Asset Management

HSBC Asset Management Policy on Thermal Coal

For professional investors only

September 2022

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Our Net Zero Objective

'In line with the best available science on the impacts of climate change, we acknowledge that there is an urgent need to accelerate the transition towards global net zero emissions and for asset managers to play their part to help deliver the goals of the Paris Agreement and ensure a just transition.' Net Zero Asset Managers Commitment.

As signatories to the Net Zero Asset Managers initiative, we have committed to work in partnership with our clients on decarbonisation goals, consistent with an ambition to reach net zero emissions by 2050 or sooner across all assets under management.

In line with the Net Zero Asset Managers commitment, we are setting an interim target for the proportion of assets to be managed in line with the attainment of net zero emissions by 2050 or sooner.

It is essential that the transition to a net zero economy is just, protecting the most vulnerable. We have signed the Statement of Investor Commitment to Support a Just Transition on Climate Change. We recognise the need for the net zero transition to be stable, fair, and supportive of those communities most impacted.

We need to ensure that decarbonisation and energy security go hand-in-hand, and also ensure that communities are not left behind.

This policy forms part of our Net Zero Asset Managers commitment. It is developed in support of HSBC Group's climate ambition and the commitment made in the Group's Thermal Coal Phase-Out Policy in December 2021that 'unless in conflict with fiduciary or other regulatory obligations, all relevant HSBC entities, products and businesses, including asset management, will seek to implement policies that support the transition from coal-fired power and thermal coal mining within HSBC's 2030/40 timelines'.

Thermal coal phase-out – ten-point plan

This policy reflects the fiduciary obligations of HSBC Asset Management and the aims of the HSBC Group Thermal Coal Phase-Out Policy to meet the dual objectives of phasing out coal-fired power and thermal coal mining (collectively 'thermal coal') within science-based timeframes and of energy transition in more coal-reliant economies.

‘This policy will be reviewed annually, to consider changes in relevant external factors (e.g. changes in the scientific assessment of climate change impact, transition pathways including viability of abatement and future risk or changes in governmental or regulatory treatment). We will report progress as part of our Net Zero Asset Managers commitment.

Investments

1. **By the end of 2030, we will not hold listed securities of issuers with more than *de minimis* revenue exposure to thermal coal in EU/OECD markets in our actively managed portfolios.**
2. **By the end of 2040, we will not hold listed securities of issuers with more than *de minimis* revenue exposure to thermal coal in all markets in our actively managed portfolios.**
3. **We do not make direct investments in new or existing thermal coal projects.** This includes but is not limited to: creation of new thermal coal assets; thermal coal expansion; extensions to the unabated operating lifetime of existing thermal coal assets; new captive coal-fired power plants or new captive thermal coal mines; new thermal coal infrastructure; coal to gas / liquids plants and thermal coal mines using Mountaintop Removal.
4. **With immediate effect, actively managed portfolios will not participate in IPOs or primary fixed income financing by issuers engaged in thermal coal expansion.**

   For other issuers with more than 10 per cent revenue exposure to thermal coal, participation by actively managed portfolios in IPOs or primary fixed income financing will be subject to enhanced due diligence of transition plans to ensure alignment with our Net Zero Objective.

   We will divest over time from issuers whose transition plans are considered incompatible with our Net Zero Objective.
5. **Our sustainable fund ranges already exclude issuers with more than 10 per cent revenue exposure to thermal coal.**

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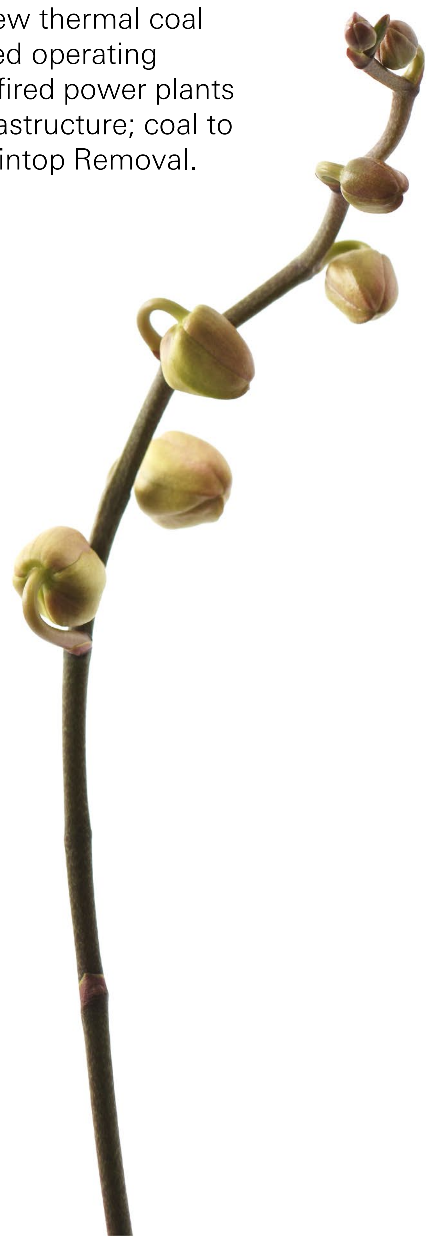

Research and Engagement

6. We will undertake **enhanced due diligence** on issuers of listed securities held in our actively managed portfolios with more than 10 per cent revenue exposure to thermal coal, prioritising those with the highest exposure.
   Client risk and issuer transition plans will be assessed as part of enhanced due diligence, based on factors including: level of ambition to reduce greenhouse gas emissions; clarity of transition strategy, including metrics, governance and targets; adequacy of disclosure; credibility of any proposed abatement assumptions; proposed post 2030 / 2040 coal-fired power generation; and consideration of principles of just transition. The enhanced due diligence will be overseen by our ESG Oversight Committee. It will be conducted from 2022 for EU / OECD markets and from 2023 for all other markets.
7. We will **continue to engage with issuers**, prioritising those where we have the highest exposure. By the end of 2023, we expect to have initiated engagement with all listed issuers held in our actively managed portfolios with more than 10 per cent revenue exposure to thermal coal. We shall prioritise engagement with issuers in our passively managed portfolios according to size of holding, engaging with all listed issuers with more than 10 per cent revenue exposure to thermal coal by the end of 2025.
8. As we extend our engagement, **we shall vote against the re-election of chairs of listed issuers** with more than 10 per cent revenue exposure to thermal coal which do not provide TCFD or equivalent reporting. We shall also vote against chairs where transition plans remain weak following engagement. For our voting, we use Transition Pathway Initiative scores to assess issuers' progress with transition, alongside our own analysis.

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Passive products

9. **We will not launch new Exchange Traded Funds (ETFs) and index funds including issuers with more than *de minimis* exposure to thermal coal going forward**, unless the strategy for the relevant ETF / fund has specific Paris-aligned 1.5°C objectives and / or clear divestment pathways. We will continue to develop our suite of Lower Carbon, Paris-aligned ETF and Index products..

Clients

10. We shall **actively engage with clients** to inform and support their own net zero commitments.

Further actions

- We will work with index providers to extend the range of indices and passive products that do not have exposure to thermal coal. As the net zero transition progresses, we expect thermal coal exposure to decrease across all indices.
- We shall review other asset classes under our Net Zero Asset Managers initiative commitments.
- We will publish interim emission reduction targets for assets identified as being managed in line with net zero by 2050 or sooner as part of our Net Zero Asset Managers initiative commitments. The application of this policy to those assets will be science-based.

Application

- These commitments apply to all actively managed portfolio ranges, except certain alternatives portfolios where we do not have sole discretion.
- We recognise that state-owned enterprises in non EU / OECD markets may be subject to different national development planning cycles and will take those timeframes into account where necessary. Such issuers will be subject to enhanced due diligence to ensure sufficient progress is being made on transition planning. This will not impact our 2040 active holdings phase-out.
- We apply this policy at issuer level. Where issuers form part of a wider group, we consider the activities (including transition plans) of the group and apply the policy to the extent appropriate.
- Where we do not have full portfolio discretion, or board/equity control such as joint ventures, independent director controlled fund boards and client segregated mandates, commitments included in this policy will be subject to client, fund director and regulatory approval.
- New investment in 'Buy and Maintain' and 'Buy and Hold' assets will be assessed according to this policy; existing holdings will be managed in client interest, which may include holding to maturity where there is a fiduciary or regulatory obligation to do so.
- Existing and new client take-on requirements set out in the HSBC Thermal Coal Phase Out Policy will apply to Asset Management institutional clients.
- Oversight of the application of this policy will be conducted by HSBC Asset Management's ESG Oversight Committee, Alternatives Sustainability Oversight Committee and Sustainability Forum.
- Beyond 2030, emerging market portfolios may exceptionally continue to hold issuers with exposure to thermal coal in the small number of OECD markets included in emerging market portfolio benchmarks.

Glossary

Actively managed portfolios – portfolios managed through an active fundamental investment process. The phase-out commitment does not apply to index funds and ETFs, although we expect thermal coal exposure to decrease across all indices and will not launch new index funds or ETFs with more than *de minimis* thermal coal exposure.

De minimis – our intention is to exclude companies engaged in thermal coal mining or coal-fired power generation. In line with methodology typical of ethical exclusions we may apply a de minimis threshold in good faith to help ensure that the policy is operable. This threshold would be set at no more than 2.5 per cent of issuers' revenues for actively managed portfolios and also for new index funds and ETFs.

Thermal coal expansion – for thermal coal mining, increases in total tonnage of thermal coal extracted; for coal-fired power, increases in net operational thermal coal power capacity. In each case where such expansion: refers to absolute global increases rather than increases for issuers as a result of corporate mergers and acquisitions; and was not already contractually committed (via power purchase agreement for coal-fired power generation) or under construction, in each case before 01 January 2021.

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