

HSBC Asset Management Thermal coal policy

November 2023



Today, we and many of our customers contribute to greenhouse gas emissions. We have a strategy to reduce our own emissions and to help our customers reduce theirs. For more information visit <https://www.assetmanagement.hsbc.com/about-us/net-zero>



HSBC Asset Management

| Opening up a world of opportunity

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 have set a global 2030 [interim target](#) to reduce the Scope 1 and 2 emissions intensity of 38 per cent of our total assets by 58 per cent compared with 2019.

We have chosen the Net Zero Investment Framework as a methodology for our interim target. We are following the International Energy Agency Net Zero Emissions by 2050 Scenario.

It is essential that the transition to net zero is just. 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 net zero ambition and the transition from coal-fired power and thermal coal mining (collectively 'thermal coal') within the 2030/40 timelines set out in the [HSBC Thermal Coal Phase-Out Policy](#). It complements our own Energy Policy¹ and is intended to help meet the dual objectives of phasing out thermal coal within science-based timeframes and of energy transition in more coal-reliant economies.

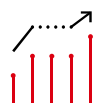
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1. Please visit the page 'Policies and Disclosures' on our public website for more details on policies related to responsible investing

Thermal coal phase-out – ten-point plan

This policy is subject to our legal and regulatory obligations to clients.

It will be reviewed at least annually, to consider changes in relevant external factors (e.g. changes in the scientific assessment of climate change impact, transition pathways 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; new metallurgical coal mines; new coal to gas/liquids plants and thermal coal mines using Mountaintop Removal.
4. **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 to help ensure that the issuer has a credible transition plan.

We will divest over time from issuers whose transition plans are considered incompatible with our Net Zero Objective.

5. **Our actively managed sustainable fund ranges already exclude issuers with more than 10 per cent revenue exposure to thermal coal, unless the issuer has a credible transition plan.**





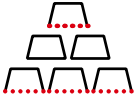
Research and Engagement

6. We will undertake **due diligence** on issuers of listed securities held in our active fundamental portfolios with more than 10 per cent revenue exposure to thermal or metallurgical coal, prioritising those with the highest exposure.

Client risk and issuer transition plans will be assessed as part of 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.

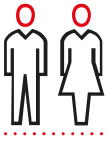
7. We will **continue to engage with issuers**, prioritising those where we have the highest exposure. By the end of 2023, we expect to have initiated engagement with all listed issuers held in our active fundamental portfolios with more than 10 per cent revenue exposure to thermal coal, and by the end of 2024 for those with more than 10 per cent revenue exposure to metallurgical coal. We shall prioritise engagement with issuers in our passive and active systematic portfolios according to size of holding and those issuers with poor emissions disclosure and / or no public net zero target, engaging with all listed issuers held in these portfolios with more than 10 per cent revenue exposure to thermal or metallurgical coal by the end of 2025.
8. As we extend our engagement, **we will normally vote against the re-election of chairs of listed issuers** covered by our active fundamental equity engagement with more than 10 per cent revenue exposure to thermal coal which do not provide TCFD or equivalent reporting. We will also normally vote against chairs where transition plans remain weak following engagement. We will intend to extend this voting to issuers covered by our passive and active systematic engagement by the end of 2025. For voting holdings in carbon intensive sectors, we already use Transition Pathway Initiative (TPI) scores to assess issuers' progress with transition, alongside our own analysis (note with link). This may include votes against the re-election of the chair or relevant board director of thermal coal issuers.





Passive products

9. We will not launch new passive 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 passive 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 passive ETF and Index products.



Clients

10. We continue our **active engagement 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



Application

- ◆ 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
- ◆ These commitments apply to actively managed portfolios as set out, except certain alternatives and other portfolios where we do not have sole discretion
- ◆ The thermal coal phase-out commitment does not apply to index funds and passive ETFs, although we expect thermal coal exposure to decrease across all indices and will not launch new index funds or passive ETFs with more than *de minimis* thermal coal exposure
- ◆ Multi-asset or fund of fund strategies utilising third party, systematic or passive funds may be unable to implement certain aspects of this policy, with potential limited exposure to issuers that would otherwise be excluded. Sustainable multi-asset or fund of funds strategies will seek funds with aligned / similar restrictions where these are available
- ◆ 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. Due diligence and enhanced due diligence of such issuers will monitor how far 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 of the group including the level of credibility of its transition plan and apply the policy to the extent appropriate
- ◆ References to more than 10 per cent revenue are intended to identify issuers with significant exposure to thermal or metallurgical coal. Where companies exceed this level due to changes in commodity price or other factors beyond an increase in production, we may set aside the relevant threshold
- ◆ We use third party data providers to monitor issuers' exposure to certain activities and / or breaches of standards. Whilst we assess providers for the accuracy of their data and quality of judgement, we cannot guarantee their accuracy or timeliness. We may set aside their data or scoring where our own due diligence suggests that this may be inaccurate, incomplete or disproportionate
- ◆ Our voting activity covers all equity holdings – whether in active fundamental, active systematic or passive portfolios – over which we have voting discretion, with some commitments in this policy subject to third party data coverage and our discretion to consider other factors. Our voting records are available [online](#)

Application (cont'd)

- ◆ 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 on-boarding requirements set out in the HSBC Thermal Coal Phase Out Policy will be applied by HSBC Group as part of its on-boarding process for Asset Management clients
- ◆ Oversight of the application of this policy will be conducted as part of our governance and risk framework, which includes formal governance committees at global and local business levels. Implementation may be led at asset class level, supported by other investment and business functions
- ◆ For portfolios not classified as sustainable, the purpose of due diligence is to understand the issuers' transition plans and to inform investment views and engagement objectives. Due diligence and enhanced due diligence will be reviewed by Asset Class ESG Investment Committees or other delegated investment functions, overseen by our ESG Investment Committee. They may also consider country and regional context, as well as other risks to transition plans
- ◆ 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 – include:

- ◆ Active fundamental portfolios / funds – portfolios / funds managed through an active fundamental investment process;
- ◆ Active systematic portfolios / funds – portfolios / funds managed through a quantitative investment process

Passive portfolios / products – portfolios / products managed to track an index.

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 passive 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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AMFR_2023_ESG_ESG_1286. Expires: 11/2025

