy measures and frameworks that support the low-carbon transition and develop relevant insights.

Global Investor Statement to Governments on Climate Change

Initially launched in June 2018, the Global Investor Statement, has been show-cased at key points, including the 2018 G7 Summit and subsequent UN Climate Action Summits and COPs. We were one of the original signatories and are pleased that the latest statement was signed by over 600 investors representing over USD37 trillion in assets.
The statement calls on global leaders to:

- Achieve the Paris Climate Agreement's goals
- Accelerate private sector investment into the low carbon transition
- Commit to improve climate-related financial reporting

Investing in a Just Transition

The 'imperatives of a just transition', as outlined in the Paris Climate Agreement, are becoming an increasingly recognised part of action on climate change. We signed the initial Investor Statement, presented at COP24 in Katowice. This statement has now been endorsed by over 140 investment organisations representing USD8 trillion of assets under management. We continue to participate in the 'Investing in a Just Transition' project led by LSE, Harvard, the ITUC and the PRI and joined the new PRI Investor Working Group on Just Transition. On the banking side, HSBC also sponsors the Banking on a Just Transition project working on how banking can support a just transition across the regions of the UK.

Transition scenarios

The Taskforce on Climate-related Financial Disclosure (TCFD) recommends disclosure of the resilience of an organisation's strategy to different climate-related scenarios, including a 2 degree or lower scenario. From our early work on climate-transition scenarios, we know how critical the specifics of the scenarios are in understanding and disclosing climate-related risks and opportunities. While certain oil and gas companies have long-established scenarios, the most widely used scenarios have been those produced by the International Energy Agency (IEA). In April, we joined a small group of investors to meet with Dr. Fatih Birol, Executive Director of the IEA, to discuss the implications and applications of scenarios for investors. We covered issues such as the development of a 1.5 degree scenario and some of the key assumptions such as the price of renewables, and negative-emission technologies. We are also participating in the new IIGCC Paris Aligned Investment Initiative which seeks to explore appropriate definitions, concepts and methodologies for Paris-aligned investment. The definitions and methodologies for measuring and achieving a net zero emissions target for investors were central to these initial discussions.

Improving market standards and transparency on sustainability

Standards and transparency are central to providing the appropriate information for us as investors, as well as for our clients. Given that ESG factors are embedded in our investment decision-making, the quality and availability of this data is critical. We therefore support voluntary and, where appropriate, regulatory frameworks to enhance company disclosure on material sustainability issues. Below are some examples of where we continue to support enhanced disclosure.

UK Green Finance Strategy – through industry bodies, we welcomed the strategy setting out the Government's expectation that all listed companies and large asset owners should disclose in line with TCFD recommendations by 2022 as well as the launch of a regulatory 'taskforce' to discuss the most effective way to approach reporting, including exploring mandatory requirements.

Listing requirements in Hong Kong – Stock exchanges and their listing requirements continue to be a strong lever to improve sustainability-related disclosure. We responded to the public consultation on the ESG reporting guide and related listing rules by the Hong Kong Exchanges and Clearing Limited (HKEX), where we expressed support for enhanced disclosures of Board responsibilities over material ESG issues, and their assessment and management of climate-related issues, amongst others. This contributed to HKEX's revision of ESG requirements for Hong Kong listed companies, where most of the proposals were adopted, effective for financial years commencing 1 July 2020.

UK Financial Reporting Council (FRC) 'Lab' – the Financial Reporting Lab was launched in 2011 to provide an environment where investors and companies can come together to develop pragmatic guidance on reporting. We participated in the 'Climate-related corporate reporting' report launched in October 2019, which was developed to assist companies and provide practical guidance on how to meet investor expectations using the TCFD framework.
Engagement at the policymaker and regulator level is supported by direct disclosure requests to companies directly and through collaborative initiatives such as ClimateAction100+, CDP Non-Disclosure Request, Workforce Disclosure Initiative and 'Know the Chain'.

Supporting Stewardship

Stewardship is central to our long-term approach to responsible investment, and to the way we deliver value to our clients.

UK Stewardship Code – At the end of October, the Financial Reporting Council (FRC) launched a major revision to the UK Stewardship Code. The new Code, last revised in 2012, sets out high expectations for stewardship activity to support the responsible allocation, management and oversight of capital to create long-term value for clients and sustainable benefits for the economy, the environment and society.
Key changes in the new Code include a requirement to report on stewardship outcomes across asset classes beyond listed equity, such as fixed income, and in investments outside the UK. The new Code also expects signatories to work together with regulators and industry bodies to identify and respond to the risk of market and systemic failures such as climate change.
HSBC Global Asset Management have been signatories to the Code since it was first established in 2010 and received a Tier One ranking when the FRC undertook its review of signatories in 2016. We welcome the new Code and look forward to engaging further on best practice implementation guidance during 2020.

US Securities and Exchange Commission (SEC) proposals – the proposals put forward by the SEC to amend the shareholder proposals rules and the regulations governing proxy voting advice, prompted us to sign a collective investor letter, co-ordinated through the PRI, raising our concerns that the changes may compromise shareholder rights in the US and cautioning that these changes were likely to cause unintended consequences that could harm the governance of issuers and ultimately the value of investments.

Improving market standards and transparency on sustainability (cont.)

Standards for sustainable investment

The growth of the sustainable and responsible investment market, and the increase focus from regulators and policymakers, has brought the issue of standards to the fore.

Responsible investment definitions – as members of the UK-based Investment Association (IA) Sustainability and Responsible Investment Committee, we provided input into the IA Responsible Investment Framework. Building on established industry definitions, notably those of the Global Sustainable Investment Alliance (GSIA), the Framework categorises, and provides standard definitions for, the different components of responsible investment.

British Standards Institution (BSI) standards on sustainable finance – supported by the UK Department for Business, Energy and Industrial Strategy (BEIS) and industry, a five-year standards development programme to help the industry define best practice for sustainable finance is now underway. We are contributing to this work through our role on the Strategic Advisory Group (SAG). The first standard (PAS 7340), outlining a framework for understanding, evaluating and embedding sustainable finance within organisations, was published in January 2020. The second standard (PAS 7341), on responsible and sustainable investment management is out for consultation. The work within the BSI will be an important input into the new ISO (International Standards Organisation) technical committee on sustainable finance and the working group developing the 'sustainable finance framework'.

EC Sustainable Finance Action Plan – considerable progress was made on a number of the recommendations set out in the action plan with proposals on the taxonomy, EU green bond standard and integration of sustainability risks. We responded to key consultations and shared our views through the PRI, IIGCC, IA and UKSIF. Further engagement is anticipated on the recently published Communication on the Sustainable Europe Investment Plan and a proposal for a Just Transition Fund, two important pillars of its European Green Deal as announced in December 2019.

Mobilising sustainable capital

The UN Sustainable Development Goals (SDGs) and Paris Climate Agreement outline a roadmap to address global challenges including poverty, inequality, climate and environmental degradation. However, achieving the goals requires significant capital. The UN Commission on Trade and Development (UNCTAD) has estimated that globally, an annual investment of USD5 to USD7 trillion is required to meet the SDGs over the implementation period 2015 to 2030 and we are already in the fifth year. Based on current investment levels, we face an annual investment gap of between USD1.9 and USD3.1 trillion.

This investment gap presents a challenge for our society and economy, but also an investment opportunity, albeit an opportunity that requires significant innovation in how we construct these investments and capacity building to grow these markets.

Collaboration is central to making progress in this area and we leverage our global relationships with development finance institutions, investors, regulators and relevant organisations and initiatives to innovate. We support initiatives such as the Blended Finance Taskforce and participate in new initiatives, such as the first Climate Infrastructure Partnership Forum, where the aims align and the focus is on actionable solutions. We highlight a few key initiatives below.

One Planet Sovereign Wealth Fund Working Group

The One Planet Sovereign Wealth Fund Working Group was established at the first One Planet Summit in December 2017. Since then, we have been working with the six sovereign wealth fund members to support the development and implementation of the One Planet Sovereign Wealth Fund Framework, which sets out the three principles of alignment, ownership and integration with respect to climate change analysis and investment decision-making. In July, at an event hosted by President Emmanuel Macron of France at the Élysée Palace in Paris, we were delighted to be one of eight global asset managers to have founded the 'One Planet Asset Manager Initiative' to support the implementation of the Framework.

Sovereign Wealth Funds (SWFs) hold total assets under management worth more than USD7.5 trillion. As public funds with long-term investment horizons, SWFs are, in principle, well positioned and are increasingly expected by their stakeholders, to contribute to financing the transition to a lower carbon economy, and help meet the SDGs.

Together, the asset managers have committed to further the objectives set out in the Framework and advance the understanding of the implications of climate-related risks and opportunities within long-term investment portfolios.

Network for Greening the Financial System (NGFS)

The NGFS originally comprised eight central banks and supervisors focusing on strengthening the global response required to meet the goals of the Paris Climate Agreement and to enhance the role of the financial system to manage risks and to mobilise capital for green and low-carbon investments. By the end of 2019, membership has grown to 54 members across five continents.

In December we asked to provide a keynote on the ClimateAction100+ initiative and the important role of investors in addressing climate-related risks at the Conference on Climate Change and its Impact in the Financial System in Mexico City organised by CEMLA (Centre for Latin American Monetary Studies) and Banco de México, one of the original eight founding members. The conference combined both academic papers and policy with private sector perspectives as part of a dialogue with Central Banks and Supervisors Network for Greening the Financial System (NGFS).

Investing with impact

Mobilising private capital into investments that deliver real economy impact, in line with the SDGs, is challenging. While the need is well articulated, finding the appropriate investment structure and project pipeline at scale is less straightforward.

In early June, HSBC Global Asset Management announced its intention to launch a new green bond fund - the HSBC Real Economy Green Investment Opportunity GEM Bond Fund or 'REGIO' – presenting a new opportunity for investors. With the IFC and HSBC as anchor investors, the fund will seek to harness a minimum of USD750 million investment capital to support climate-aligned investments that deliver real economy impact with a focus on lower Gross National Income (GNI) countries by investing in green bond issuance from primarily non-financial issuers in eligible emerging markets.

By targeting real economy issuers in global emerging markets (GEM), REGIO aims to increase access to climate finance and promote the development of sustainable capital markets by broadening the range of issuers through targeted support, working with the IFC.

To accompany the fund, we published our Green Impact Investment Guidelines which set out eligible projects and activities aligned with the impact intentionality of the fund.

Mobilising sustainable capital (cont.)

Green bonds

The green bond market is playing a growing role in mobilising finance to deliver on environmental goals. Our Green Impact Investment Guidelines are grounded in the eligible activities outlined in the ICMA Green Bond Principles, but provide greater details around the activity and sustainability requirements of the issuer. We actively engage with issuers on these expectations, encouraging companies to consider issuing green bonds and outlining our expectations for the issuer, bond and reporting on use of proceeds. We responded to the consultation on the EU Green Bond Standard, supporting many of the proposals for strengthening the green bond framework and use of proceeds reporting, while recognising that there are benefits to international harmonisation and therefore encourage the EU's efforts to raise standards within the global market.

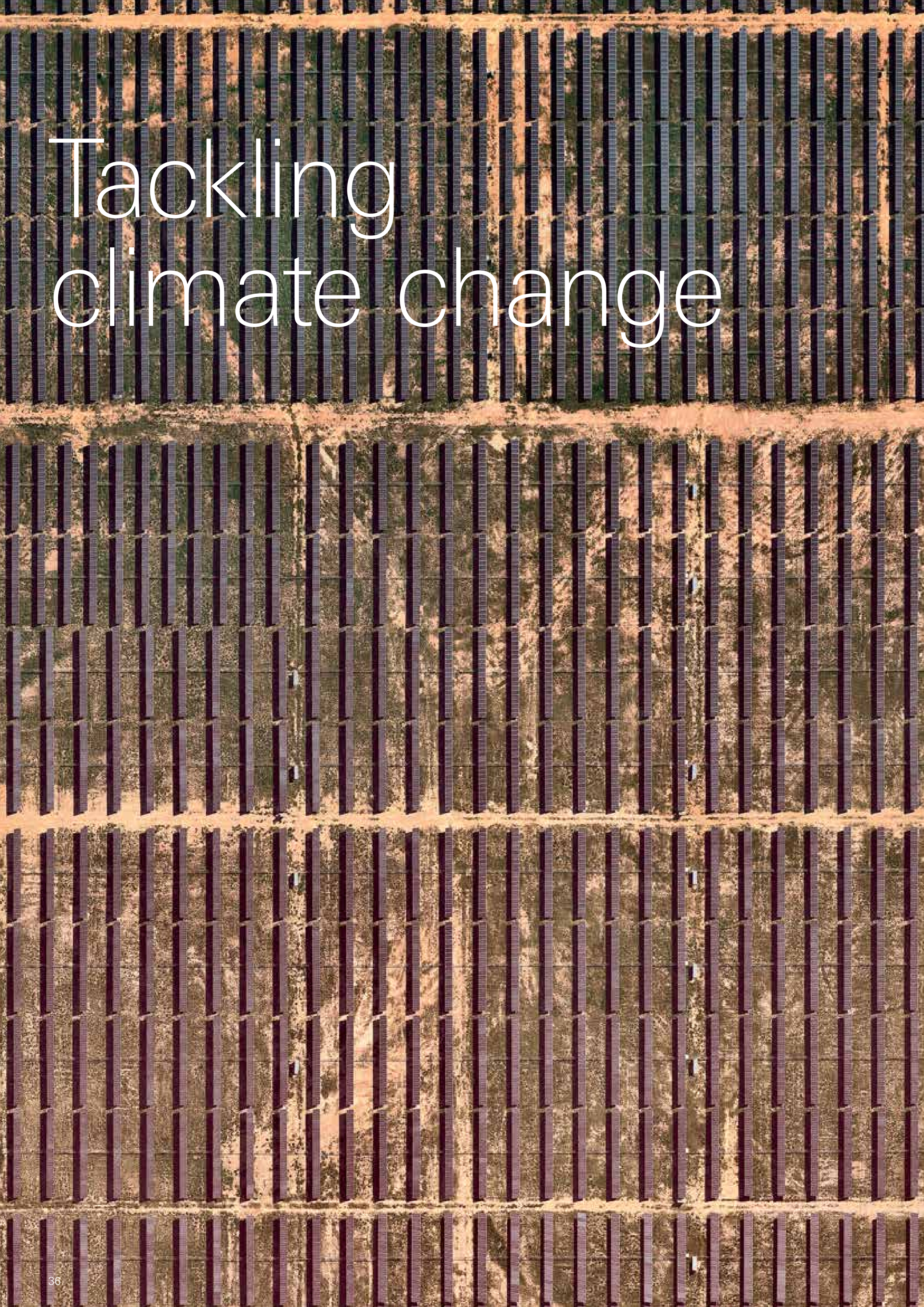
As outlined, we see a need for capacity building generally in the green bond market for issuers, policymakers and regulators, particularly in emerging markets. Last year, we reported that in early 2019, we participated in roundtables, organised by HSBC, in Costa Rica and Panama for issuers and policymakers on sustainable finance. The next roundtable is planned in Brazil in March and we will continue to work closely with the IFC and others to support the growth of the green bond market. In Europe, we worked with the Climate Bonds Initiative, participating in its roundtables bringing together corporates and investors to discuss the role of green bonds in reorienting towards a low carbon business strategy. Our green bond holdings as at the end of 2018 exceeded USD2.7 billion, over 20% of which are emerging market issuers.

Looking ahead

The UN hailed 2020 to 2030 as the 'decade of delivery' and there is no doubt that 2020 is a pivotal year when it comes to scaling up and speeding up global action. We see the following important developments:

- **COP26** – hosted by the UK, in partnership with Italy, the COP in 2020 will be critical in securing and ratcheting country commitments. Momentum is strong, but COP25 proved a disappointment with some key decisions deferred to COP26.
- **Sustainable infrastructure** – there is a critical need for sustainable infrastructure, we are working closely with development finance institutions to establish guiding principles for this area of investment as well as critical issues on the investment pipeline.
- **Standards** – 2020 will see further progress on standards at the organisational and product level.
- **EU Action Plan and Green New Deal** – in addition to completing negotiations and implementing legislation on existing proposals, the EC has promised to publish a renewed sustainable finance strategy in the third quarter of 2020 and we should expect further proposals as part of the Sustainable Investment Plan and Just Transition Mechanism.

Tackling climate change



The climate challenge

Climate change is a systemic risk. Four years on from the historic Paris Climate Agreement and more than two years on from the Taskforce on Climate-related Financial Disclosures (TCFD) recommendations, companies and investors are still grappling with what transitioning to a below 2°C economy means for their businesses and portfolios.

The landmark Intergovernmental Panel on Climate Change (IPCC) report in October 2018 provided the clearest evidence to date that even 2°C of warming above pre-industrial temperatures may have significant environmental and economic costs. Limiting global warming to well below 2°C will require rapid and far-reaching structural changes to the global economy.

Low-carbon transition scenarios

Our work on climate scenario analysis began in December 2017 with the objective of developing a framework for understanding company-level climate-related transition risks to help investors make better-informed decisions. We worked with Vivid Economics to design a suite of scenarios, together with a model to translate these scenarios into valuation impacts. We compared scenarios that encompass early policy action and later policy action (from 2030) designed to provide at least a 50% change of limiting warming to 2˚C, with a baseline that reflected existing climate policies and predicted technology cost trends, with no further policy changes. We also looked at three future technology-cost pathway scenarios. This first report was published in October 2018.

In 2019 we expanded on this initial effort and identified 10 scenarios that represent a broad range of low-carbon futures, influenced by two primary factors: climate policy and regulation; and, the cost and performance of technology options available to reduce emissions. We built these updated scenarios by looking at increased policy stringency, varying policy timing and updated technology scenarios as well as implications for credit ratings and developed a report with the implications of these scenarios that will be published in Q1 2020.

Our strategic response

Our climate change policy is aimed at increasing the climate resilience of our clients' investments, as well as contributing towards financing the transition to a low-carbon economy. We aim to:

Deliver lower-carbon investment solutions and opportunities that meet our clients' investment criteria while meeting their risk and return objectives.

Identify and integrate the climate-related risks and opportunities presented by climate change and climate policy in our investment portfolios, using relevant data and analysis – including scenario analysis – to inform our investment decisions.

Engage with investee companies to better understand and support their disclosure and management of the risks and opportunities presented by climate change and climate policy. We engage directly and collaboratively, using our voting decisions to escalate issues where appropriate.

Disclose publicly and to our clients, the actions we have taken and the progress we have made in addressing climate-related risk and investing in climate-related solutions.

Advocate for a supportive policy framework, working with policymakers to support their efforts to implement measures that encourage capital deployment at scale to finance the transition to a low-carbon economy and encourage investment in climate-change adaptation.

Further details of our activities in each of these areas are outlined in the previous sections.

Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD)

Our responses to the four recommended areas of disclosure – governance, strategy, risk management, and metrics and targets – are outlined below and will continue to evolve.

Governance
We will continue to integrate climate-related risks and opportunities into our investment decisions, alongside all material ESG considerations. Investment teams are responsible for integrating ESG issues into their respective investment decisions, supported by our ESG specialists.

Risk management
We will continue to integrate climate-risk management as part of company/issuer-specific assessment and portfolio-level assessment of climate-related issues through the fundamental inclusion of ESG criteria as part of investment decisions. Our research on scenario analysis informs our macro/sector risk management on climate-related issues.

As mentioned previously in this report, engagement with investee companies, to better understand management of the risks and opportunities presented by climate change and climate policy, is an important part of our process.

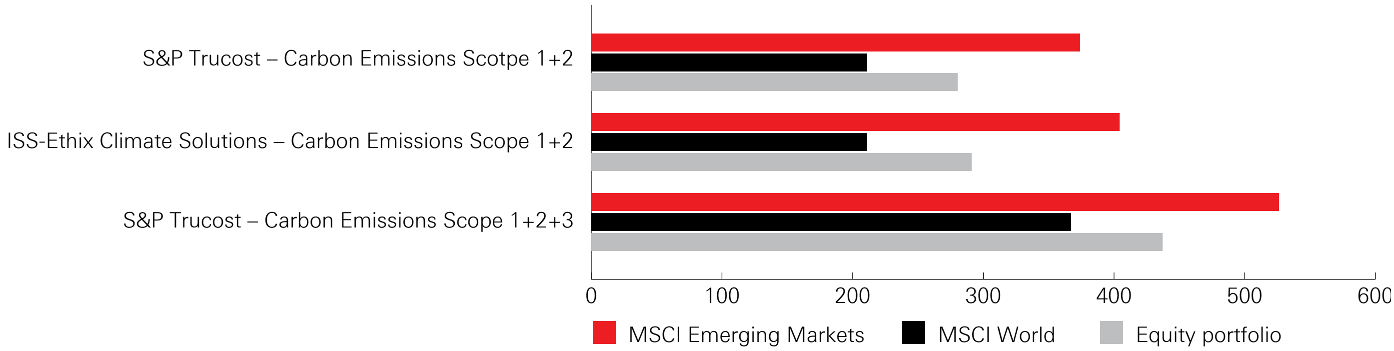
Strategy
Transition risk, physical risks from climate change, and climate opportunities will remain key areas for investment analysis. There are risks and opportunities resulting from the structural changes required for a transition to a low-carbon economy or due to more frequent and severe climate events, as well as longer-term shifts in climate patterns.

Metrics and targets
As signatories to the Montreal Pledge since 2015, we have reported the carbon footprint of our clients' investment portfolios on an annual basis. We use the TCFD recommended metric – weighted-average carbon intensity - and publish our Montreal Pledge report on an annual basis on our website.

Metrics and targets

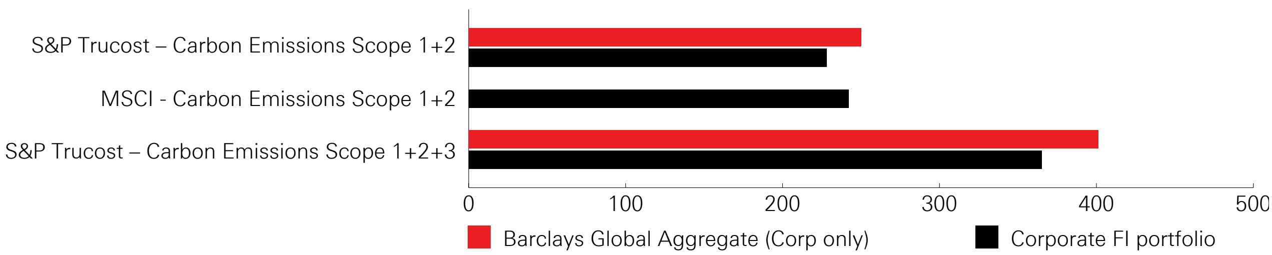
In 2019, we reported on all equity portfolios and on corporate fixed-income portfolios managed in five major locations – the USA, the UK, France, Hong Kong and Germany.

Equity portfolio
Weighted average carbon intensity (tons CO2e / USDm revenue)



Source: HSBC Global Asset Management using data sources specified. Data as at 31 December 2018.

Corporate fixed income (FI) portfolio
Weighted average carbon intensity (tons CO2e / USDm revenue)



Source: HSBC Global Asset Management using data sources specified. Data as at 31 December 2018.

Key documents and contacts

The following documents are available on our website – www.global.assetmanagement.hsbc.com/responsible-investing

Responsible Investment Policy
Engagement Policy
Stewardship and Conflicts of Interest
Banned Weapons Policy
Climate Change Policy
Global Voting Guidelines
Montreal Carbon Pledge Report
Green Impact Investing Guidelines

Participation in industry initiatives

As a global asset manager we support a number of industry initiatives, globally and locally, that aim to share and develop best practice in the responsible investment industry. A selection of these are listed below:

- Principles for Responsible Investment (Global)
- ClimateAction 100+ (Global)
- International Corporate Governance Network (ICGN) (Global)
- CDP – investor member (Global)
- Blended Finance Taskforce (Global)
- Cambridge Institute for Sustainability Leadership – Investor Leaders Group (Global)
- Workforce Disclosure Initiative (Global)
- Asian Corporate Governance Association (ACGA) (Asia)
- European Fund and Asset Management Association (EFAMA) (Europe)
- Institutional Investor Group on Climate Change (IIGCC) (Europe)
- Council of Institutional Investors (CII) (North America)
- Investor Stewardship Group (North America)
- City of London Green Finance Initiative (GFI) (UK)
- The Investment Association (UK)
- The Investor Forum (UK)
- Tomorrow's Company – The Stewardship Alliance (UK)
- UK Sustainable Investment and Finance Association (UKSIF) (UK)
- One Planet Asset Manager Initiative

Contacts
For further information about responsible investing at HSBC Global Asset Management, contact your relationship manager.

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