

In 2022, we established our Climate Investment Strategy team within the Responsible Investment team. They are responsible for driving insights and implementing frameworks for a low-carbon transition, which are used to inform investment decision making, portfolio management and to support our clients. In addition, this team is in charge of defining our net zero strategy, which includes our journey to align our investments with net zero emissions by 2050 or sooner. This is part of our commitment to the Net Zero Asset Managers (NZAM) initiative. We became a signatory to the initiative in July 2021 and published our first set of interim targets in November 2022. These targets are underpinned by a clear roadmap and represent the first step in a long, multi-stage journey.

Our transition to net zero

- As a signatory of the NZAM initiative, we have committed to our interim net zero targets for 2030, which:
- ◆ Covers 38 per cent of our total assets under management (based on 2019 figures)
 - ◆ Consists of corporate fixed income and listed equity portfolios
 - ◆ Will be achieved through reducing the intensity (tCO2e/\$million invested) of our scope 1 and 2 carbon emissions by 58 per cent when compared with our 2019 baseline



Scope and methodology

For our emissions reduction target, we examined our holdings’ carbon emissions from year end 2019 to calculate our emissions baseline. More recent years were not chosen because we do not believe they give an appropriate reflection of carbon emissions generated by most sectors due to the pandemic’s impact on the global economy.

To define our assets under management (AuM) in scope, we began the process by looking at our total 2019 AuM, and conducted detailed analysis to narrow down our scope based on factors such as data availability and the existence of standard methodologies. The resulting AuM in scope consists of our corporate fixed income and listed equity portfolios, including both developed and emerging markets. Both benefit from market-approved net-zero methodologies – e.g. following the Partnership for Carbon Accounting Financials (PCAF) Standard. We will look to increase our scope of asset classes as new methodologies are released.

Framework and scenario pathway

Frameworks are used as guidelines on metrics, methodologies, and approaches to net zero to help drive consistency, comparability, and credibility across the industry. They also help hold firms to account for delivery of net zero commitments. Our chosen net zero framework is the Net Zero Investment Framework (NZIF), which has been created by the Institutional Investors Group on Climate Change (IIGCC). It has been designed to be used by asset owners and asset managers, considering their different mandates and starting points. It is the most commonly adopted methodology across the industry.

Our chosen scenario pathway is the International Energy Agency Net Zero Emissions by 2050 scenario (IEA NZE). This means that our decarbonisation target has been calculated using economic activity assumptions from the IEA NZE pathway, which is consistent with a global 1.5°C temperature increase as set out in the Paris Agreement. The IEA NZE provides open access to clear, transparent data points, enabling firms to develop methodologies to expand upon the core scenario to evaluate how their specific portfolio will evolve. It also provides global coverage across developed and emerging markets, including key sectors and regions.

Using the IEA NZE pathway, we mapped instruments to pathways based on their sector and region. From this, the instrument emission reductions were aggregated and used to set portfolio-wide emissions reduction targets.

Implementation plan

Our interim target will be revised at least once every five years until 100 per cent of our AuM is in scope for net zero by 2050, as per the NZAM initiative commitment. We will communicate the actions we are taking to implement net zero alignment throughout our investment platform and the organisation.

As we progress in our journey, we will continue to prioritise engagement over divestment in order to influence the issuers and companies that we invest in. We see divestment as a last resort option, used when we deem engagement to be unsuccessful in a timeframe we consider as reasonable for companies to implement desired changes. Our dedicated Stewardship team and the analysts in our asset class investment teams are employed to engage consistently on net zero transition plans of companies we invest in.

Our approach aims to be realistic and authentic about the actions that can be taken now, versus those that will take longer to put in place. We believe this gives strength and integrity to our initial interim targets.

- Fatima Hadj, Climate Strategist,
HSBC AM



A stewardship and engagement perspective

Accountability and progress are vital for climate issues, along with being cornerstones for voting. The necessity of facilitating positive change means that investors are empowered in their stewardship activities, encouraging companies to enhance their approaches in measurable and practical ways for tangible outcomes.

- Asad Butt, Senior ESG Engagement Analyst, HSBC AM

2022 saw a record number of climate-related annual general meeting voting items, proposed by either management or investors.

These 2022 proposals called for the development of emission reduction targets, improvements in climate reporting, alignment of targets with a net zero outcome and a greater consideration of environmental risks. With regard to our holdings and when voting was possible, we supported the majority of proposals filed. They were assessed based on the company’s climate strategy, our engagements with the company and alignment of proposals with climate science and good practice.

During 2022, we co-led the filing of a shareholder proposal, calling for an energy supplier to create credible emissions reduction targets along with the disclosure of said targets- this was the first climate-related proposal brought to a Japanese company. We also voted against management, including against Chairs or equivalent board members at re-elections, where we felt there had been insufficient consideration of climate risk or inadequate policies and measures at their companies.

Looking forward: supporting asset owners

Our commitment to net zero will further accelerate our focus on developing net zero solutions and expertise, which will benefit our clients and their investment objectives.

For wholesale and retail clients, we already offer multiple sustainable fund offerings that incorporate climate and net zero (including climate change and lower carbon funds as well as Paris-aligned ETFs). For our institutional clients, we customise our capabilities based on their specific investment guidelines, restrictions, objectives, and their own decarbonisation goals.

As we further develop our climate capability with additional data sources, proprietary research and fundamental transition expertise, we will progressively provide clients with enhanced climate reporting and climate innovative solutions.



Natural capital

Natural capital will play an important role in the net zero transition due to its carbon removal properties and role in preserving biodiversity. It is therefore becoming an increasingly valuable asset class.

Through our joint venture with Pollination, Climate Asset Management, we hope to offer clients the opportunity to access the asset class that safeguards our most valuable resource - nature. Climate Asset Management aims to support projects both in restorative agriculture and sustainable forestry in a range of OECD countries.

Industry involvements

There are many market initiatives that have been launched to enable effective climate action. HSBC AM has been engaged with a number of these throughout 2022 and aims to be an active participant in 2023.

Examples of HSBC Asset Management’s broader industry involvements

 PRI (Principles for Responsible Investment)	 Global Climate Action 100+
 IIGCC (Institutional Investor Group on Climate Change)	 Finance for Biodiversity Pledge
 One Planet Asset Manager Initiative	 Blue Carbon Pledge

Source: HSBC Asset Management, January 2023.

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