Providing investors ESG and sustainable strategies

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Today, we and many of our customers contribute to greenhouse gas emissions. We have a strategy to reduce our own emissions and to develop solutions to help our clients invest sustainably. For more information visit https://www.assetmanagement.hsbc.com/about-us/net-zero The information presented concerns the activity of HSBC Asset Management globally. We draw your attention on the fact that the numbers presented and the commitments listed are not necessarily a direct reflection of those of HSBC Asset Management in the various jurisdictions.

HSBC Asset Management sees the transition to a more sustainable economy as a multi-decade investment opportunity, that will include the introduction of climate critical technologies, more sustainable business models and a wider industry transformation across sectors and regions. ESG considerations can impact the value of investments and the countries in which we invest. This is why ESG considerations are both a mechanism to manage material risks in investments and a lens to seek to capture value.

Our ESG and sustainable strategies include products that seek to support and/or promote sustainable outcomes through the assessment of specific ESG criteria, products that invest in specific growth areas or trends and those that seek a specific sustainable impact. We also see a range of ways to invest across asset classes, in both traditional and alternative areas of investment.

Recognising the diverse needs and interest areas of our investors, we offer sustainable products that include funds across liquidity, fixed income, equity, alternatives, multi-asset, passive and quantitative solutions.

In 2023, assets under management within our ESG and sustainable strategies grew to over USD 70bn.

We are pleased to share some examples of our custom and standard solutions that showcase how we produce sustainability focused investments across our platform.

Note:
1.Global assets under management: USD706bn. Source: HSBC Asset Management, data correct as of 31 December 2023. HSBC's ESG and Sustainable strategies include impact funds with an ESG or Sustainable objective, thematic funds that seek to invest in ESG or sustainable trends, and strategies that seek to mitigate ESG risks by investing assets with higher ESG performance and/or exclusions of those that are lower ESG performing. Considerations across strategies can include but are not limited to climate/net-zero and/or UN Sustainable Development Goals. For the avoidance of doubt, these assets invested pursuant to the ESG and Sustainable strategies do not necessarily qualify as "sustainable investments" as defined by SFDR or other relevant regulations. The HSBC ESG and Sustainable Investing Framework is an HSBC internal classification framework used to establish ESG and sustainable investing standards and promote consistency across asset classes and business lines where relevant and should not be relied on to assess the sustainability characteristics of any given product.

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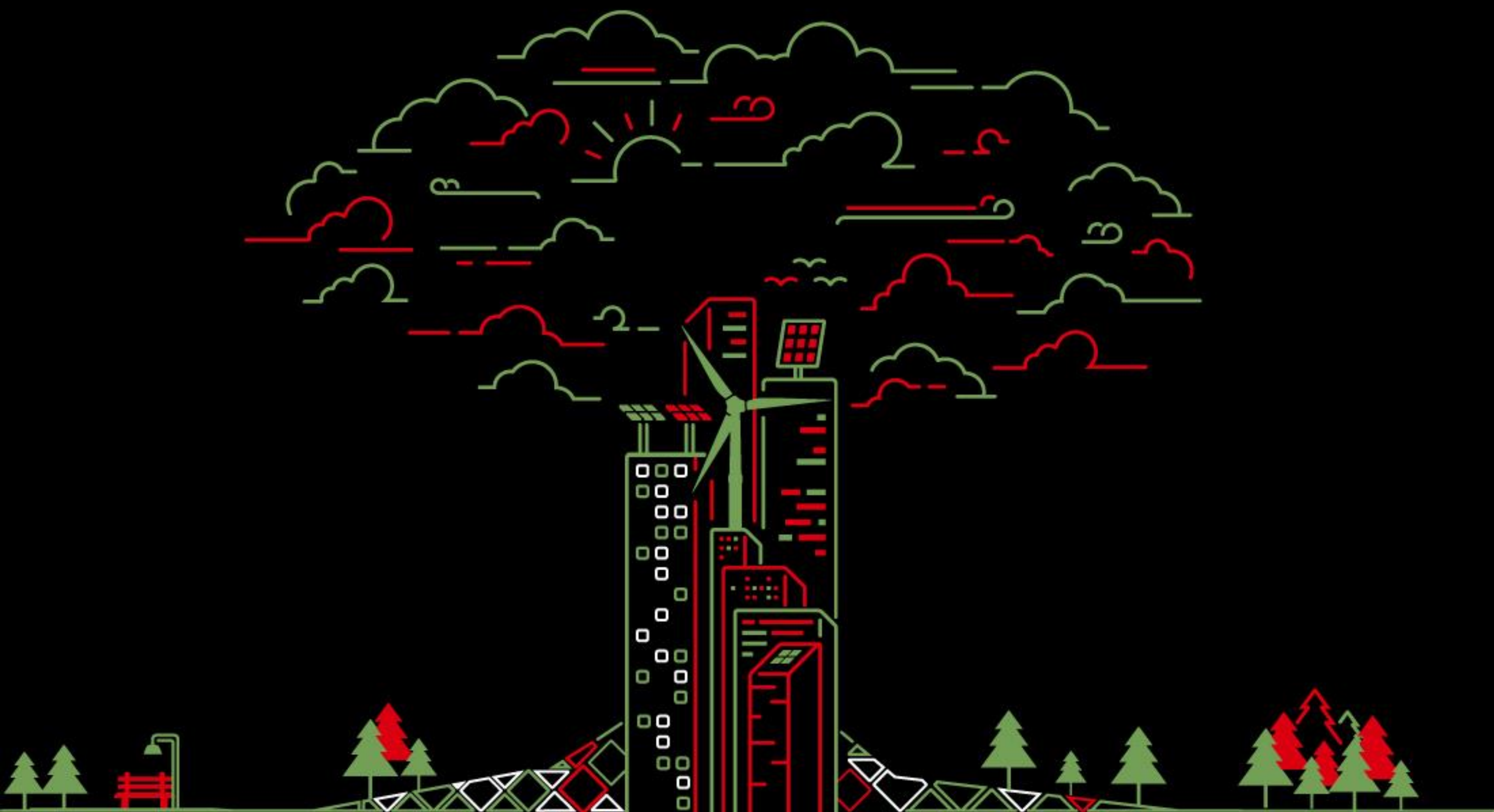


Tackling climate change through innovation in passive and venture capital capabilities

The importance of technology in achieving the goals of the Paris Agreement (particularly through the development and deployment of renewable energy sources) cannot be overstated. As the world aims to limit global warming to well below 2 degrees, and ideally 1.5 degrees, technology plays a pivotal role in various aspects of this endeavour. Technology can be a key enabler offering solutions for reducing emissions, enhancing efficiency and facilitating the transition to a sustainable, low-carbon future.

Taking this into consideration, last year, we developed a climate technology passive equity strategy which aims to invest in companies that seek to accelerate the transition towards carbon neutrality and climate resilience. It replicates an index developed by Nasdaq in partnership with the Consumer Technology Association. The index offers investors a differentiated solution by tracking companies across a wide range of industries, all of which are developing (or engaging with) compelling technological innovations that seek to accelerate the global transition. It uses a bespoke thematic taxonomy to identify and classify companies according to whether they are Enablers (power sources and power storage), Engagers (infrastructure) or Enhancers (agriculture and food technology, adaptation consulting and fossil-free transportation). Companies are then selected based on thematic revenue, innovation and transition scores.

In the alternatives space, our Venture Capital Climatech capability launched in 2021 invests in early-stage companies seeking to de-carbonise and de-pollute industries. More detail on this strategy can be found in the Alternatives section of this review.

Navigating sustainability in emerging markets fixed income

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

We see investors playing an important role in supporting the transition of issuers in emerging markets. Investors can play an instrumental role when it comes to effective collaboration with sovereign and corporate issuers. This can include supporting corporate and sovereign issuers on developing or strengthening their sustainable transition plans. Additionally, investors can support issuers with financing and capital raising through advice on structuring and allocation of proceeds.

At the end of 2022, we launched an active sustainable corporate debt strategy which aims to deliver positive environmental outcomes across emerging markets through integrated sustainability analysis and continuous credit analyst assessment. The strategy applies a credit research process to identify issuers with attractive ESG credentials and whose activities support UN SDGs (Sustainable Development Goals). The strategy invests in issuers where external data coverage is typically not available or sufficient. The 'data gap' means that much of the analysis is undertaken without relying solely on numerical data, assessing the qualities and characteristics of issuers and the region in which they operate.

Issuers are selected based on their sustainability strategy and net positive contribution to SDGs, while at the same time having a satisfactory E&S operational framework and governance. This process follows our internal Sustainability framework, and all issuers have to respect the Do No Significant Harm (DNSH) principles.

Growing importance of sustainability considerations in cash management

Our Liquidity team expanded the range of ESG money market strategies by launching the Euro ESG in 2023. This Euro fund complements both GBP and USD solutions launched in 2021 and 2022 respectively, offering global investors a robust approach to liquidity ESG investing. The team uses ESG scoring which incorporates data from 3rd party vendors to assess all the issuers in the money market universe. ESG scores are used to remove the lowest scored issuers from each of the specific E, S and G pillars. This approach removes a meaningful proportion of issuers from the investment universe (circa 30%), which means we can better manage ESG risks in an asset class where there is traditionally little other differentiation between issuers.

Separately, we have a launched a new Purpose 'P' share class for two of our US domestic money market funds. A minimum of 20% of the net share class fee is donated to a US Hunger relief organisation called Feeding America.

Bringing together faith-based and socially responsible investment screening

We are proud of our long-term commitment of serving investors worldwide interested in Islamic investing and are continuing to offer innovative solutions. Faith-based screening and standard Socially Responsible Investment (SRI) filters have a number of common considerations, and we are proposing solutions to offer investors an opportunity to access broad market exposure while remaining in compliance with Shariah law.

Working together with MSCI, we have expanded our passive product suite with two new Shariah-compliant ESG solutions that focus on emerging markets and Japan equities. The index screening methodology applies a set of Shariah exclusions (e.g. alcohol, gambling & pork related products). To ensure compliance with Shariah investment principles, this Islamic screen has two levels - financial screening and business activity screening followed by a set of norms-based exclusions via a Socially Responsible Investment (SRI) screen (e.g. nuclear weapons & producers of firearms). The methodology then over-weights towards companies with stronger ESG credentials as defined by their MSCI ESG scores (compared to standard market capitalisation).

Bespoke equity and fixed income solutions to meet specific needs

For our institutional clients, we also build innovative custom solutions with the aim to support their specific objectives, requirements, and preferences, e.g. decarbonisation and net zero, as well as other sustainability related areas. Our stewardship capabilities are an important tool in supporting our clients with their financial and sustainability goals.[1]

Some standout achievements include:

- We were one of five asset managers awarded a mandate from one of Asia's largest pension managers to run an Asia climate-change focused solution, managing $460 million in assets. This global climate change equities mandate explicitly tracks 2015 Paris Agreement metrics.
- We have been selected by a large insurance group to manage a $2.15 billion UK quantitative equity solution, with the objective to help transition its equity portfolio to net zero strategies. The multi-factor equity solution aims to enhance the portfolio's risk-return profile, whilst implementing and monitoring exclusions policies and managing specific carbon emissions targets in line with the investor's requirements.
- In 2023, we were awarded a "buy and maintain" euro fixed income corporate mandate with one of the largest state-owned public pension institutions in France. At the initial stage of the selection process, the client expressed that beyond financial performance, they would pay specific attention to the methodology and resources allocated to the implementation of an SRI approach. The client was particularly focused on the value that asset managers will add to the ESG data received from external providers, and the way the data was integrated in the overall investment approach for their mandate. In addition, the client wanted to ensure that its own SRI charter (that includes 17 key sustainability themes) was fully integrated within the investment process for this specific mandate.

Note:
1. More detail on our Stewardship approach can be found here

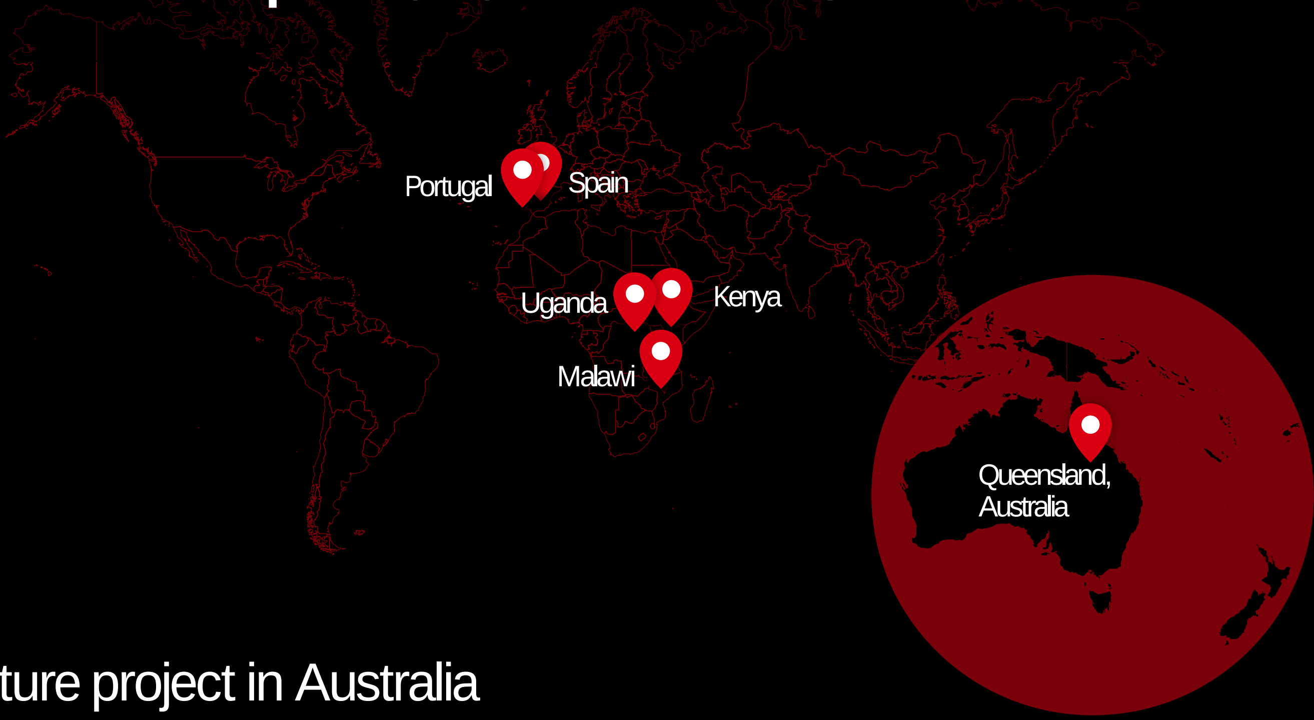
Focus on Climate Asset Management

Climate Asset Management, a joint venture we launched in 2020 with Pollination, a climate investment and advisory firm, continues to create investment opportunities for investors on nature-related solutions and accelerate the transition to net zero.

Its nature-based carbon strategy targets nature restoration and conservation projects in developing economies, prioritising community benefits while generating high-quality carbon credits. Whilst its natural capital strategy invests in agriculture, forestry and environmental assets, with the aim to deliver impact at scale alongside long-term financial returns.

In 2023, Climate Asset Management has allocated

more than **$400 million**.



Nature project in Australia

Regenerative agriculture:

In September 2023, Climate Asset Management announced the acquisition of c.1,800 hectares of farmland in Queensland Australia. The acquisition, which was financed by Climate Asset Management's Natural Capital Strategy, will see the transformation of high-intensity former sugarcane-farmed land into a sustainably managed, native Macadamia orchard, cultivated and harvested using regenerative practices and adopting a holistic land management approach.

The impact of the project will be two-fold:

1. Water conservation and reduction of fertiliser and pesticides: The project aims to see a significant conservation of water resources, through the implementation of water efficiency strategies and precision agriculture techniques. It will also see up to 50% reduction in synthetic fertiliser and chemical pesticides. The change in management practices is expected to have a positive knock-on impact on the Great Barrier Reef Marine Park by reducing chemical runoff and sediment.

2. Biodiversity protection and restoration: The project is located between two national parks and has allocated a c.110 hectares native habitat area supporting species of conservation concern for biodiversity protection and restoration.

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