Climate change

Die deutsche Übersetzung dieser Richtlinie kann auf Nachfrage zur Verfügung gestellt werden.

Why we engage

Climate change continues to reshape our world, with far-reaching and systemic implications for investors. The Intergovernmental Panel on Climate Change (IPCC), in its most recent Synthesis Report, estimates that emissions have already resulted in a 1.1°C rise, with 1.5°C likely to be reached by 2030.[10] Without significant action, global temperatures are projected to rise between 2.2°C and 3.5°C by 2100.[11] Such an increase would result in more frequent extreme weather events, rising sea levels, and irreversible ecological damage.

Increased exposure to extremely high temperatures is linked to a reduction in firms' revenues and operating income,[12] while changing temperatures and weather shocks are associated with negative economic impacts.[13]

To address climate risks, policymakers and regulators have acted, aiming to reduce emissions, improve climate reporting, and enhance risk management while also facilitating the movement of capital to companies at the forefront of the transition to a low-carbon economy. However, the global regulatory environment remains volatile, with shifting political dynamics adding further uncertainty. For our investee companies, this means growing exposure to transition risks and the need to adopt flexible and forward-looking strategies that align with sustainability goals while also navigating evolving regulatory frameworks.[14]

The cost of inaction is estimated to far outweigh the cost of mitigation needed to limit global warming to within 2°C. Adaptation alone requires huge investment; developing countries, for example, are estimated to need between $215 billion and $387 billion per year this decade alone to adapt to climate change.[15]

For investors, addressing physical climate risks within portfolios and actively pursuing investments in adaptation solutions, may enhance the resilience of their portfolios to the impacts of climate change.

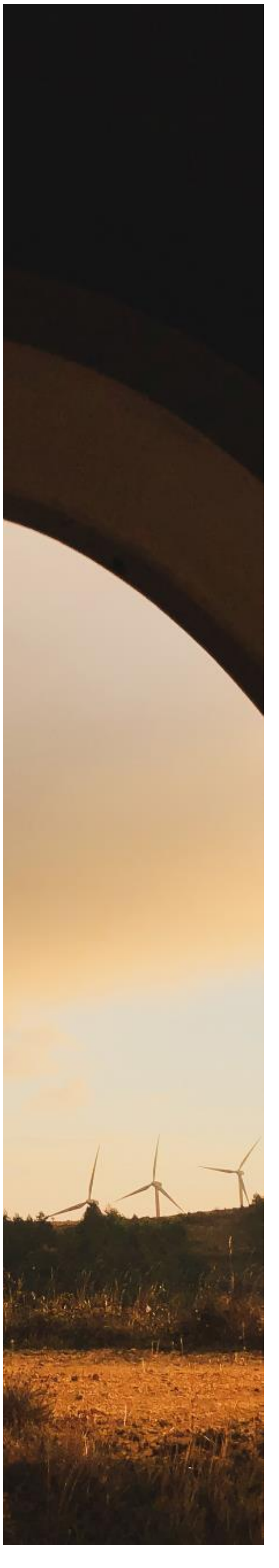
Corporate stewardship plays a key role in integrating climate risks and opportunities into investment strategies by encouraging companies to prepare for a changing climate landscape.

10. Intergovernmental Panel on Climate Change (IPCC). (2023). Summary for policymakers. In H. Lee & J. Romero (Eds.), Climate change 2023: Synthesis report. Contribution of Working Groups I, II and III to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change (pp. 1-34). IPCC. https://doi.org/10.59327/IPCC/AR6-9789291691647.001.
11. Ibid.
12. Pankratz, N., Bauer, R., & Derwall, J. (2023). Climate change, firm performance, and investor surprises. Management Science, 69(12). https://doi.org/10.1287/mnsc.2023.4685.
13. Tol, R. S. J. (2024). A meta-analysis of the total economic impact of climate change. Energy Policy, 185, 113922. https://doi.org/10.1016/j.enpol.2023.113922.
14. See the following paper for a study on how transition risk impacts firm performance in different regions: Reboredo, J. C., & Ugolini, A. (2022). Climate transition risk, profitability, and stock prices. *International Review of Financial Analysis, 83,* 102271. https://doi.org/10.1016/j.irfa.2022.102271.
15. United Nations Environment Programme (UNEP). (2023). *Adaptation gap report 2023.* https://www.unep.org/resources/adaptation-gap-report-2023.

Climate change

Issues relating to this theme include:

Climate Transition Risk	Green Solutions	Net Zero Strategy	Energy Management
Just Transition Risk	Physical Climate Risk	GHG Emissions	



Responsible Investing Policies

Our global responsible investing policies have been developed to guide our investment and engagement activities.[16] Our policies are subject to change over time to respond to evolving global norms, regulatory developments, and client preferences.

Coal Policy

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

Energy Policy

Under the HSBC AM Energy Policy, we will engage with and assess transition plans of listed issuers responsible for around 70 per cent of relevant emissions. We have commenced engagement with Oil and Gas, and Power and Utilities companies in this group, and will continue to have conversations with these companies as they transition.

16. HSBC AM policies, including our Coal and Energy policies, are available via this link: https://www.assetmanagement.hsbc.com.hk/en/intermediary/about-us/responsible-investing/policies.

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Engagement approach

When engaging with companies, we consider a variety of risks and potential value creation opportunities, including our internal net zero alignment assessment of those constituting our top 70% of financed emissions. We highlight good practices below and encourage priority companies, where climate change is a relevant issue, to work towards these.

Climate strategy including decarbonisation and emissions reduction	◆ Set a net zero ambition from the company that covers all material areas of business and operations, aligned with the objectives of the Paris Agreement. ◆ Develop clear short and medium-term emission reduction targets, for scope 1, scope 2 and material scope 3 emissions. ◆ Set out sector-based decarbonisation strategies supporting the achievement of the company's net zero target, including climate solutions and objectives to grow green revenue. ◆ Set out capital expenditure plans to support the company's climate targets and objectives. ◆ For companies covered under our Coal or Energy policies, set out a credible transition plan.
Climate risk and reporting	◆ Disclose emissions data and seek independent assurance of this information. ◆ Publish comprehensive climate risk disclosures and scenario planning, including details on assumptions used e.g., carbon pricing. We strongly encourage companies to align with the recommendations of the TCFD and report in accordance with IFRS S2.
Climate adaptation and physical risks	◆ Evaluate and disclose potential risks, resilience gaps and opportunities related to physical climate impacts over short, medium and long-term horizons against established pathways. This should encompass the company's assets, operations and value chain. ◆ Develop a clear plan to manage, monitor and adapt to physical risks, including measures to strengthen operational and value chain resilience, as well as metrics and targets to track progress over a period of time. ◆ Embed physical climate risk considerations into corporate strategy, capital expenditure plans and risk management processes to support business resilience. ◆ Disclose the impacts of physical events on the company's operations and value chain, where significant. ◆ Assess how physical climate hazards - such as heat stress, wildfire smoke, extreme weather, and vector-borne disease – affect the health of workers, customers, communities and other stakeholders, and disclose the company's response, including mitigation measures and/or related opportunities if relevant for sector.
Just Transition	◆ Set out how the company has engaged with stakeholders, including workers, suppliers, and communities to identify impacts associated with the energy transition in their climate strategy. ◆ Identify risks and opportunities related to a Just Transition and develop a suitable approach to addressing these considerations. ◆ Integrate Just Transition objectives within transition plans, for example, specific metrics or objectives in relation to employee training and development, green job creation, and dialogue, among others.
Climate governance including lobbying	◆ Ensure senior management is accountable for the company's climate strategy and that there is sufficient board oversight of material climate risks. ◆ To publish the company's climate policy engagement position and assess alignment of lobbying activities with the goals of the Paris Agreement.

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Spotlight: Methane Emissions

Methane is a significant contributor to global warming, with the fossil fuel sector producing more than 35% of methane emissions caused by human activities.[17] To align with the IEA's Net Zero by 2050 scenario, emissions must decrease by 75% by 2030, with the IEA estimating that 30% of methane emissions can be avoided at no net cost for the fossil fuel sector.[18]

Reducing methane emissions in the coal mining and the oil and gas sectors presents the largest and most immediate opportunity. Methane is released during coal extraction and from leaks, venting, and flaring in oil and gas operations, leading to inefficiencies and financial losses. These sectors face increasing scrutiny due to tightening global regulations.

We encourage companies in these sectors to actively reduce methane emissions by measuring and transparently reporting them, setting reduction strategies with clear targets, and participating in initiatives like the Oil and Gas Methane Partnership (OGMP) 2.0.[19]

Investors can facilitate transformation by engaging with companies, supporting policy development, and refining assessment methodologies. Addressing methane emissions is both a regulatory necessity and an opportunity to enhance operational efficiency and financial performance. By meeting these expectations, companies can demonstrate leadership in methane management, mitigate regulatory and market risks, and contribute to global climate goals, ultimately protecting and enhancing long-term investor returns.

17. International Energy Agency. (2025). Global Methane Tracker 2025: Understanding methane emissions. https://www.iea.org/reports/global-methane-tracker-2025/understanding-methane-emissions.
18. Ibid.
19. Please refer to the following link for further information: https://www.ogmpartnership.org/.

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