HSBC Asset Management

UK Stewardship Code Report 2022

Foreword

We are pleased to have been acknowledged as a signatory to the UK Stewardship Code since its revision in 2020.

The Stewardship Code principles remain central to our conviction and efforts in responsible investment, as we focus on achieving objectives-led milestones, supporting the ongoing generation of value and positive outcomes at companies we invest in.

Last year saw our Stewardship team further strengthen their expertise and ability to execute and deliver on our strategy through the establishment of thematic leads. Our Stewardship Plan published in May 2022 also presented a deeper focus on thematic areas, discussed in detail within this submission, outlining our expectations in relation to human rights, biodiversity, trusted technology and data, and inclusive growth and shared prosperity for the first time.

Holding board directors accountable for the oversight of long-term sustainability issues at their companies, we voted against their re-election where we noted ongoing poor performance on the corporate governance and sustainability issues mentioned above. With an aim to uplift practices, we also considered local regulation and regional nuances in establishing our voting guidelines. In 2023, we will further enhance our expectations when exercising our voting rights, particularly in relation to the management of issues related to nature-related risk, shared prosperity and human rights.

Looking ahead, we will continue to leverage stewardship as an important tool in the delivery of our net zero strategy, Net Zero Asset Manager initiative (NZAM) and policy commitments, through strategic engagement and voting. More broadly, we will continue to build on the Stewardship Plan to deepen existing thematic priorities.

We will leverage our unique global footprint and deep local market expertise to deliver sustainable and long-term impact, with a focus on our fiduciary duty to support our clients with their financial and sustainability goals.

Xavier Baraton

Global Chief Investment Officer

PURPOSE & GOVERNANCE

Principle 1

Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

1.1 Our Approach

1.1.1 Our purpose is to help our stakeholders prosper – our clients, shareholders, the societies in which we operate, which includes our planet. To do that we collaborate with our clients to help them grow and protect their assets. We use our expertise in connecting the developed and developing world to provide them with sustainable investment opportunities across multiple asset classes and capabilities.

1.1.2 The world is going through several major transitions that present both sources of investment return and risks. We are uniquely positioned to benefit our stakeholders by focusing on the following two:

- The move to sustainability-driven investing.
- The shift in balance of wealth between developed nations and emerging Asia.

The move to sustainability-driven investing: Being part of HSBC Group gives us insights into sustainable finance as well as enhanced access to policymakers and standards setters to proactively influence sustainability agendas. These insights feed our creation of sustainable and impactful solutions and into our investment processes, enabling us to understand, assist and invest in all transitions.

1.1.3

With 30 years of experience, operations in 25 countries and a large investment manufacturing capability in Europe and Asia (including China), we can credibly bridge East and West, promoting global sustainable standards and providing value to clients in both regions.

1.2 Our strategy

1.2.1 HSBC Asset Management's strategy is to 'open a world of opportunity' for our clients by providing market leading investments solutions, aligned to the Sustainability transition and growth in Emerging Markets & Asia.

1.2.2 To deliver this strategy we are positioning the business as a Core Solutions and Specialist Emerging Markets, Asia and Alternatives Asset Manager underpinned with three key enablers:

- Client centricity
- Investment excellence
- Sustainable investing

1.2.3 To implement our vision, we have been transforming our business into a 'core solutions' and 'specialist emerging markets, Asia, and alternatives' asset manager, with client service, investment excellence and sustainability as key enablers.

1.2.4 As a result, we have identified several long-term strategic initiatives centred around three core themes: providing responsible investment solutions; generating active returns where we are relevant and have a competitive advantage; and positioning our business for the rising wealth in emerging Asia.

1.2.5 Our strategy aligns our work to five strategic priorities. One of these priorities is to Build Leadership in Sustainable Investments.

1.2.6 Responsible investing and stewardship are key elements in our five-year business road map, which includes our ambition to become a leader in responsible investing. We are embedding responsible investment thinking in the heart of everything we do – from our interaction with clients, the incorporation of ESG factors into our core products and solutions, to the creation of new products and solutions that deliver value for end-investors and positive impact for society at large. We invest with purpose and discipline, supporting the preservation of clients' assets and unlocking investment opportunities, whilst continuing to engage with companies, policy makers, regulators, and industry initiatives for the benefit of our stakeholders and to create a healthy financial system.

1.3 Our culture

1.3.1 At HSBC Asset Management, we aim to create a truly motivated diverse, equitable and inclusive asset management workforce, proactively shaped to deliver our vision and strategy and to reflect the clients we want to serve and the societies in which we want to live. Being inclusive is an expression of our values to be dependable, open, and connected. We want to be a place where people are valued, respected, and supported to fulfil their potential – and we foster an environment where people can speak up to remove barriers to success, and collaborate to put the best ideas into practice.

1.3.2 We recognise that organisational culture is constantly evolving. We have a Diversity, Equity and Inclusion (DEI) programme to build on our existing policies and practice and evolve them to reflect new norms.

1.3.3 This programme includes 11 work streams across 14 countries and 19 businesses. We have a DEI leadership team of 24 people and around more than 250 volunteers across the business. In 2022, we were pleased that that work was recognised externally: most improved retention rates (female PM retention in the last 10 years) and best AUM split (funds managed by male/female PMs) at the Citywire Gender Diversity Awards; our Global Head of Sustainability named as one of Financial News's 100 Most Influential Women in Finance 2022 and our Head of Distribution Oversight, Fund Operations included in 'LGBT Great Top 100 Game changers 2022'; the Diversity Award at Insurance Asset Management Awards 2022; and amongst four firms shortlisted for 'Championing Social Mobility' in the Financial Times Adviser Diversity in Finance Awards 2022.

1.4 Investment beliefs

1.4.1 Markets are not fully efficient; they are prone to mispricing over the short-term. Anomalies can persist for a while, but ultimately prices tend to align with fundamental values. This creates opportunities for research-driven investors:

- We seek to deliver sustainable risk-adjusted performance. We do this by leveraging our sustainability expertise and investment capabilities which are embedded throughout our investment processes.
- We believe that a disciplined approach based on research, intellectual capital and 'built for purpose' systems have power and predictability:
- Whilst individual flair and creativity remain important, structure and discipline lie at the heart of our investment decisions.
- Research underpins our decisions in all asset classes and is central to our approach. Our research department teams work closely with our investment teams and are responsible for generating insights, investment ideas and on-going support.
- Our robust proprietary tools strengthen our capabilities and enable consistency of approach across our teams and locations.

1.4.2 We believe that good governance – clear investment beliefs and a well-executed process – is the key to delivering long-term value for our clients and to ensure that the portfolios we manage are in line with their investment constraints and objectives

1.5 Responsible investment

1.5.1 Responsible investment is integral to our investment philosophy and approach. We believe that ESG issues can have a material impact on company fundamentals and performance over the longer-term.

1.5.2 ESG issues are linked to opportunities and risks that financial markets may not be pricing appropriately.

- We believe that considering ESG factors while investing with purpose and discipline across all portfolios is critical to delivering sustainable growth and reducing risks for each client we serve.
- With a strong heritage of successfully connecting our clients to global investment opportunities, and proven expertise in connecting the developed and developing world, we have a unique perspective on ESG factors.
- We combine these strengths with a long-term commitment to our clients and a structured and disciplined investment approach, to deliver solutions that support their financial ambitions while transitioning to a more sustainable future.

1.5.3 We have defined a core set of Responsible Investment beliefs to underpin our investment narrative. These are summarised below.

1.5.4 There are two kinds of responsible investment. The first is investing sustainably to achieve positive real-world outcomes. The second incorporates sustainability into decision making to generate superior risk-adjusted returns. We believe investors desire both.

1.5.5 Our industry is fiduciary bound, which means it's our duty to understand how sustainability affects valuations, risks and returns. As asset allocators and influencers of policy, we can help mobilise capital towards positive real-world impacts.

1.5.6 Our proprietary quantitative-based historic analysis demonstrates that ESG integration can improve excess returns. This is true for each E, S and G pillar, as well as across regions. It's also true for ESG improvers.

1.5.7 The low-carbon transition is aligned to attractive risk-adjusted returns over the long term. It may unlock trillion-dollar opportunities, give rise to new business models and asset classes. Examples include nature-based solutions, sustainable infrastructure and critical green technologies.

1.5.8 Engagement is a key feature of responsible investing. It plays an important role in enhancing investment returns as well as delivering sustainable objectives. This is especially the case for businesses funded by long-term or permanent capital.

1.6 Building a sustainable future

1.6.1 As part of our fiduciary duty to clients we are focused on increasing the climate resilience of our clients' investments. Alongside climate issues, we formally integrate ESG factors into our investment decisions. Since we signed the Principles for Responsible Investment (PRI) in 2006 we have integrated material ESG factors into our investment analysis and decision-making, to reduce risk and enhance returns.

1.6.2 We are signatories to the Net Zero Asset Managers initiative, which commits us 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 2022, we published our interim target to reduce the emissions intensity of 38 per cent of our assets by 58 per cent by 2030, compared with 2019. This target covers all our listed equity and corporate fixed income assets (other than those held in multi-asset strategies).

1.6.3 We recognise the contribution we can make to the United Nations' Sustainable Development Goals (SDGs) and the global transition to a low-carbon economy. The SDGs and Paris Climate Agreement set a long-term transformational framework with the objective of ending poverty, fighting inequalities, and tackling climate change. We will continue to collaborate with institutional investors, development finance institutions and policymakers to deliver tangible investment flows into the real economy. We have four business themes aligned to the UN SDGs, which will drive the work we do: Climate / Low Carbon Transition, Nature & Biodiversity, Healthcare and Diversity, Equity & Inclusion. These themes inform our business strategy as well as our engagement and advocacy work.

1.6.4 We have a long-term commitment to our clients and a structured and disciplined investment approach to deliver solutions that support their financial ambitions while transitioning to a more sustainable future through:

- Creation of solutions based on client needs designed to mitigate risk and capture opportunities around ESG issues.
- Engagement with companies, improving market transparency and sustainability disclosure to better understand investment risks and opportunities.
- Work with policy makers and industry leaders to the benefit of our clients and the long-term health of the financial system and to support the transition to a low-carbon economy.

1.6.5 Our analysts and portfolio managers use ESG data, including carbon emissions metrics, to enable us to identify and manage ESG risks and opportunities and make well-informed investment decisions. We see it as consistent with our fiduciary duties to our clients to review the climate resilience of investments and contribute towards financing the transition to a low carbon economy.

1.6.6 Furthermore, we have a responsibility to exercise stewardship on behalf of our clients. We meet with companies regularly to improve our understanding of their business and strategy, signal support or concerns we have with management actions, and promote best practice. We believe that good corporate governance ensures that companies are managed in line with the long-term interests of their investors. We also engage with carbon intensive companies to encourage climate–resilient business strategies both individually and as part of our collective engagement through Climate Action 100+.

1.7 Reflection

1.7.1 Whilst we are ambitious for our clients, we recognise the scale and complexity of the transitions we are focused upon. Our strategy is intended to ensure that we are working as one with our clients to achieve our common sustainability goals.

1.7.2 Our commitment to net zero through the Net Zero Asset Managers Initiative, which sets the ambition for net zero portfolio emissions by 2050 and provides a framework of actions to achieve this, will have an increasing impact on our stewardship and wider investment. This work involves close dialogue with clients to help them meet their own net zero commitments. As well as deepening our understanding of issuer emissions in our portfolios and engaging with those issuers, we continue to develop new products and strategies aligned with net zero.

1.7.3 Our commitment to reducing biodiversity impacts and helping to reverse nature loss will also be an area of increasing impact for our stewardship and investment activity, whilst recognising that corporate engagement, regulation and data are all in early stages of development on this subject.

PURPOSE & GOVERNANCE

Principle 2

Signatories' governance, resources, and incentives support stewardship.

2.1 Governance

2.1.1 As a fiduciary with complex responsibilities, we believe it is fundamental to have a robust and transparent governance framework.

2.1.2 We have a legal entity-based structure that aligns with the countries in which we operate. Each business is ultimately a wholly owned subsidiary of HSBC Holdings, plc (HSBC Group), one of the largest financial services organisations in the world.

2.1.3 Each of our fund ranges has a supervisory body aligned to its respective legal structure, regulatory requirements, and business practices.

2.1.4 We have created a Sustainability Office which works in partnership with Responsible Investment to deliver our objective of becoming a leader in sustainable investing.

2.1.5 The Sustainability Office is responsible for Policy, Implementation, Assurance and Delivery, led by our Global Head of Sustainability who reports to the Asset Management Global Chief Executive Officer. The Responsible Investment team is led by the interim Global Head of Responsible Investment who reports to our Global Chief Investment Officer. The following teams report to the Global Head of Responsible Investment: Research & Integration, Stewardship & Engagement, Climate & Net Zero, RI Investment Specialists.

2.1.6 The Global Management Committee – comprising the senior leadership team globally – is responsible for overseeing the implementation of our strategy and ensuring an appropriate control framework and culture is operating effectively. While continually balancing the needs of various stakeholders, the Committee and its members give precedence to client and regulatory needs, including our stewardship obligations.

2.1.7 Our senior body overseeing sustainability and stewardship activity is the Sustainability Forum. Chaired by the Head of Sustainability, it provides strategic vision, objectives and oversight to the development and execution of sustainability implementation plans. It comprises Global Management Committee members – the Global CEO, Global Chief Investment Officer, Chief Risk Officer General Counsel, CEO Alternatives, CEO UK & Global Head of Strategy, and Global Chief Operating Officer – as well as the Global Head of Responsible Investment. This Forum met twelve times in 2022, considering matters including: Net Zero Asset Managers initiative interim targets, Thermal Coal Policy development and approval, Sustainable Finance Disclosure Regulation implementation, controversial weapons exclusions, and sustainability governance & risk management. It also reviewed and gave approval to the stewardship & engagement plan, voting guidelines, responsible investment annual review, shareholder proposal filing and other potentially high-profile stewardship initiatives. The Forum exists within our risk management framework.

2.1.8 The ESG Oversight Committee is chaired by the interim Global Head of Responsible Investment and attended by the Chief Investment Officer. It is the highest Responsible Investment approval committee, responsible for alignment with RI policy, ESG integration, escalations, engagement oversight and product sign-off. The Committee forms part of the management structure of the global investment function.

2.1.9 Local management structures and fund supervisory bodies also adopt policies and receive regular stewardship reporting relevant to their responsibilities. These polices and reports are maintained, reviewed, and submitted by the Sustainability Office.

2.1.10 This structure ensures that there is business oversight of the key stewardship decisions. Whilst responsibility for stewardship activity as part of the meeting our stewardship obligations lies across senior management, the Sustainability Forum brings together those with most immediate responsibility to oversee the activity and approve initiatives. Regulatory accountability is also ensured with reporting to relevant local management and fund oversight bodies.

2.2 Responsible investment team

2.2.1 The Global Chief Investment Officer has overall management responsibility for stewardship activity. Stewardship is carried out across the investment function, with all portfolio managers and analysts contributing to the responsible allocation, management, and oversight of capital.

2.2.2 Our responsible investment team is within the investment function. It currently comprises 18 people – 10 women and 8 men – based in London, Paris, and Hong Kong.

2.2.3 The team has considerable experience of stewardship and responsible investment. The team includes members who have previously worked in third party ESG research, credit analysis, equity analysis, product analysis, corporate sustainability consulting, and a wide range of other fields, with academic qualifications including business, economics, development, and computer science amongst many others. This range of skills and experience enables us to deliver stewardship and responsible investment activity that is in line with our strategy, relevant to our clients, investors, and products, drawing upon investment experience, academic research, and several external data sources.

2.2.4 The responsible investment leadership team receive continuous training relevant to their roles. Senior team members based in the UK, are subject to an annual training & competence review, which requires 25-35 certified hours of relevant training each year.

2.2.5 The stewardship team is part of the responsible investment team, comprising eight people, with new roles filled in the past year following the firm's review of responsible investment activity. This team leads our voting and engagement activity, focusing on thematic, policy and corporate engagement. Other elements of the responsible investment team include ESG research, integration, and product specialists. Situating the stewardship team within responsible investment as part of the wider investment function reflects the team's dependence and influence upon related activities to maximise its impact and effectiveness. It also maintains focus in ensuring that stewardship activity helps to deliver the firm's responsible investment objectives and ambition.

2.2.6 As an international firm with offices in some 25 locations, we recognise the importance of drawing upon a diverse range of backgrounds and experience to inform our investment and stewardship. We also recognise that the finance industry, including ourselves, needs to do more to build a truly diverse workforce, reflecting the societies in which we operate. To this end, we have our own programmes and are participating in several initiatives to enhance ethnic, gender and social diversity in our recruitment and internal promotion.

On-going and new diversity initiatives in 2022 included:

- AFL (Acceleration Female Leaders programme): The programme runs annually and aims to improve representation of females at senior levels by strengthening the leadership pipeline.

The focus is on increasing the visibility of high performing females, sponsorship, and networking, whilst driving their engagement and enhancing their leadership capability.

- Diversity Project – DP Pathway: Industry initiative to train female colleagues from functions outside of investments who want to become portfolio managers. Four colleagues have been selected for the 2022 programme.
- Asset Management Mentoring programme: This programme is employee-led and adds value by pairing mentors and mentees based on their individual needs and skills. The programme includes training, workshops, and networking opportunities to make the most of our global mentor-mentee community and learn from others.
- Succession Planning for Roles: Conducted annually for appropriate identification and succession planning of Business-Critical Roles.
- Partnership in Hong Kong with 'Inspiring Girls': Thinking about the next generation, in Hong Kong, we are sponsoring 'Inspiring Girls' charity with an aim to raise the aspirations of school-aged girls and paving the way for future generations of women to take their place in the world of asset management and finance. We have also partnered with the CFA Institute in India to hire female interns from underprivileged backgrounds.

Whilst these initiatives are undertaken across the firm, we expect them to impact our investment and stewardship teams alongside others.

2.3 Training

2.3.1 A range of ESG training (in person, e-learning, and webinars) is provided at different levels of the business. These cover our approach to ESG integration, key ESG risks and how they are managed and considered in investments, and how we engage with portfolio companies and communicate results to clients.

2.3.2 We have made good progress with our e-learning curriculum on approaches to sustainable investment strategy, key trends, and how to discuss these with clients. This e-learning is in response to growing client interest and demand for investment solutions that integrate responsible investment principles into portfolios, to mitigate risk, enhance portfolio value, and address societal challenges.

2.3.3 In 2022 we held a number Responsible Investment Talk Series internal events. On average these events attracted around 150 attendees. Topics included navigating effective engagement, biodiversity, just transition, ESG integration and RI in Emerging Markets.

2.3.4 A Sustainability & Responsible Investment Town Halls were held for all employees. For example, the gathering in June covered Alternatives, Net Zero, Hydrogen, Thermal Coal, investment process updates and training opportunities.

2.3.5 Our NextGen focus groups continued in 2022. These feature a senior leader discussing a sustainability topic with our next generation employees to create engagement and bring fresh perspectives to our sustainability strategy

2.3.6 We support our employees in obtaining the CFA Certificate in ESG Investing, and for every employee who successfully obtains it, HSBC Asset Management donates 25 trees to the International Tree Foundation.

2.4 Systems, processes, research, analysis & service providers

2.4.1 Our investment capability is founded upon the talent and skill of our more than 600 investment professionals. Many of them are engaged in fundamental research which is a key element in our investment process across asset classes.

2.4.2 We believe that ESG factors can have a material effect on the financial performance of the securities and assets in which we invest over the short, medium, and long term. Our investment process integrates the identification and analysis of ESG factors with the aim of reducing risk and enhancing returns for our clients. This means putting in place the right team, tools, and training to support our analysts in taking material ESG issues into account in their research recommendations.

2.4.3 Much of the ESG information gathered by analysts is derived from our own stewardship activity in their monitoring of companies and proprietary research. This stewardship activity is both complemented and informed using external research providers as follows.

- MSCI ESG Research: Intangible Value ESG Assessment, comprehensive ESG assessment and Financial Crime Compliance screening. We use MSCI because their wide coverage of issuers and sector specific methodology.
- ISS ESG: Identifying issuers involved in the production and/or marketing of controversial banned weapons like cluster munitions and landmines, and government bonds' environmental and societal assessment. The specificity of our banned weapons definition can be implemented by ISS, whilst it is also one of the only providers covering government bonds.
- Trucost Research: Quantitative environmental research to measure the carbon footprint of our funds. Trucost is the leader in carbon footprint assessment.
- Sustainalytics: UN Global Compact compliance and revenue exposure to activities such as thermal coal. We appreciate the simple and transparent evaluation provided by Sustainalytics as well as their strong coverage in emerging markets.
- RepRisk: Tracking companies' reputational risk and involvement in ESG-related controversies. Provides an ongoing view of issuer’s ESG performance, risks, and controversies.
- Bloomberg: ESG data is used in our ESG integration in investment processes and to inform our engagement.
- Iceberg Data Labs: during the past year we have added this provider of data on biodiversity risk exposure.

2.4.4 During the past year, we have made considerable efforts to bring different ESG data sources onto a common internal platform. This helps us to maximise access to ESG data across our investment and client reporting functions. It makes it easier to compare data points across issuers and to assess different data providers covering similar issues.

2.4.5 We use Institutional Shareholder Services (ISS) as our global proxy voting research and vote instruction provider. ISS provides custom policy recommendations based upon our voting guidelines. In 2022, for around 2,000 active holdings and a stewardship focus list of some 100 holdings these recommendations were reviewed by portfolio managers and / or members of the responsible investment team. Smaller passive holdings were voted systematically with the recommendation.

2.5 Performance management and reward

2.5.1 Responsible investment is included in the objectives, appraisal, and reward of the most senior management of the firm, as well as investment analysts and responsible investment staff. Sustainability targets are included in the performance scorecards for the Management Committee including the CEO.

2.5.2 In evaluating the quality of the investment process under our Investment Excellence program, ESG integration is specifically included as an element that needs to be considered, alongside the broader process, performance, and people aspects.

2.5.3 Specifically, in evaluating portfolio manager performance in the UK, the extent to which they integrate ESG is explicitly referenced in evaluating the qualitative aspects of performance, which support their performance rating, and which is a key input to their variable remuneration, alongside their behaviours.

2.6 Reflection

2.6.1 Across the firm

2.6.1a 2022 has seen a deepening and a maturing of the governance of our stewardship and sustainability activities. Our path had been set by our Responsible Investment Initiative in 2020 and 2021 but 2022 saw fuller integration of ESG into our investment and the full exercise of governance oversight of the activity. This was certainly required with further heightened interest in our stewardship and sustainability from our stakeholders and scrutiny of governance arrangements.

2.6.1b Governance structures and processes to support stewardship are kept under review. The Sustainability Forum met through year, with revised terms of reference and broadened membership to ensure oversight and buy-in. The Sustainability Office maintained business focus on sustainability. The expression of our sustainability objectives through stewardship remains an important are of focus for the Forum. The most important support elements in effective stewardship activity remain open communication with portfolio managers and analysts exposed to any issuer and with senior management to ensure support for the positions taken by the firm in its stewardship and advocacy. Whilst portfolio managers and analysts retain an important responsibility for the stewardship of their assets, the strengthened stewardship team was able to meet the increased demands on and importance of stewardship activity.

2.6.2 Within the investment function

2.6.2a From our signing of the UN Principles of Responsible Investment when it was launched in 2006, we have held firm to our belief that ESG integration and the exercise of stewardship lies first with the investment decision makers across our firm. We have provided investment teams with ESG data, tools, and training. Our dedicated stewardship resources complement their work, with governance and voting expertise, leadership on key advocacy themes, engagement with issuers only held in passive and active quant mandates, and in collaborative engagement.

2.6.2b Across the investment function, increased resources have been allocated to ESG integration and stewardship. This has ensured that investment and stewardship activities inform one another and allows for the development of an enhanced level of dialogue on ESG integration and stewardship both internally and externally.

2.6.2c In 2022, we increased resources related to meeting our Net Zero Asset Managers initiative commitment, establishing a dedicated team. Engagement with investee companies will form a key part of our work to meet the commitments we have made, including interim emission intensity reduction targets for 2030 across our listed equity and corporate fixed income holdings.

2.6.3 Service providers

2.6.3a ESG research providers can only consolidate information that is already available from companies. In many fields and markets, ESG data is either inconsistent or absent, though as noted under Principle 8 below, language is becoming less of a barrier for research providers.

2.6.3b Over time, more data has become available. We continue to work through the Workforce Disclosure Initiative and the CDP, both of which encourage better and more consistent disclosure.

2.6.3c The challenge of research providers' access to ESG data is a particular issue for small cap mandates, such as those we manage covering European and Asian equities. This can also represent an engagement opportunity – we frequently engage with Asian issuers to explain the research providers' requirements, investors' reliance upon them and to assist their disclosures. This has sometimes resulted in improved coverage and better ratings for the companies concerned. We have also engaged with ratings providers during the past year where we felt ratings had been applied inconsistently.

2.6.3d The use of ISS for custom recommendations based upon our global voting guidelines enables us to focus attention and thinking on more serious governance breaches. Our guidelines have been developed over several years and are reviewed annually to reflect changes in governance codes, good practice, and our own engagement priorities. ISS's own depth of resources and experience means that its research provides a comprehensive introduction to the voting issues at each meeting. Its reporting functionality allows us to provide client specific reports as well as analyse voting across markets and issues. The application of our own voting guidelines resulted in more than 10 per cent of votes globally that were different from the ISS standard policy recommendation.

PURPOSE & GOVERNANCE

Principle 3

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

Our Approach

3.1 As an asset manager and a fiduciary, we recognise our responsibility to all our clients. Conflicts may arise as we exercise those responsibilities. A summary of our conflicts of interest policy is available at:

https://www.global.assetmanagement.hsbc.com/conflicts-of-interest

3.2 This summary identifies the main potential conflicts of interest: one client versus another; the firm versus a client; an employee versus a client; an employee versus the firm; one part of HSBC Group versus the firm. These could arise with establishing new products, cross-referral, revenue sharing, joint ventures, business / operations transfers, the prospect of financial gain or loss at the expense of a client, interest in the outcome of a service or transaction. It sets out how we deal with such conflicts, maintaining registers of these potential conflicts, preventing, or managing them, disclosing as appropriate and maintaining evidence of occurrences that cannot be managed. Steps taken include employees not being permitted to advise on matters where they have a personal interest and could include declining to act for one or more clients. Ultimately, if we believe we cannot appropriately manage a conflict then that relationship or business will be exited.

3.3 We also publish a statement addressing the conflicts of interest that can arise in stewardship. This statement is largely reflected below. It is also available at:

https://www.assetmanagement.hsbc.co.uk/-/media/files/attachments/common/resource-documents/stewardship-and-conflicts-of-interest-en.pdf

3.4 We recognise that conflicts of interest may arise as part of our stewardship activities. However, in all these activities we are committed to delivering fair outcomes for our clients; and applying a consistent and transparent approach to conflicts.

3.5 Examples of situations where potential conflicts of interest could arise in our stewardship include:

- Exercising voting rights over holdings of shares in our ultimate parent company, HSBC Holdings plc.
- Exercising voting rights over holdings of shares in an HSBC sponsored fund.
- Exercising voting rights through holdings in both sides of a proposed merger and/or acquisition transaction.
- Exercising voting rights over holdings of shares where an HSBC employee is a director.
- Exercising voting rights and/or undertaking engagement activities over holdings or shares in a company that has a commercial relationship, interest, and/or connection with HSBC Global Asset Management and/or with other HSBC Group companies; and
- Undertaking engagement activities – inadvertently or directly – results in being privy to material non-public information.

3.6 We have established policies, procedures and protocols that are designed to identify and manage all these potential conflicts. These include organisational and administrative arrangements to safeguard the interests of our clients, which include:

- While we are part of the HSBC Group, we maintain an arm's length commercial relationships with other HSBC Group companies and as such carry out our stewardship activities independently of any other relationships within the HSBC Group.
- Our Voting Guidelines are intended to identify the best interest of all clients as investors in a particular company. These are applied to the holdings of all clients for whom we vote. A small number of clients have retained voting authority for themselves, usually for reasons of consistency across holdings with different managers. As such conflicts do not generally arise between our voting guidelines and the voting policies of clients.
- Our Engagement Policy defines our requirements to ensure when we undertake engagement we maintain a high standard of research, communication, and documentation. We engage from the perspective of a long-term owner of the company. When we engage, we represent the interest of all holdings in an issuer, whether equity, fixed income, or another asset class.
- We have procedures in place to escalate, manage and monitor conflicts, which are documented on a register alongside their corresponding mitigating controls.
- Significant conflicts are escalated to our Group local Conflicts Management Office (CMO). The CMO will provide guidance on appropriate management of the conflict; and
- As required, information barriers will be put into place, restricted lists amended, and trading activity – personal and/or on behalf our clients – restricted; however, in practice we prefer not to be made insiders as part of our engagement activities.

3.7 Oversight of conflicts of interest is embedded within our governance framework that includes:

- Risk Management Meeting – comprising our global senior leadership team – responsible for setting our risk management strategy and appetite, policies, and control standards and to monitor their implementation. In this regard, the Risk Management Meeting reviews the material risks affecting our business – including conflicts of interest – via regular reporting from the business and control functions.

- Sustainability Forum – comprising a sub-set of our global senior leadership team – responsible for managing and monitoring our fiduciary responsibilities regarding stewardship as well as serves as a forum to discuss subjects that could result in a conflict for us in fulfilling our fiduciary obligations; and

- Chief Executive Officer – who is ultimately responsible for compliance with all aspects of the HSBC Group's Conflict of Interest Policy and associated regulatory requirements – provides regular updates on conflicts of interest to the Board of Directors.

3.8 Reflection

3.8.1 How we address conflicts around voting

3.8.1a Custom policy voting recommendations from our proxy research provider ISS are based on our global voting guidelines for all company meetings, irrespective of whether a potential conflict of interest may exist. Under our voting procedures, we usually follow these recommendations, although fund managers or governance specialists may decide to depart from them. Where they wish to do so in a situation where we are aware of a conflict of interest, a special review process is required. We did not have an occasion during the year where this was required. We followed custom policy recommendations where we voted on HSBC Asset Management funds. None of our staff hold directorships in the listed companies where we are voting.

3.8.1b For voting shares in our ultimate parent company HSBC Holdings plc, holdings are voted in line with standard recommendations under ISS's own voting policy, rather than with custom policy recommendations.

3.8.2 Other conflicts

Beyond voting, other potential conflicts listed above have not arisen over the year. Engagements are conducted irrespective of any business relationship. Where we believe we may have received material non-public information, this is reviewed by compliance; we may contact the company concerned to confirm the nature of information received and, if necessary, ask them to make an early market statement.

PURPOSE & GOVERNANCE

Principle 4

Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

4.1 Our Approach

4.1.1 In line with our Purpose, we are committed to playing an active and constructive role in supporting the development of a well-functioning and more sustainable financial system. This involves engaging with regulators and policymakers directly, for example by responding to consultations or attending in person bilateral meetings or roundtables, and indirectly through industry bodies.

4.1.2 We work closely with our HSBC Group Public Affairs colleagues to respond directly to consultations and discussion papers that contribute to shaping a more sustainable financial system.

4.1.3 We focus on the following areas for our activities:

- Supporting the transition to a low-carbon economy – we recognise climate change as a top and emerging risk and therefore support policy and action to support the transition from high carbon to low carbon.
- Improving market standards and transparency on sustainability – transparency enables markets to operate more efficiently with better information. We focus on corporate sustainability disclosure to strengthen the identification of investment relevant ESG risks and opportunities and greater transparency to clients to help build the market. The development of appropriate standards is playing an increasingly important role.
- Mobilising private capital to deliver on the Sustainable Development Goals and Paris Climate Agreement – the investment gap to deliver on the SDGs and Paris Climate Agreement is considerable and requires capacity building across markets and innovation in new investment models and instruments.

4.1.4 We have identified these areas based on their systemic and market impact, as well as our belief that we have insights from our experience as investors, and their alignment with our strategic objectives.

4.1.5 We are active members of a variety of industry bodies, initiatives and networks that advocate progressive public policy development and action on sustainable investment. These include:

Asia Securities Industry & Financial Markets Association (ASIFMA)
Asian Corporate Governance Association (ACGA)
Association Française de Gestion
European Fund and Asset Management Association (EFAMA)
Finance for Biodiversity Foundation
Finance for Biodiversity Pledge
FIR & EUROSIF
Hong Kong Investment Funds Association
ICMA (International Capital Markets Association)
Institutional Investor Group on Climate Change (IIGCC)
International Corporate Governance Network (ICGN)
Investment Association UK

Sustainable Stock Exchange (SSE) Consultative Group
UK Sustainable Investment and Finance Association (UKSIF)
UN Principles for Responsible Investing
Responsible Investment Association of Canada

4.1.6 We work closely with these bodies and our HSBC Group Public Affairs colleagues to respond to consultations and discussion papers that contribute to shaping a more sustainable financial system.

4.1.7 We identify consultations for participation based on their potential market impact and our ability to add insights from our experience as practitioners. We have not evaluated the extent of our impact for each item but review the prioritisation of issues against our strategic priorities.

4.2 Policy work on climate

4.2.1 As global investors, we are aware of the risks and opportunities climate change presents to the investments we make on behalf of our clients and as such we are committed to playing our full part in addressing this challenge. Policy is one of the key drivers of the scale and speed of the transition to a low-carbon economy. We therefore join public investor statements and participate in industry body working groups where we believe this will signal backing for policy measures and frameworks that support the low-carbon transition and develop relevant insights.

4.2.2 As a signatory to the Net Zero Asset Managers initiative, we are 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.

4.2.3 In addition to identifying assets to be managed in line with net zero, setting interim emission reduction targets and engaging with issuers, the commitment includes actions related to the market and public policy. We are committed to engage with those keys to the investment system including credit rating agencies, auditors, stock exchanges, proxy advisers, investment consultants, and data and service providers to ensure that products and services available to investors are consistent with the aim of achieving global net zero emissions by 2050 or sooner. We will continue to ensure that policy advocacy is supportive of net zero.

4.2.4 Ahead of the COP27, we once again participated in the Global Investor Statement to Governments on the Climate Crisis. This was a strong call from investors for governments to ensure that their Nationally Declared Contributions were aligned with limiting global temperature rise to 1.5 degrees and to implement policies in support of this objective.

4.2.5 Our Head of Sustainability attended the COP, participating in several events. Finance was a key element in the negotiations. Whilst this principally concerned compensation to nations for loss and damage caused by climate change, the role of private finance in funding new energy sources remains an important theme.

4.2.6 Our identification of climate as the central risk to our investments and to our clients' portfolios reflects the systemic nature of the risk to sustainability.

4.3 Mobilising private capital

4.3.1 One Planet Asset Manager initiative

4.3.2 The One Planet Sovereign Asset Manager (OPAM) initiative aims to advance the understanding of the implications of climate-related risks and opportunities within long-term investment portfolios through the sharing of investment practices. We are one of eight founding members of this initiative which provides a significant message to markets that investors expect companies to manage climate risks. Through our work we support the One Planet Sovereign Wealth Framework and have committed to further the objectives set out within it. The OPAM shares investment best practices, publishes relevant research, and engages with Sovereign Wealth Funds and other key actors, including standard setters, regulators, and the broader industry to support the implementation of the Framework.

4.3.1b We continued to support the work of the initiative during the year. Our CEO and Head of Sustainability attended the Annual One Planet Sovereign Wealth Fund CEO Summit in Abu Dhabi.

4.4 Finance to Accelerate the Sustainable Transition (FAST) Infrastructure –

4.4.1 HSBC Asset Management is a founding member of this industry-wide initiative, playing a key part in its four working groups. The aim is to develop sustainable infrastructure into a deep and liquid asset class and scale-up private investment in emerging and developing countries. The four working groups aim to: 1) Produce environmental, social and resiliency standards applicable to infrastructure investments, 2) Define the mechanics of a labelling system; including reporting and governance, 3) Scale financial support for infrastructure investments and 4) Develop platforms for targeted financial interventions. To be most effective, we are working alongside numerous other stakeholders including governments, NGOs, institutional investors, banks, and other funding bodies.

4.4.2 At COP27, the initiative announced that it had chosen Bloomberg and the Global Infrastructure Basel Foundation (GIB) to serve respectively as the Data Repository and Secretariat of the FAST-Infra Sustainable Infrastructure Label. With the selection of GIB and Bloomberg, a strong team is now in place to help move the Label from endorsement by over 80 institutions and initiatives to global adoption and application.

4.5 Climate change – portfolio alignment

4.5.1 Transitioning to net zero by mid-century will be critical to limit the world to 1.5 degrees Celsius above pre-industrial temperatures. Action is required now if mankind is to stay in touch with this target.

4.5.2 Climate change exposes us all to physical and transition risk. Physical risks such as extreme weather events and wildfires, as well as biodiversity loss are already happening. Transition risks entails a sudden loss in the value of high carbon assets, as climate regulation, large scale consumer boycotts and industrial disruption can lead to rapid change.

4.5.3 When assessing the impact of climate-related risk to our portfolios, we are increasingly considering both physical and transition risks. As a result, we have integrated ESG and climate analysis to help ensure that risks faced by companies are considered throughout the investment decision-making process. Investment teams through portfolio management tools assess, examine, and determine the level of potential ESG risks that could impact the current and future value.

4.5.4 We aim to increase the climate resilience of our clients' investments, as well as contributing towards financing the transition to a low-carbon economy. We can help to achieve this through:

- lower-carbon investment solutions and opportunities that meet our clients' investment criteria while meeting their risk and return objectives.

- identifying and integrating the climate-related risks and opportunities presented by climate change and climate policy in our investment portfolios, we apply third–party climate data to provide our portfolio managers and analysts with the means to assess the climate exposure of client portfolios.
- our engagement with investee companies to better understand and support their disclosure and management of the risks and opportunities presented by climate change and climate policy.
- disclosing publicly and to our clients, the actions we have taken and the progress we have made in addressing climate-related risk and investing in climate-related solutions.

4.5.5 In November 2022, we published our initial interim targets to fulfil our commitment under the Net Zero Asset Managers initiative. We have committed to 38.2% of total AUM initially to be managed in line with net zero consisting of our corporate fixed income and listed equity portfolios. Our targets currently include Scope 1 and 2 emissions, and we aim to include Scope 3 once data is sufficiently available. Our interim target statement is available at https://www.netzeroassetmanagers.org/signatories/hsbc-asset-management/

4.5.6 As part of delivering on our own net zero commitment, we have established the Climate Investment Strategy Team which is responsible for developing and leading our climate change strategy, helping our clients to shape their climate strategies, and ensuring climate considerations are embedded across the investment platform.

4.5.7 In addition to the reinforcement of sustainability considerations in existing products, In September 2022, we also published our Coal Policy explaining how a phase-out of thermal coal will impact on the investments we make on behalf of our clients.

4.6 Biodiversity

4.6.1 We have for many years offered clients the opportunity to invest to help combat climate change. But the world is facing dual threats, not just climate change but also significant bio-diversity loss. Natural capital is being destroyed at an unprecedented rate, with significant negative consequences such as bio-diversity collapse, climate change, localised temperature rise, soil loss, and the spread of diseases.

4.6.2 Natural capital will itself play an important role in enabling net zero due to its carbon removal properties and role in preserving biodiversity. According to the Energy Transitions Commission, there will be around 3-5 giga tonnes of residual carbon emissions per annum after 2050. Natural capital is one way to support carbon removal and is therefore becoming an increasingly valuable asset class.

4.6.3 We are committed to develop and utilise metrics to evaluate the relative impact of different firms on biodiversity. This would allow us to score the firms we analyse in terms of their biodiversity impact.

4.6.4 As a signatory to the Finance for Biodiversity Pledge, we are working to deliver on the following actions:

- Collaboration and knowledge sharing – we collaborate and share knowledge on assessment methodologies, biodiversity-related metrics, targets, and financing approaches for positive impact

- Engaging with companies – we will incorporate criteria for biodiversity in our ESG policies, while engaging with companies to reduce their negative and increase positive impacts on biodiversity
- Assessing impact – we will assess our financing activities and investments for significant positive and negative impacts on biodiversity and identify drivers of its loss
- Setting targets – we will set and disclose targets based on the best available science to increase significant positive and reduce significant negative impacts on biodiversity
- Reporting publicly – we will report annually and be transparent about the positive and negative contribution to global biodiversity goals linked to our financing activities and portfolio investment

4.6.5 Biodiversity was a focus area for our policy work during the year. HSBC Group Is represented on the new Task Force for Nature-related Financial Disclosure, which will develop a framework for financial institutions and companies to report and act on evolving nature-related risk. We helped to develop the Finance for Biodiversity Foundation policy recommendations for the Global Biodiversity Framework agreed at COP15. We also attended the COP.

4.6.6 Whilst the case for action on biodiversity is clear, we are still at an early stage as investors and as society in addressing the challenges of biodiversity loss.

4.6.7 Beyond the roles and scope of investing in listed securities and recognised Alternatives, there is a need to develop natural capital as an asset. Climate Asset Management ('CAM') was launched in July 2020 as a joint venture between HSBC Asset Management and Pollination, an advisory firm dedicated to natural capital. The purpose of the joint venture is to become the leading asset manager in natural capital, a new asset class that was only emerging at the time, but is now increasingly recognised on its own, for both financial and environmental reasons.

CAM has to date raised USD650m of committed capital across two strategies that support nature restoration and renewal.

in August 2022 we launched a biodiversity exchange-traded fund that enables investors to incorporate sustainable considerations within their portfolios

4.7 Reflection

4.7.1 The challenges of climate change and the transition to a net zero economy remain a good example of where the fiduciary role of investment stewardship can go beyond decisions of when or whether to buy or sell particular securities. The need for all parts of the financial system to work together and the perspective available to investors represent a strong case for those investors to participate in the development of frameworks to support the transition and to encourage investee companies to do so as well.

4.7.2 Investors do not have unique insights into the science of climate change but their skill and experience in the allocation of capital and in evaluating the capital allocation decisions of companies and other issuers means that they have an important contribution to make. We aim to participate in policy development as investors, both directly and through our membership of representative bodies. We also encourage companies to manage their exposure to climate change and transition in an open and transparent manner using frameworks such as the TCFD. We do not work alone in this, and it is in our collaborative engagements with companies that we have seen the most direct impact. The Climate Action 100+ initiative continues to help engaged companies to make significant progress in the development of their transition plans.

4.7.3 The transition to a low carbon economy must also be just. It was a particular consideration for us as we developed our thermal coal policy, with developing countries often having a greater reliance on thermal coal to meet their energy needs.

4.7.6 Over the past year, the war in Ukraine and pressures on cost of living have represented further challenges to the society and to the low carbon transition. We have continued to engage investee companies to understand their response to these challenges.

PURPOSE & GOVERNANCE

Principle 5

Signatories review their policies, assure their processes, and assess the effectiveness of their activities.

5.1 Our Approach

Our responsible investment policies provide the framework and reference point for our stewardship and wider responsible investment activities. Policies are subject to annual review for accuracy, relevance, and comprehensiveness, as well as *ad hoc* review as we reflect new developments and requirements.

5.2 Responsible Investment policy

5.2.1 We reviewed our responsible investment policy at the start of 2022. These policies have since been reviewed for continued relevance and remain in force.

5.2.2 Our responsible investment policy is based upon the recognition that sustainability risks can lead to outcomes that have negative impacts on our clients' investments. We therefore aim to incorporate all material sustainability issues within our investment process. We support the UN Global Compact principles and have stand-alone policies on banned weapons, biodiversity, climate change and thermal coal.

5.4.5 The Responsible Investment Policy is available at: https://www.assetmanagement.hsbc.co.uk/-/media/files/attachments/uk/policies/responsible-investment-policy-uk.pdf

5.2.4 These policies are applied as relevant to our investments in alternative asset classes. Details are available at: https://www.assetmanagement.hsbc.co.uk/-/media/files/attachments/common/responsible-investments-alternatives-policy.pdf

5.3 Climate Change policy

5.3.1 Responding to the challenges of climate change is a key element in our stewardship and responsible investment. At the heart of our approach to climate change is our ambition to achieve net zero emissions across our holdings by 2050. During the year we published an interim target to reduce Scope 1 and 2 emissions intensity for our listed equity and corporate fixed income holdings (excluding multi asset strategies) by 58 per cent by 2030, compared with 2019.

5.3.2Our climate change policy describes some of the actions we are taking to help achieve our ambition. It is aimed at increasing the climate resilience of our clients' investments, as well as contributing towards financing the transition to a low-carbon economy. We aim to:

- Deliver lower-carbon investment solutions and opportunities that meet our clients' investment criteria while meeting their risk and return objectives.
- Identify and integrate the climate-related risks and opportunities presented by climate change and climate policy in our investment portfolios, using relevant data and analysis – including scenario analysis –to inform our investment decisions.

- Engage with investee companies to better understand and support their disclosure and management of the risks and opportunities presented by climate change and climate policy. We engage directly and collaboratively, using our voting decisions to escalate issues where appropriate.
- Disclose publicly and to our clients the actions we have taken and the progress we have made in addressing climate-related risk and investing in climate-related solutions.
- Advocate for a supportive policy framework, working with policymakers to support their efforts to implement measures that encourage capital deployment at scale to finance the transition to a low-carbon economy and encourage investment in climate-change adaptation.

5.3.3 The points above reflect the key elements of the policy; the full text of the policy is available at: https://www.assetmanagement.hsbc.co.uk/-/media/files/attachments/common/resource-documents/hsbc-climate-change-policy-en.pdf

5.4 Thermal Coal Policy

5.4.1 During 2022, we published a new policy on thermal coal. As well as fulfilling an obligation under the Net Zero Asset Managers initiative, this policy supports the HSBC Group thermal coal phase-out objectives.

5.4.2 Phasing out thermal coal is a priority for early action in achieving net zero emissions. Burning coal for electricity generation is one of the most carbon emission intensive activities in the economy. Unlike some uses where a technological advance is needed to replace fossil fuels – such as finding an alternative to jet fuel for long distance flights – solar, wind, hydro and nuclear power are technologies that already exist for low or zero carbon electricity generation.

5.4.3 Many countries are well advanced in phasing out thermal coal power. But some emerging markets still rely on coal for most of their electricity and need more time for the transition. For that reason, our thermal coal policy allows more time for the emerging markets to phase-out thermal coal.

5.4.5 Our thermal coal policy is a ten-point plan:

- By the end of 2030, we will not hold listed securities with more than *de minimis* revenue exposure to thermal coal in EU / OECD markets in our actively managed fund portfolios.
- By the end of 2040, we will not hold listed securities with more than *de minimis* revenue exposure to thermal coal in all markets in our actively managed fund portfolios.
- We do not make direct investments in projects for coal-fired power or coal mining-related infrastructure.
- Our sustainable funds already exclude thermal coal mining and power generation above 10 per cent revenue exposure [unless companies have an adequate transition plan].
- Our actively managed portfolios do not participate in IPOs or new fixed income financing by issuers developing new thermal coal or, unless they have adequate transition plans, those with more than 10 per cent revenue exposure to thermal coal.
- We conduct enhanced due diligence on active holdings with more than 10 per cent revenue exposure to thermal coal – starting with developed markets. We expect to divest over time where transition plans are inadequate.
- We continue to engage with issuers, prioritising those where we have the highest exposure.

- Following engagement & due diligence, we vote against the re-election of chairs of issuers with exposure to thermal coal which do not provide Taskforce for Climate-related Financial Disclosure -aligned or equivalent reporting, and where transition plans are weak.
- We do not launch new ETFs and index funds including issuers with more than *de minimis* exposure to thermal coal unless the strategy has specific Paris-aligned 1.5°C objectives and / or clear divestment pathways.
- We actively engage with clients to inform and support their own net zero commitments.

5.4.5 The Thermal Coal Policy is available at: https://www.assetmanagement.hsbc.co.uk/-/media/files/attachments/common/coal-policy-b2b-en-09162022.pdf

5.5. Biodiversity policy

5.5.1 The wealth of plants and animals and their interactions are known as biological diversity or biodiversity. Natural ecosystems are under threat because of deforestation, land degradation, pollution of the water, air, and soil, hunting and harvesting, and climate change. This presents broad challenges for society and a systemic risk for investors.

5.5.2 Our consideration of biodiversity is part of our overarching approach to responsible investment. We are committed to:

- Collaborate and share knowledge on assessment methodologies, biodiversity-related metrics, targets, and financing approaches for positive impact.
- Engage with companies to reduce the negative and increase positive impacts on biodiversity.
- Integrate biodiversity risk into our investment process – we assess our investments for significant positive and negative impacts on biodiversity. We may exclude companies where engagement is not delivering sufficient progress on reducing biodiversity loss, prioritising companies using mountaintop removal techniques, companies endangering the status of UNESCO World Heritage Sites, and UN Global Compact breaches related to the Rio Declaration on Environment and Development.
- Develop investment products that deliver positive biodiversity outcomes – we are aiming to build one of the world's largest natural capitals managers.
- Reporting and target setting – we will report annually on our progress and be transparent about our biodiversity impact.

5.5.3 Our commitment is expressed through our signature to the Finance for Biodiversity Pledge. During the year, we participated in Finance for Biodiversity working groups on target setting, engagement, and public policy. We also joined the Finance for Biodiversity Foundation's delegation to COP15 in Montréal.

5.5.4 The Biodiversity Policy is available at: https://www.assetmanagement.hsbc.co.uk/-/media/files/attachments/uk/policies/biodiversity-policy-uk.pdf

5.6 Banned weapons policy

5.6.1 Our active, systematic and index portfolios do not have direct exposure to listed or unlisted equities or bonds issued by corporations considered to have proven involvement with weapons banned by certain international conventions, including: anti-personnel mines, biological weapons, blinding laser weapons, chemical weapons, cluster munitions and non-detectable fragments. This policy does not apply to strategies incorporating third party funds such as fund of hedge funds.

5.6.2 The Banned Weapons Policy is available at: https://www.assetmanagement.hsbc.co.uk/-/media/files/attachments/uk/policies/banned-weapons-policy-uk.pdf

5.7 Further policies planned

5.7.1 In December 2022, HSBC Group published an updated energy policy to support the transition towards net zero by 2050 or sooner. We expect to develop our own energy policy aligned with this during 2023. It will also develop our policy on the use of fossil fuels under our Net Zero commitments.

5.7.2 We recognise that ending deforestation has a crucial role in achieving net zero emissions. Deforestation releases carbon into the atmosphere from trees that are cut down and from loss of the ecosystems which they support; it also reduces the stock of trees and plants that absorb carbon from the atmosphere. Our approach to deforestation will be an important element in delivering our net zero targets. Reversing deforestation is also essential in addressing biodiversity loss. We have a long record of engagement to encourage companies to limit deforestation impacts. We expect to develop further policies to encourage the reversal of deforestation.

5.8 Engagement policy

5.8.1 This policy is a straightforward statement of our approach to engagement. More details of our new stewardship approach can be found in our answers to Principles 7-12. We had previously relied upon our Stewardship Code and similar statements in the UK and other markets to describe our approach. We adopted the policy in response to the Shareholder Rights Directive II. We expect to review the policy during the year considering the evolving practice of the stewardship team to capture a fuller sense of their approach.

5.8.2 The policy sets out the role of our engagement as part of our ESG integration and in our stewardship oversight. It explains how we monitor investee companies and other issuers. The policy explains the different engagement approaches which we might deploy and how we prioritise engagements based upon the scale of client holdings, salience, and exposure to the ESG issues at stake. It explains the role of collective engagement and escalation, as set out under Principles 10 and 11 below. It also sets out our approach to conflicts of interest in engagement as explained under Principle 3 above.

5.8.3 The full text of the policy is available at: https://www.assetmanagement.hsbc.co.uk/-/media/files/attachments/common/resource-documents/engagement-policy-en.pdf

5.9 Voting guidelines

5.9.1 Our voting guidelines have evolved over several years. They have developed from a high-level statement of the issues we prioritise in our voting to a more detailed statement of our approach on different issues. Our annual review starts with an analysis of votes during the year where we have chosen not to apply the guidelines to understand whether this was due to company specific factors or should be reflected in an amendment to the guidelines. We review changes in local governance codes in key markets. We also consider changes in policy adopted by bodies such as the Investment Association, and in the standard policies of ISS. We analyse areas where our vote has differed from ISS to understand whether they are capturing an issue which our guidelines have not included. We are increasingly considering our engagement and how far good and bad engagement experience should be reflected in our voting. This is one means of escalation following unsatisfactory engagement.

5.9.2 Our review of voting guidelines at the end of the year included significant changes to incorporate wider priority issues – beyond traditional governance concerns – in our voting. These are detailed under Principle 12 below.

5.10 Assurance

5.10.1 The outcomes of the 2020 internal risk review of ESG integration in our investment processes continued to inform our assurance framework. It had a significant influence on the governance updates identified under Principle 2, with a Sustainability Forum and ESG Oversight Committee which meet regularly. These forums were re-cast to continue to improve and strengthen our assurance insights. As noted over the past two years, the risk function continues to be closely involved in investment & stewardship oversight.

5.10.2 Our responsible investment and stewardship activity were included in our UK firm-wide Assessment of Value Report. This noted the role of ESG integration of delivery of value to clients.

5.10.3 All published and client reports are reviewed by our compliance function. Senior management also reviews documents such as our Responsible Investment Annual Review and PRI annual assessment response. Certain data on stewardship that is included in HSBC Group reporting is subject to internal assurance.

5.10.4 With the return of PRI annual reporting, we shall review the assurance of our PRI annual assessment response.

5.10.5 In addition to the required review, approval and signature, this Stewardship Code Report has been subject to management review and sign-off before final submission.

5.11 Reflection

5.11.1 We are acutely conscious of the importance of assurance around the commitments made in relation to stewardship and wider sustainability issues. Whilst these commitments have always been subject to approval processes, as sustainability becomes more deeply integrated in an ever-increasing range of the firm's activities – and increasingly important to clients in meeting their own priorities and commitments – assurance around them must be integral to our governance processes. Governance and oversight have always been an important part of the exercise of fiduciary duties by asset managers. The governance structures we put in place around ESG and sustainability towards the end of 2021 have certainly been in full operation during 2022 and we have been able to demonstrate to stakeholders the oversight and assurance that has been exercised / undertaken. These structures were informed by an external review of our assurance in 2021, which confirmed that controls were in place but also identified areas for improvement on which we have acted.

5.11.2 Within this, policy statements have an important role if defining objectives and priorities and in communicating these to clients and others. They also set out the approach against which our performance can be judged by stakeholders. Given the scale of ambition in our statement of purpose and of the challenge on issues such as climate change, we need to be vigilant that our actions across the firm reflect commitments that are deliverable by those working most closely with these issues. Our incremental review process, along with assurance and oversight help ensure that our policies remain ambitious, relevant, and reflected in our actions.

5.11.3 We have previously commented on the tension between having an accessible statement of how we approach voting and a more detailed references as to how we would respond to different issues. As previously reported, we decided to address that by preparing a Stewardship and Engagement Plan to detail our approach to stakeholder engagement and voting on certain priority issues. This Plan was published in Spring 2022, with an updated Plan due for publication shortly. It includes more detailed scope for escalation in response to inadequate company response to engagement.

5.11.4 We publish an annual Responsible Investment Review which sets out our record of action during this year. This is available at: https://www.assetmanagement.hsbc.co.uk/-/media/files/attachments/common/responsible-investment-2022/hsbc-am-responsible-investment-review-2023-03-en.pdf

Clients continue to be able to access more detailed reporting and explanation as they require.

INVESTMENT APPROACH

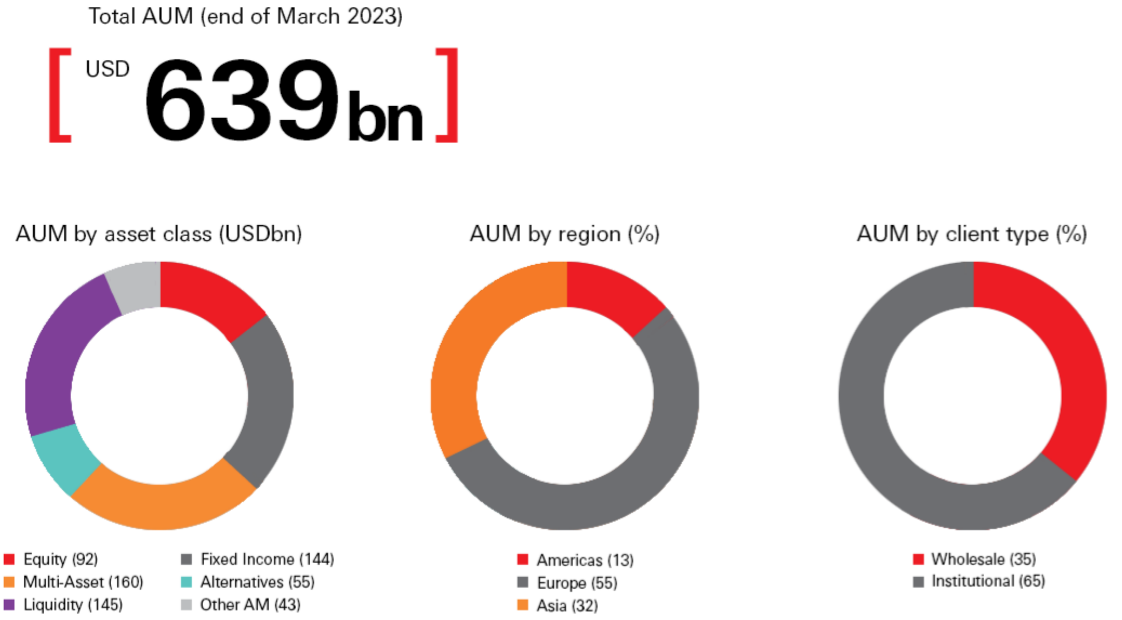
Principle 6

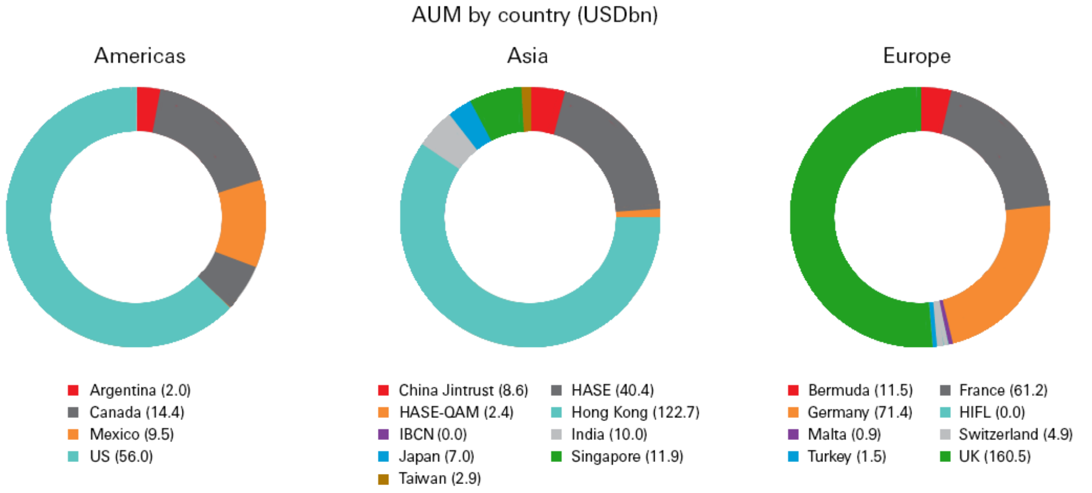
Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

6.1 Report

6.1.1 Helping our clients to prosper is a key element of our purpose. Understanding client needs, providing solutions to meet those needs, and communicating how we have done so is the essence of our business.

Client base – assets under management





Notes:
1. Assets Under Management are presented on a Distributed (AUD) basis
2. Other in Asset Class refers to HASE (USD40bn as at Q1 23)
3. Other in Client Type refers to HASE and Jintrust
4. Above view includes Associates (i.e. Jintrust) and presented on Reported Fx rates

Europe	UK	AIG	Germany	France	Bermuda	Switzerland	Turkey	Malta	AMGB	Europe Total
Equity	43,422		10,764	16,325	19	534	651	91	47	**71,852**
Fixed Income	15,562	135	14,365	20,059	128	2,669	334	251	104	**53,606**
Multi-Asset	42,042		38,068	11,411	425	173	498	486	1	**93,104**
Alts	303	38,773	5,815	4,007	0	729			17	**49,645**
Liquidity	59,136		2,361	9,374	10,882	781	15	27		**82,576**
Other AM			-							-
Grand Total	**160,464**	**38,908**	**71,372**	**61,177**	**11,454**	**4,887**	**1,498**	**855**	**169**	**350,783**

Asia	Hong Kong	HASE	HASE (QAM)	Singapore	India	Japan	Taiwan	JinTrust	Asia Total
Equity	3,727			342	4,930	977	2,507	5,711	**18,195**
Fixed Income	58,545			5,690	2,760	4,169	295	1,120	**72,579**
Multi-Asset	46,142			2,829	787	916	38		**50,711**
Alts	4,522			292		70	101		**4,986**
Liquidity	9,802			2,756	1,483	858		1,789	**16,687**
Other AM		40,360	2,403						**42,763**
Grand Total	**122,738**	**40,360**	**2,403**	**11,909**	**9,960**	**6,989**	**2,942**	**8,619**	**205,920**

Americas	US	Canada	Mexico	Argentina	Americas Total
Equity	181	1,194	389	13	**1,778**
Fixed Income	9,285	676	7,053	672	**17,686**
Multi-Asset	2,859	11,630	2,010	0	**16,499**
Alts	310				**310**
Liquidity	43,409	942		1,315	**45,666**
Other AM					
Grand Total	**56,045**	**14,442**	**9,452**	**2,001**	**81,940**

Totals	Europe	Asia	Americas	Grand Total
Equity	71,852	18,195	1,778	**91,825**
Fixed Income	53,606	72,579	17,686	**143,871**
Multi-Asset	93,104	50,711	16,499	**160,315**
Alts	49,645	4,986	310	**54,940**
Liquidity	82,576	16,687	45,666	**144,929**
Other AM	-	42,763		**42,763**
Grand Total	**350,783**	**205,920**	**81,940**	**638,643**

6.1.2 We have a very geographically diverse client base, with clients served from across our 25 office locations with Europe the largest region making up 55% of the total AUM. As can be seen from the distribution by asset class, fixed income and equities represent 37% of the value of the asset classes in which clients have invested, although multi assets portfolios will also have considerable exposure to fixed income and equities. In terms of client type, a significant proportion of institutional clients have liquidity strategies.

6.1.3 Investment time horizons vary from a few months with the need for instant access for some liquidity clients, through to decades for some pension funds and long-term institutional asset owners. As we retain investment exposure to issuers through passive funds and long duration instruments, our approach to our stewardship activity is as a long-term owner of the issuer.

6.2 Understanding client needs

6.2.1 HSBC Asset Management dedicated “virtual” client segment teams, which provide a broad contextual understanding of client types like pension funds, insurance companies, and official sector institutions, including key considerations around regulatory developments, general investor preferences, data and modelling, and other wider influences on investor decision making.

6.2.2 These global teams support our relationship managers around the world with their specialist knowledge and share perspectives on global trends and investor actions from other regions to enrich dialogue with clients operating within their local markets.

6.2.3 Our relationship managers and specialists engage with our clients to understand their goals and preferences throughout all stages of the relationship from initial discussion through to implementation. Regular dialogue helps us design and adapt our strategies to address ongoing changes in markets and regulations as they evolve.

6.2.4 Our wholesale client base is extremely diversified with different level of requirements and needs (Private Banks / IFAs), majority of our clients maintain relationships across parts of the HSBC Group. We have a continuous dialogue with all wholesale client segments understanding their needs for responsible investment solutions and growing need for stewardship and engagement.

6.2.5 Our institutional clients have a keen and growing interest in responsible investment. Some are recognised as amongst the leading asset owners in terms of their engagement with these issues, whilst others are at an earlier stage of their journey. We value the dialogue we have with all these clients. In particular, the challenge from the leading group ensures that we are aware of rapidly evolving client demands in terms of integration, stewardship, and reporting.

6.2.6 In addition to regular investor discussions, the client teams attend selected conferences throughout the year where sustainability is a key topic. This enables them to participate in active dialogue with industry peers and allocators.

6.2.7 The RFP process is a key step in the new business process, and participation in manager searches via RFPs can help to develop our client relationships and build a deeper understanding of our clients’ requirements and objectives. Over recent years, we have seen a material increase in the breadth and depth of questions regarding responsible investment, stewardship and diversity including, in many cases, stand-alone questionnaires requesting detailed information about our capabilities and processes in these areas, and responsible investment approaches at both Firm and product level. Indeed, only very few RFPs would not include such questions now. We also see an increase in the specific questions our clients and consultants are asking about voting and engagement activity, with specific examples requested.

6.2.8 Concurrently, HSBC Asset Management is committing resource and effort to offering internal training and education on responsible investment and stewardship, aimed at equipping all areas of the business to develop deeper knowledge to help ensure that our services are fully aligned with the clients’ expectations.

6.2.9 Building employees' expertise in sustainable finance issues

To encourage employees to develop their expertise around sustainable finance and investment challenges, HSBC Asset Management has organised a series of initiatives:

- A series of Responsible Investment Talks held with internal experts and external speakers, aimed at educating our employees on sustainability issues. This had average attendance of around

150 employees per session. Topics covered in 2022 include: Engagement, Biodiversity, Just Transition, ESG Integration and RI in Emerging Markets.

• We support our employees to obtain the CFA Certificate in ESG Investing or the CFA Climate & Investing certificate.

• Several Sustainability Town Halls were held in 2022 to communicate achievements and strategy to all Asset Management employees

• A Responsible Investing learning module was launched in January 2022. This is a 30-minute online training as an introductory learning targeted at beginner level / new joiner level RI knowledge. It is suggested for all employees in non-investment roles.

• In February 2022, we launched a dedicated page on Sustainable Investments for Asset Management in our learning platform where we have collated relevant internal and external sustainability content.

HSBC / Imperial College: Sustainability Leadership Programme – has been launched with several Asset Management candidates. The course aims to provide a bespoke pathway to accelerate understanding of core transition to net zero topics for leaders who are integral to supporting our climate strategy and the transition to net zero.

6.2.10 We undertake structured independent feedback with key clients (institutional and wholesale distributors) via our client insights programme. This includes feedback on the quality of our products / propositions and client service across three areas – people, processes, and product. We also use external consultant surveys to better understand client segment preferences and investment product trends.

6.2.11 Our annual Responsible Investment report is published on our public web sites and promoted on our social media channels. This Report includes a dedicated section on stewardship and engagement. Here we outline the key activities and outcomes of our Stewardship team and present more detailed commentary on selected engagement case studies.

6.3 Responsible Investment products

6.3.1 We have continued to develop and launch responsible investment products. In 2022 we launched 26 new funds with such a focus. At the start of 2022 we uplifted 16 funds from SFDR 6 to 8 to meet client objectives pertaining to sustainable investing. This was followed by a further 22 uplifts of funds across our ranges through the rest of the year.

6.3.2 2022 did not focus on launching new fixed income funds rather sought to build track records in existing active ESG fixed income products.

6.3.3 In Liquidity, following the success of the HSBC Sterling ESG Liquidity fund which now holds £1.8bn* we launched the HSBC US Dollar Liquidity Fund in October 2022 which has gathered assets of USD842m* and have recently (March 2023) launched the HSBC Euro ESG Liquidity Fund to provide investors with ESG Liquidity strategies.

**Morningstar 24/4/23*

6.3.4 We continue to construct strategies to meet clients' ESG needs.

6.4 Reporting

6.4.1 Clients can receive a full range of reports on our stewardship activity, in addition to investment performance reporting. Voting reports are available in summary, covering every vote, or votes against management. Some clients receive portfolio specific engagement reporting, whilst others receive reporting on our engagement activity across portfolios. We also publish details of all our voting as well as an overview of engagement.

In 2022, HSBC AM voted at more than 7,000 meetings, with over 75,000 resolutions. Last year, we voted 85 per cent of resolutions in line with management, compared to 89 per cent in 2021. By geography, the top five markets account for over 60 per cent of the total votes cast. We also introduced the Proxy Voting Dashboard to increase transparency, where voting information is publicly available online and in real time. There are five years of vote information statistics, dating back to January 2017. Voting can be searched by market, company name, security identification number or ticker number. The dashboard consists of votes cast by proposal category, which are separated by management or shareholder proposals.

In 2022, we introduced our annual Stewardship Plan, with a summarised version publicly available online. The plan included a new, outcomes-based, and milestones-led approach to engagement, aligned with the UK Stewardship Code. There were 299 engagements that follow this new approach in 2022, 8.7 per cent of a total of 3,456 engagements. ESG and other issues were raised in engagements with 2,150 companies and other issuers during 2022.

6.4.2 We can provide ESG reports on carbon intensity and carbon footprint, carbon emissions from reserves, carbon disclosure, ESG scores, ESG ratings and rankings as required. HSBC Asset Management also reports our carbon data as part of the Montreal Carbon pledge.

6.4.3 For clients in France, reporting under Article 173 of the Energy Transition Law has covered management of climate change-related risks and contribution to the financing of the green economy.

Article 29 of the new Energy-Climate Law strengthens the sustainability financial disclosure and aims to align with the new EU sustainable regulation. Article 29 will replace the Article 173, which required French asset managers to disclose their climate-related risks on a comply-or-explain basis since 2016. The difference is that Article 29 now requires all French financial institutions to disclose biodiversity-related risks as well as climate-related risks. For biodiversity the French finance institutions must align themselves to a 2030 horizon based on the framework initiated by the Convention on Biological Diversity. They also must assess the investments impact on biodiversity while proposing an indicator of biodiversity footprint.

6.5 Reflection

6.5.1 In fulfilling our purpose to support the transition to sustainable investing, we believe that our expertise in ESG enables us to support clients as their needs evolve. Our continuous dialogue with clients gives us a good understanding of those needs and we have developed products and reporting to meet them.

6.5.2 We recognise that client needs are changing fast, and we must continue to focus our efforts. Our new engagement model – under Principle 9 – has helped to facilitate improved client-specific engagement reporting but we accept that this remains an area where further work is required.

6.5.3 Working in partnership with our clients and understanding their net zero ambition will determine the outcome of needs over medium and long terms of investment cycle. In some cases, we have not won mandates which we felt we were well suited to provide, or lost mandates for a range of reasons. Our emphasis on sustainability helped us to secure several new client mandates during 2022. In our mutual fund business, we continue to achieve sustainable asset growth across multiple client segments as we build sustainable investment partnerships. Growth is not limited to one area of investment capability, client’s needs are diverse across the following investment solutions i.e., Multi Asset Solutions, Alternatives, Active Portfolio Management and Passive solutions.

6.5.4 We are not aware of instances where we have not managed assets in alignment with our clients’ stewardship and investment policies. In some cases, clients’ policies have evolved, and we have presented solutions to meet their new requirements. For clients invested in pooled vehicles, the policies or investment objective of the vehicle may not suit their changes; in these cases, a segregated mandate can be the answer where the mandate is sufficiently large to justify additional costs. For clients invested in index funds, a move by them to exclude stocks on ESG grounds may require a new fund or mandate.

INVESTMENT APPROACH

Principle 7

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

7.1 Introduction

7.1.1 At HSBC Asset Management, the investment and stewardship teams work in conjunction to deliver on our objective of driving a sustainable transition. We use our influence as investors to encourage corporate behaviour that protects and enhances value, through voting, company engagement, and as signatories of several statements and investor stewardship codes that publicly call for or commit to ESG related action.

7.1.2 We believe our clients benefit from this constructive collaboration as it allows us to increase our focus and resource alignment, complement our ability to spot early sustainability themes and visionary companies behind new opportunities, and improve transparency and disclosure. It also helps ensure alignment of ESG integration, engagement, voting and all other ESG-related processes across our investment platform.

7.1.3 Our Virtual Sector Teams (VSTs) were formed in late 2021 to share and leverage this ESG knowledge across all asset classes and geographies. Acting as sector-focused centres of excellence, combining stewardship, ESG and Front Office teams, their role is to define and assess ESG materiality frameworks which form the first steps of our proprietary ESG scoring methodology. VSTs include participants from across the investment function, helping to establish greater granularity in our ESG Risk Scoring process. They are responsible for conducting sector research, overseeing ESG checklists, deriving ESG scores and aligning our engagement activities with risk issues, which makes them a key component of our enhanced ESG integration framework.

7.1.4 They also suggest the key engagement questions for each sector. These are intended to help ascertain companies' actual ESG credentials, policies, commitments, and future like transition pathways or shifts towards more sustainable business practices. This stems from the fact we are keen to further align the VST materiality framework so that it directly reflects our core engagement themes (for example climate change, biodiversity, Diversity, equity, and inclusion). Thematic leads in the stewardship team provide additional direction on specific ESG issues, aligning engagement objectives with ESG risk assessments.

7.1.5 Investment and stewardship teams also engage weekly in a ESG Research and Engagement Forum (EREF) which aims at facilitating integration through raising Investment Teams' awareness and stimulating lively debate and synergies. The agenda is as follows:

7.1.6 We have engagement objectives for analysts and portfolio managers across equities and fixed income. These targets form part of their personal performance goals and will ultimately be linked to individuals' overall remuneration. Specifically, the objectives require the individual to align with the objectives-led, milestones-based engagement approach as in the stewardship and engagement plan for all companies allocated for engagement covered by the stewardship and investment teams. Individuals are expected to keep track of engagement actions and build case studies. The annual target is three engagement improvement cases per year.

7.2 How stewardship and investment teams interact in the decision-making process

7.2.1 We systematically integrate stewardship and investment, including material environmental, social and governance issues.

7.2.2. Our ESG integration approach is backed by active ownership across all asset classes and regions

Investment analysts and portfolio managers identify and manage ESG risks and opportunities and consider ESG issues within our research and investment process where appropriate. Evaluating how companies manage their impact on the environment, their relationships with stakeholders, and their operations enables us to identify potential risks and opportunities which financial markets may not price appropriately.

7.2.3 Our ESG Integration approach is proprietary and is applied across all our asset classes and investment strategies– including equities (large-cap, small or mid-cap) and fixed income (corporate investment-grade, corporate high-yield, and sovereign debt). It is also applied to multi-asset strategies. A specific ESG integration framework applies to alternative investment strategies. We undertake this integration using proprietary ESG databases and third-party input, to help us identify possible high-risk names when screening and rating issuers.

7.2.4 Although the precise method for ESG integration is tailored to each investment strategy, it is considered across our active fundamental, active systematic and passive capabilities. The process is applied to both developed and emerging markets.

7.2.5 Where necessary, individual asset classes may have slight variations in how they apply ESG integration across their research and investment processes (please, see further down). We conduct both thorough financial analysis and comprehensive assessment of ESG risks and opportunities by leveraging our investment teams and Virtual Sector Team capabilities. However, the degree of individual issuer ESG analysis may differ based on whether the strategy is active, or quant/passive based. In case of major discrepancy between asset classes on the ESG quality of an issuer, the investment case can be escalated to the ESG Investment Committee.

7.2.6 Our integration process benefits from HSBC active ownership approach. Our voting and engagement activity is an important aspect of this integration. Stewardship and investment analysts plan purposeful engagement together and derive a customised agenda by company, integration deepens. Portfolio managers and analysts understand well their role as stewards of the assets they manage and their objectives-led milestones-based engagement with companies is part of their investment process, the one informing the other.

7.2.7 Our global stewardship team supports local investment teams to organise ESG stock reviews, where we deep-dive into material ESG issues for each company, identify risks and opportunities. We discuss how ESG factors change our fundamental views of the company and identify engagement opportunities as a follow-up. They also work closely with our investment teams and investment specialists to develop sustainable investing solutions, such as thematic investment frameworks for climate change, and impact frameworks aligned to the UN Sustainable Development Goals (UNSDGs). We support investment teams to identify relevant fund-level and security-level metrics and engagement objectives.

7.3. ESG Integration and stewardship – overall approach and specific asset class considerations

7.3.1 We combine ESG scores with data driven and qualitative analysis to better understand the financial materiality of E, S, and G factors on security performance now and in the future. We use analysts' forward-looking assessments prove necessary to build a better understanding of underlying ESG risk and opportunities.

7.3.2 We have developed a proprietary approach to produce issuer ratings and rankings using third-party data and our own research for ESG assessments and ESG portfolio evaluations. Our integrated ESG methodology ascertains which and to what extent E, S, and G factors are 'material' to the intrinsic value of a company or the risk of a country. We begin by re-assessing the materiality of E, S and G factors on a sector-by-sector basis. From there, we generate a proprietary sector-specific weighting for ESG factors to reflect the materiality of each set of issues to the sector.

7.3.3 Next, analysis is then applied at the issuer level – for both companies and countries. When analysing issuers, we ensure we consider which specific ESG factors are generally material for the industry in which each company operates.

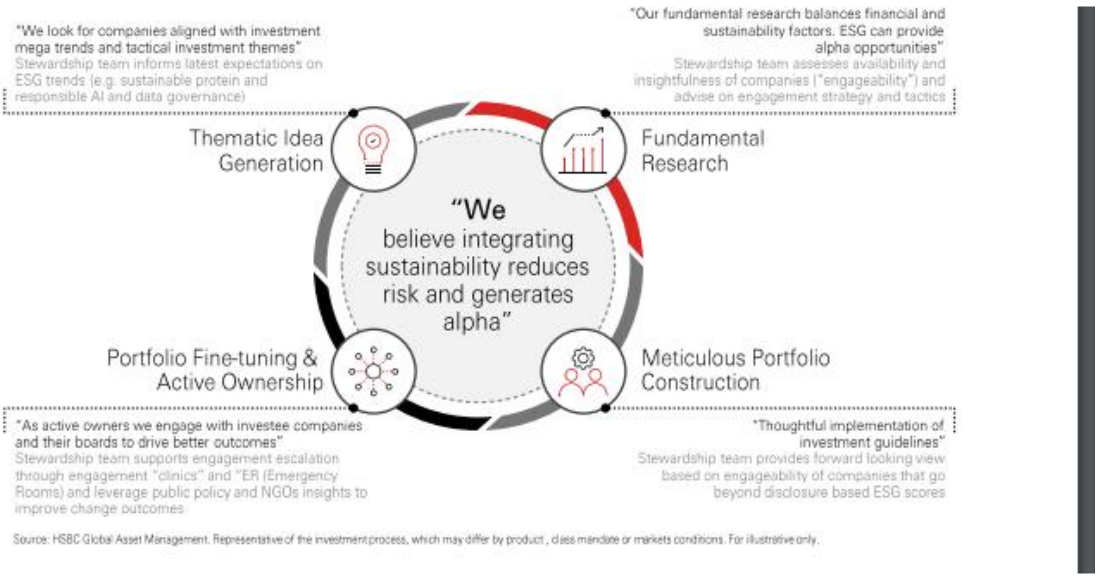
7.3.4 The ESG research and integration team allocates each issuer the following: ESG rating and rank (in percentile) within their industry sector; an absolute risk level based on a Global Compact compliance assessment and a relative risk level with commentaries on ESG issues (using MSCI's ESG score).

7.3.5 The ESG rating calculation engine helps us calculate an aggregate 0 (worst) -10 (best) ESG rating for approximately 10,000 companies. The numeric ratings are built by combining MSCI ESG Research and other data. In determining the weighting of the E, S, and G factor weights in the rating process, we have defined the relevance of each factor for all industry groups.

7.4 Active equities

7.4.1 All active equity strategies include ESG integration in their investment processes and apply the process described above.

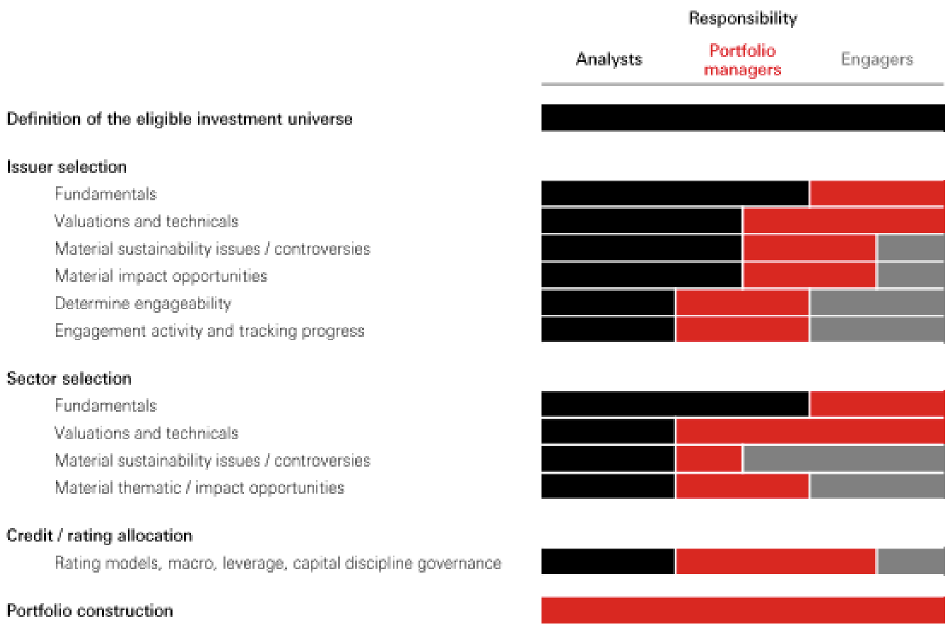
Figure 2 - How active equity investment teams and engagement analysts in the stewardship team work together



7.5 Active fixed income

7.5.1 All active fixed income strategies include ESG integration in their investment processes. The ESG integration process described above applies wherever corporate fixed income is managed, supported by a global credit research team.

Figure 3 - How fixed income investment teams and engagement analysts in the stewardship team work together



Source: HSBC Asset Management.
For illustrative purposes only. Representative overview of the investment process, which may differ by product, client mandate or market condition.

7.5.2 ESG factors have long been part of our internal credit rating methodology. We have defined industry-specific key ESG risks factors; each of them assigned a weight that contributes to the overall internal credit rating. In this way, we are better able to assess the materiality of ESG factors and their impact on credit quality of issuers. This internal credit rating methodology has been designed by our global credit research teams worldwide in collaboration with our fixed income quantitative team. Sustainability risks, especially corporate governance, have long been incorporated in our traditional credit rating methodology. As such, including ESG factors in our internal credit rating does not represent a change of philosophy. Nonetheless, it enhances transparency around ESG factors that impact our internal rating as well as capturing ESG considerations with material credit impact.

7.5.3 This internal credit rating methodology applies to all asset classes from non-financial to financial corporates. For financials, particular emphasis is put on governance - including risk monitoring, audits and controls, corruption and bribery, contribution to financial instability - which we regard as the most material factor in the overall ESG assessment. For non-financials the priority issues will vary; for companies in extractive industries, emphasis will be more on direct environmental impacts - greenhouse gas emissions for instance - and for healthcare and pharmaceutical, the focus will be more on social dimensions such as access to medicines, prevention, and control of medicines' potential misuse.

7.5.4 As the key elements of the integration are based upon our own and external research, our integration is less dependent on the relative responsiveness of issuers in different markets.

7.6 Sovereign debt

7.6.1 As part of our ongoing qualitative assessment of country risk, we undertake an in-depth appraisal of several different factors. These include institutional strength, independence and transparency, rule of law, as well as financial and economic policy and the ease of doing business. We also assess the socio-economic contract and sustainability, and the broader political and geopolitical risks. We continue to develop this quantitative ESG factor analysis on an ongoing basis.

ESG factors are considered as part of the ongoing qualitative assessment of country risk. We have also undertaken a quantitative study to assess the predictive power of MSCI's ESG sovereign scores. Our findings over the testing period suggested that ESG criteria demonstrate predictive power, particularly for Emerging Markets. Given the positive results from the study, we are working to incorporate normalised MSCI's ESG country scores into the country model we use in our investment process.

7.7 Thematic fixed income

7.7.1 Lower Carbon bonds: We have a fund which applies the same internal ratings as traditional portfolios while reducing the average carbon intensity versus the reference benchmark. The analysis is supported by our global research platform, examining issuer carbon impact and green bonds to understand their overall footprint and by our engagement with issuers to encourage carbon reduction when necessary.

7.8 Passive and active quant strategies

7.8.1 We have several purely passive equity index funds and ETFs, active quant factor equity funds and passive fixed income funds. Some of these include ESG criteria, either through the index they track or as an integral part of the fund's investment process. Stewardship for holdings in these funds is undertaken by the stewardship team, and by active portfolio managers and analysts when they engage on behalf of all our holdings in an issuer.

7.9 Securitised credit

7.9.1 Compared to other fixed income and equity, there is little coverage by ESG ratings providers of securitised debt. Credit ratings agencies offer only limited ESG analysis. Yet the potential for ESG issues to impact investment sustainability is the same for other asset classes. For this reason, we have developed our own proprietary ESG integration process.

7.9.2 ESG factors are assessed with respect to their relevance to credit risk (as opposed to considering ESG opportunities). Each transaction under review is scored with a 'Low', 'Medium' or 'High' impact on credit. Each ESG factor is evaluated by a credit analyst based on the information provided by the originator/sponsor of the transaction or the sell side. In the absence of third party ESG research for securitised credit, proprietary weights are used to assess the relevance of each factor.

7.9.3 Like Corporate (financial) fixed income, governance is typically allocated a substantial weighting in all securitised credit transactions, however, each asset class within securitised credit may have a different bias towards environmental or social factors due to the relevance of these aspects to the respective asset class.

7.9.4 For example, securities backed by auto loans will have a bias towards environmental factors linked to the environmental risks of certain engine types, their impact on residual values as well as impact of fines and remediation costs following emissions testing failings. Consumer loan backed transactions will have a higher weighting allocated to the social factor to reflect the risks of discriminatory or aggressive lending and servicing practices. In residential mortgage-backed securities as well as single family rental transactions, social factors will be assessed – for example, accessibility to affordable housing. For commercial mortgage-backed securities, a focus on environmental factors will capture any ‘green’ credentials of the buildings as well as consider issues related to the tenants.

7.9.5 For collateralised loan obligations, the CLO manager’s ESG policy resulting in portfolio selection and industry allocation will be central to the transaction’s ESG risk assessment.

7.9.6 Any transaction with ‘High’ impact on credit will require mitigating factors to be thoroughly documented, however, if no such mitigating factors can be identified and transaction will be deemed ineligible, it will not be submitted to the Investment Forum for review.

7.10 Infrastructure

7.10.1 During the year, we expanded our infrastructure capabilities, unleashing greater potential to support a net zero transition. In March, we added a listed infrastructure equity team, increasing our sustainable infrastructure solutions to investors and giving them access to a highly diversified portfolio of infrastructure companies that support a just transition with daily liquidity. After joining, the team undertook a review of their ESG scoring process with the support of our responsible investment resources. They have built an ESG database of 400+ variables to inform enhanced due diligence undertaken by the analysts. The team also undertook several ESG driven engagements, in conjunction with the Stewardship team, aimed at understanding ESG challenges faced by investees and encouraging management teams to improve practices and outcomes.

7.10.2 On the credit side, the infrastructure debt investment team continues to invest in energy decarbonisation across the globe. Through the year, the team enhanced and refined their proprietary asset class specific ESG scorecards which now cover power and utilities, telecommunications, oil and gas, transportation, and social infrastructure. Each sector has its own materiality factors and specific weightings for those factors. In 2022, around 95 per cent of total investments made by the team were in assets rated ‘good’ or ‘strong’ under the enhanced ESG rating system, which means these investments generate neutral to positive impacts on the environment and society.

7.11 Venture capital

7.11.1 Over the year, our Venture Capital team made great strides in building our responsible investment proposition, with the first closing of a fintech fund and the deployment of long-term capital in a climate-tech fund. To support decision-making and negate the dearth of data for early-stage companies, we utilise specialised ESG data providers to prepare independent ESG due diligence reports and assess the alignment of investments to the UN Sustainable Development Goals. Given the nature of venture capital investing, engagements with prospective investee companies are also critical. As such, the investment team actively engages with portfolio companies about the ESG risks identified and emerging, often as a member or an observer on the company’s board.

7.12 Hedge funds and private market solutions

7.12.1 Our Indirect Alternative investment teams invest in third-party manager strategies to provide clients with private equity and hedge fund asset class solutions, amongst others. Strict due diligence is undertaken to monitor ESG risks and engage with third-party managers as appropriate. We developed a proprietary ESG questionnaire which is completed by all third-party managers with whom we invest. In addition, dedicated ESG interviews with each manager by the investment and operations due diligence teams are required to determine our final ESG ratings. During 2022, the ESG framework was refined further by including Principal Adverse Impact requirements and more policy-related documentation as well as a continued refinement of the weighting scheme used.

7.13 Liquidity

7.13.1 Liquidity represents a large portion of our assets under management, yet it is an asset class where ESG integration and stewardship have long been little developed. For the client, the combination of the expected return and the ability to access the assets as needed is the priority. However, we believe that there is scope for incorporation of ESG factors in the construction of liquidity portfolios.

7.13.2 We created money market funds based upon an ESG Liquidity investment process that incorporates ESG factors and engagement with issuers. We apply this approach to an asset class that is held by a broad range of investors, providing them with an entry point into sustainable investments and creating a robust, sustainably invested product for those clients who choose to invest their cash in a sustainable way.

7.13.3 We believe that ESG integration is a necessary part of the credit process, and we currently integrate ESG factors into all our existing liquidity funds, but the process needs to go further to qualify as a sustainable investment.

7.13.4 Our ESG money market funds integrate AMG's proprietary ESG research to score all issuers in the investible universe and apply screens based on relative ESG score that meaningfully impact the universe resulting in a money market fund portfolio that invests in only those issuers who have demonstrated an ability to better manage ESG risks. We will continue to systematically engage with our approved assets managers to make sure their social and governance policies are aligned with our practices and policies.

7.14 Emerging market debt

7.14.1 Our stewardship activity extends to emerging market debt – We have engaged with sovereign issuers, contributing to Ukraine's adoption of best practice procurement reform, which helped to save the government UAH 54 bn (2% of GDP). We were thanked directly by the Turkish Finance Minister for encouraging them to ratify the Paris Agreement in recent meetings. We helped to achieved better fiscal transparency outcomes via collective action in Colombia, Nigeria, Ghana, Gabon, and Chile.

7.14.2 We have also engaged on emerging market corporate debt issuance: In a Pakistan Water Company issuance, our analysts engaged to tighten ESG standards and ring-fence use of proceeds for appropriate impact use. In engagements with African telecoms company MTN, we helped inform the company in successfully divesting exposure to sanctioned and war-ridden regions.

7.15 Improvements and innovations regarding ESG Integration

7.15.1 During 2022, we enhanced our sustainability measurement and improved the integration of ESG considerations in our fixed income and alternatives investment decision making. We notably developed new Sustainability Contribution Scores, metrics that reflect the contribution that companies are making to the UN Sustainable Development Goals. These will be a central element in helping our clients to understand the positive impact that their investments are having on the environment and society. At the same time, our ESG Research team also increased the integration of social and societal issues in ESG analysis and scoring. This progress ensures that our sustainable investment capabilities are managed with clear intent and evidence of sustainability outcomes.

7.15.2 After climate and net zero, our next focus will be on utilities. This industry is certainly among the most impacted by many ESG issues, and as such will be a useful testbed for the implementation of the ESG framework and scoring approach which will extend to cover all sectors and industries.

7.15.3 At the same time, we are developing scoring frameworks which will be updated automatically every month, feeding into our reporting systems. We will leverage our cloud platform combined with data aggregation and back-testing facilities, which we will use for score building and back-testing.

7.15.5 Finally, our ambition for 2023 is to further explore emerging themes like the just transition, diversity, equity & inclusion, and biodiversity. These themes are fully aligned with those adopted by our Stewardship team through engagement. Our primary objective is not to develop academic or fundamental research, but rather to develop usable insights that will inform our investment decision-making processes.

7.16 Reflection

7.16.1 We have made progress in the past year in articulating the ways in which integration was already informing our investment process. Stewardship is an important element in integration; we see stewardship and engagement as a powerful tool for driving positive change, and ultimately enhancing the value of companies we invest in on behalf of our clients.

7.16.2 There are four primary ways in which Stewardship can enhance investment outcomes:

- Driving growth: Stewardship means acting in the best interests of asset owners. This means holding company boards accountable for the execution of strategies that are risk-based and which deliver sustainable value to stakeholders. It also complements our ability to spot early sustainability themes and visionary companies behind new opportunities. As part of stewardship, engagement activities can inform strategic growth plans by ensuring stakeholder related challenges are addressed.
- Managing dynamic materiality of risks: Stewardship activities put constructive pressure on companies to evaluate how they will navigate the landscape of emerging risks.
- Improving transparency and disclosure: Better disclosure means less uncertainty for investors, typically leading to lower costs of capital and the ability to finance positive change. Additionally, through the disclosure process, companies can gain added insights into their businesses, leading to changes that enhance growth and risk management.
- Delivering positive social and environmental outcomes: Stewardship can help to encourage issuers to act with a deeper understanding of their environmental and social impact. This is with an aim to mitigate externalities and maximising positive outcomes, all in consideration of stakeholder value.

7.16.3 Our approach to stewardship complements our investment integration and spans active, passive, and systematic equity strategies, as part of our commitment to deliver sustainable value.

- For active holdings, engagement is driven by strategy portfolio management teams, with support from the Stewardship team. Where issuers are held across different asset classes, the Stewardship team may collaborate and seek input from active investment teams in preparing for the engagement.
- For companies in our passive or active systematic equity holdings, where the company has been selected for engagement in our annually reviewed Priority list, engagements are typically led by a member of the Stewardship team. These holdings still fall within remit of our Global Voting Guidelines. For passive holdings and active systematic equities, the Stewardship team typically takes the lead in engaging with companies which are included in our annually reviewed Priority List.

INVESTMENT APPROACH

Principle 8

Signatories monitor and hold to account service providers.

8.1 Background

8.1.1 Service providers play an important role in helping us to deliver our responsible investment and stewardship activity. ESG ratings and the data which underlie them have historically been the starting point for identifying ESG risks for research. The stewardship team has been able to move away from this approach, using companies' own disclosure in sustainability and annual reports in its assessment of material and salient issues.

8.1.2 However, with acknowledgment of their limitations, ESG ratings and UNGC controversies continue to be the basis for exclusion or factor weighting in systematic ESG products.

8.1.3 The impact of data limitations can be mitigated. Our voting guideline research and instruction process relies to a certain extent relies upon ISS interpretation. We aim to have high quality and granular policies with clear scenario-based instructions to ensure that our voting principles can be applied at scale and across different markets with varied local regulations e.g., for director elections, which can be annual, every three years or by slate.

8.2 ESG data providers

8.2.1 The Stewardship team has introduced more investor-led ranking and assessment in our data sets and integrated them into voting. For example:

8.2.1 On Climate: We apply a 'Say on Climate' watch list using Transition Pathway Initiative (TPI) climate transition and InfluenceMap's organisational metrics as reference. For the highest carbon intensive sectors in the Developed Markets (DM), we may vote against if the company's TPI score is below 4 or if the InfluenceMap score is D or worse (for Climate Action 100+ (CA100+) companies only). These sectors are oil and gas, coal mining, and electric utilities. In Emerging Markets (EM), we may vote against if the company's TPI score is below 3, or if the InfluenceMap score is D or worse. For other carbon intensive sectors – airlines, aluminium, autos, cement, chemicals, consumer goods, diversified mining, industrials, paper, shipping, and steel - we may vote against if the company's TPI is below 3 or if the InfluenceMap score is D or worse (for CA100+ companies only), applicable to both DM and EM. Vote decisions may change if new information from the issuer is provided in a timely and comprehensive manner to address our concerns through proactive engagement from companies.

8.2.2 Our objectives and approach also align with the HSBC Asset Management Climate Change Policy and the 2022 Thermal Coal Policy published online. As outlined within the Thermal Coal Policy, in addition to engaging with issuers who derive more than 10% revenue exposure to thermal coal, we will also vote against the re-election of chairs at these companies whose transition plans remain inadequate, and/or who do not provide TCFD disclosure or equivalent reporting. We reference Bloomberg, TPI climate scores and CDP data when determining the quality of TCFD disclosure of companies.

8.2.3 We may vote against the re-election of the chair or relevant board director where companies fail to implement adequate policies and reporting on biodiversity and nature issues. For example, companies with high exposure to deforestation risks should look to have a deforestation policy and over time also a dedicated biodiversity policy. We will continue to use MSCI Natural Capital Scores and FAIRR's Protein Producer Index to inform our voting and will raise our expectations and apply a higher cut-off. In addition, from 2023, we will also consider information from:

- 8.2.3.1 The World Benchmarking Alliance's Nature Benchmark and Seafood Stewardship Index, the Benchmark assesses 1,000 companies across 22 industries and considers 25 nature indicators and 18 core social indicators, and the Index examines the 30 most influential companies in the seafood industry.
- 8.2.3.2 The Forest 500 report that tracks the policies and performance of the 350 most influential companies and 150 most influential financial institutions linked to deforestation in their supply chain and investments.
- 8.2.3.3 Iceberg Data Labs, which informs our biodiversity ETF, assessing companies across 22 industries using 25 nature indicators and 18 core social indicators: and
- 8.2.3.4 The InfluenceMap Industry Influence on Biodiversity Policy report and information that show industry associations' engagement on biodiversity-related policies and regulations, and the companies that comprise the associations' membership.

More details can be found under Principle 12.

8.2.2 We participate in collaborative engagements that also reference these rankings to understand first-hand how the rankings reflect business practices, so we can provide feedback, spot any anomalies, and voice concerns on new issues uncovered.

8.2.3 The review process for these providers includes understanding their coverage universe, to ensure that all clients regardless of the strategy they invest in, can benefit from the use of comparable ESG data. Furthermore, we consider how the service provider has helped us implement our policies - e.g., ISS-ESG for excluded issuers that breach our Banned Weapons Policy – or our investment processes - e.g., Sustainalytics for issuer compliance with the UN Global Compact.

8.2.4 As MSCI is one of our broadest ESG data providers, it receives the brunt of our feedback and comment on the data available. We raise specific errors we uncover as well as where there are unwarranted gaps in data. This feedback is conveyed as part of our regular dialogue with MSCI and in meetings to raise concerns.

8.2.3 Our contracts with third party ESG data providers are limited to 3 years. The renewal of these contracts is subject to a formal RFP overseen by our Global Data Management Department, which is independent from the Investment function.

8.3 ISS

8.3.1 As discussed under Principle 7, we have introduced five thematic vote approach and 5 new market specific approaches to voting. These were the outcome of weekly engagement meetings between the stewardship team and ISS as a service provider to operationalise relevant votes.

8.3.2 It took one month to put the new customised votes in place and test them to ensure the interpretation by the ISS team reflected our expectations. When issues are identified, such as ISS recommended a vote against an incoming chair for a Watchlist company, we pointed out that our policy had already detailed that it is only for an incumbent chair with clear escalation processes. This was quickly rectified.

8.3.3 In general, we provide ISS with instant feedback when we identify apparent errors in their research or their interpretation of our policy. In some cases, we ask for the custom recommendations to be reissued to ensure there is an accurate record of recommendation, intended vote (pre-engagement) and instruction. We also push them when research is not yet available for meetings with imminent instruction deadlines. We have identified custodians that impose a deadline much earlier than others and explore options to address the timing issue in the best interests of our clients. Each of our local offices using ISS has a local customer support and provides feedback on service levels. We have an annual meeting to review the service globally and identify where improvements are required.

8.3.4 Each member of the stewardship team has access to the ISS voting system and can monitor real time the vote records and actions of relevant funds, addressing some concerns that were identified in last year's report. One of our stewardship team members is a member of the Independent Oversight Committee (IOC) of the Best Practice Principles Group of the proxy voting advisory and research industry.

The IOC is composed of six investor representatives, three corporates, and two independent researchers, plus the chair. Our participation complements our monitoring of the quality of proxy voting service providers such as ISS and to compare their services with other providers. The 2022 IOC annual report can be found at: https://bppgrp.info/wp-content/uploads/2022/09/2022-AR-Independent-Oversight-Committee-for-The-BPP-Group.pdf

8.4 Reflection

8.4.1 We address the limitations of ESG data providers by actively using their own assessment systems and providing feedback, and increasingly using investor-led assessment – such as the Workforce Disclosure Initiative – instead of only relying on third party commercial providers. We have also introduced more forward looking, outcomes-based assessment – considering three additional factors – company commitments and targets set, accessibility for engagement and insight in discussion. In general, third-party commercial providers' information is disclosure based; they provide data that is already available, coverage can therefore be reduced in certain markets and for smaller cap companies, though language is no longer a significant barrier for data providers such as Truevalue Labs as the use of natural language process (NLP) technologies become more widespread.

8.4.2 Our review process is intended to ensure we secure maximum benefit from the data which we can access. Historically, our engagement emphasis on encouraging transparency and disclosure – directly and through our support for initiatives such as CDP – has been intended to help address the systemic weaknesses in data availability, consistency, and quality. Seeking support for shareholder proposals.

8.4.3 For companies where we have chosen to have deep engagement, the 'priority' list companies, we often form a view on our voting preferences before ISS provide research and we use them mainly to provoke consideration of our position and of the proxy information provided. We have strengthened our vote instruction communication through an 'intelligent voting' approach that integrates the latest engagement outcomes with customised vote decisions, creating 'vote capital' focused on rewarding positive changes. 8.4.4 The use of ISS for voting research and instruction by the majority of the world's large and many smaller asset managers and owners represents a collaborative solution to the challenge of covering many thousands of company meetings with relevant information from different sources and formats. We recognise the scale of this challenge and welcome the investment which ISS has undertaken to improve their service standards. Large-scale monitoring and assurance that each vote has been received and counted correctly is not proportionate. We remain hopeful that systemic improvements in vote confirmation can be secured.

ENGAGEMENT

Principle 9

Signatories engage with issuers to maintain or enhance the value of assets.

9.1 Our Approach

9.1.1 We believe that stewardship involves long term value creation through improved risk management, ESG reporting, impact mitigation and identification of positive impact opportunities. This allows for responsible allocation, management, and oversight of capital. As such, engagement is integral to the fundamental research process. Our active equity and credit analysts – as well as our portfolio managers – engage with issuers as part of the investment process, both before and during the period of investment, covering relevant ESG issues in their research and discussions. For companies in our passive or active systematic equity holdings, where the company has been selected for engagement in our annually reviewed priority list, engagements are typically led by a member of the Stewardship team.

9.1.2 Where we have identified company specific or systemic risks, or areas where we find business impact opportunities, both in product innovation and in operations, we will raise these concerns through meetings, site visits, conference calls or correspondence.

9.1.3 Our engagement is based upon our knowledge of the issuers and issues concerned. We monitor how well issuers are managing the risks associated with different ESG issues. Our monitoring covers: strategy, financial and non-financial performance and risk, capital structure, social and environmental impact, and corporate governance. For thematic engagement we build an understanding of how different issuers are managing a risk, what good (and poor) practice looks like and the steps they can take to improve performance.

9.1.4 As we expand design and transition our funds into Article 8 and Article 9 funds, the differentiating factors lie in the way we set specific ESG risk management objectives, which evaluate the material issues that may impact the companies, and distinguish them from impact-oriented objectives, which evaluate the way in which the company can influence its environment for positive environmental and social impact.

9.1.5 We engage with issuers to protect and enhance the long-term value of our clients' investments. We engage for change, and therefore we establish specific engagement objectives that are aligned with the four key pillars of where we believe stewardship can add value and enhance investment outcomes, namely:

- Driving growth
- Managing dynamic materiality of risks
- Improving transparency and disclosures
- Delivering positive social and environmental outcomes

Companies may decide to address investor concerns after one interaction, others require a multitude of engagements. Not all engagements result in a positive outcome, but this in turn may impact our view of a company.

9.1.6 Our participation in collective engagement and escalation where satisfactory outcomes have not been achieved are set out under Principles 10 and 11, respectively.

9.1.7 Although our engagement is focused on investee companies and other issuers, it may also include stakeholders, regulators, industry partners and academics to inform relevant standards and practices. Examples of policy engagement can be found in Section 9.7.

9.1.8 When engaging with issuers, HSBC AM usually takes one or more of the following approaches:

1. Proactive engagement led by portfolio managers and analysts and/or the Stewardship team
2. Reactive engagement based on controversies identified
3. Routine engagements around shareholder meetings
4. Collaborative engagement and shareholder filing

The Stewardship team, based in London and Hong Kong, provides both sectoral and thematic expertise in conducting engagements and in assessing sustainability performance. Engagements are led by portfolio managers, analysts, and the stewardship team, as part of ongoing dialogue with issuers. The stewardship team typically takes the lead on issue-based thematic and collaborative engagements. They investigate how a range of companies are addressing a particular issue, what are the current and potential regulatory requirements and what are feasible and optimal responses from issuers when setting objectives. Collaborative engagements are also resource intensive, involving extended contact with the issuers and co-ordination with other investors. This means that stewardship team members can deepen their knowledge of ESG issues, which informs future engagements as well as representing an in-house centre of expertise on those topics. See examples of collaborative engagements under our response to Principle 10.

9.1.9 Enhanced due diligence and engagement are fully embedded in our investment processes, usually undertaken by our active equity and/or fixed income teams. Whilst the stewardship team often undertakes thematic engagement seeking change, our active fixed income and equity teams also engage with their key holdings according to the annual reporting cycle or in response to specific events or concerns. This purpose-led approach to engagement has been developed as an opportunity to step back and consider underlying concerns or issues where change could bring benefit to the company and shareholders.

9.2 Setting objectives

9.2.1 We take an objectives and outcomes-led approach towards engagement, tracking milestones in six stages, as outlined in Principle 7.

9.2.2 We have developed a library of standard engagement objectives to support our engagers to set objectives with issuers that are Specific, Measurable, Achievable, Relevant and Time-bound. This objectives library is updated on a periodic basis to reflect the dynamic nature of materiality and evolving industry standards and expectations. For non-standard objectives, we establish new ones following the following principles (Figure 1).

Figure 1 The S.M.A.R.T. approach

SPECIFIC – WHAT we are engaging on?

- Regulatory change (new standards or procedures)
- Event-Driven (Shareholder meetings, conferences, roadshows)
- Reactive (Company actions/inactions/decisions)
- Thematic/Market/Sector (Upcoming trend that impacts certain group of issuers e.g. biodiversity due diligence

MEASURABLE – HOW we track progress against objectives

- Set Targets, performance metrics / indicators
- Clear strategy, policy and oversight mechanisms
- Disclosure and reporting
- Feedback and monitoring

ACHIEVABLE – Realistic expectations drive positive actions

- Share global best practices
- Share local / sectoral best practices to avoid tension based on 'The West has best examples'
- Discuss, and if possible agree, a roadmap for change : Current status -> required status -> ideal status
- Check alignment with our policy or position for required status

RELEVANT – WHY are we engaging?

- To meet clients expectations e.g. asset owners demands
- To align with our policy or position
- To address reputational impact for HSBC and companies
- To meet market (including regulator and other stakeholders) expectations

TIME-BOUND – WHEN do we expect to see progress?

- Set timeframe for corporate action and milestones to monitor progress
- Adjust milestones and timing if required
- Closed an objective if progress is stalled, and make corresponding investment decision to demonstrate feedback
- When objective is completed, specify next steps for further engagement

9.2.3 An example of a standard engagement objective and indicators is as follows:

Engagement objective: company to establish a public policy statement committing to respecting human rights

Example indicators may include:

1. Alignment to UNGPs, ILO labour standards and OECD Guidelines for MNEs
2. Evidence of input from relevant subject matter expertise
3. Policy reviewed and approved by the board and senior management with periodic updates
4. Scope of the policy covers the organisation's own staff and parties linked to its value chain, including suppliers and business partners
5. Alignment with the organisation's operational policies and procedures to enable effective business integration
6. Commitment to engage with stakeholders and provide remedy where there have been violations

Depending on the company, we will set an appropriate timeframe as a time-bound target for the objective.

9.3 Governance process

9.3.1 The top-down stewardship strategy is proposed by the Stewardship team and approved by the Sustainability Forum, which includes our Chief Executive Officer and other senior executives. This strategy is reviewed at least once a year. The Global Voting Guidelines is proposed by the Stewardship team and approved by the Sustainability Forum, led by our Head of Sustainability, at least annually. The ESG Investment Committee also reviews voting activity on a quarterly basis.

9.3.2 Our engagement data and statistics are available from the proprietarily developed Stewardship Tool for Analytics and Reporting, 'STAR' dashboard. For all voting through the ISS platform, we publish full voting records through the Proxy Voting Dashboard on our website. We also offer clients detailed reports on our engagement and voting activities.

9.3.3 If we decide to establish a public position on an issue about a company, such as through a public statement, lead file or co-file a shareholder proposal, the rationale of this escalation will be tabled and discussed at the Sustainability Forum and the position will be reviewed by legal, compliance and risk functions.

9.4 Engagement on thematic priorities

In our last report, we highlighted six thematic priorities developed at the end of 2021. At the start of 2023, we have refined and re-organised these themes, adding sub-thematic modules to some of them:

Themes	***Specific modules***
Climate Change	Just transition
Biodiversity and nature-based solutions	Deforestation
	Circular economy
	Sustainable natural resources
Inclusive growth and shared prosperity	Capital allocation
Trusted technology and data	Digital inclusion
	Corporate Responsibility

Each thematic section is broadly divided into 4 parts: an introduction, our position, what we do, and how we engage. They are set out in our Stewardship Plan 2023, as follows:

9.4.1 Climate Change

Climate change continues to reshape our world, with far reaching and systemic impacts. The costs for inaction are increasingly clear. To address these risks, we have seen increasing focus and regulation on emissions reporting, risk management and the identification of new opportunities in the transition to a more sustainable future.

We are a member of the Net Zero Asset Managers initiative and have committed to supporting the goal of net zero greenhouse gas ('GHG') emissions by 2050, in line with global efforts to limit warming to 1.5°C ('net zero emissions by 2050 or sooner'). We also commit to investment in alignment with goal to achieve net zero emissions by 2050 or sooner. Our engagements align and support these overarching strategic objectives.

In September 2022, we published a policy outlining our commitment to phase out active investment in thermal coal. Under this policy, we will continue to engage with issuers, prioritising those in which we have the highest exposure. By end of 2023, we will engage with all listed issuers in our actively managed portfolios with more than 10 per cent revenue exposure to thermal coal. Active holdings engagement will be led by investment teams supported by stewardship specialists. By 2025, we will prioritise engagement in our passively managed portfolios, based on the size of the holding, with aim to engage all issuers with more than 10 per cent of coal exposure.

Companies above this threshold must provide suitable TCFD-aligned or equivalent reporting. The suitability of this disclosure will be determined in the first instance in reference to corresponding scores from the Transition Pathway Initiative ("TPI") and in reference to Bloomberg's Climate Tracker TCFD disclosure will be considered in our voting decisions, and we will vote against chairs where scores and transition plans remain weak following engagement.

9.4.1a Our objectives and approach to addressing climate change issues align with the Climate Change Policy and Thermal Coal policy published online. We joined the Net Zero Asset Managers initiative[1] in 2021. We engage with issuers exposed to thermal coal extraction and power generation. We support a just transition[2] where we engage with issuers to ensure that impact assessments on workers, supply chains, communities and consumers are taken into consideration in their net zero transition plans. We have been involved in the Climate Action 100+ since its inception and continue to lead on engagements with companies, notably those with long and complicated supply chains. In 2022, we continued our involvement in the CDP non-disclosure campaign and provided feedback to the International Financial Reporting Standards Foundation and the International Sustainability Standards Board on financial and sustainability reporting on their consultations, with a strong focus on climate change related disclosure. Company climate strategy and policy should specifically address climate change risks and opportunities. These should adopt sector-based decarbonisation where it is appropriate and available, and actively take part in public policy engagements that enable industrywide progress for decarbonisation. Companies should also understand and measure climate change impact on business operations, strategy, and financial planning.

9.4.1b We engage with companies on four key areas, amongst other company specific topics:

1. Net Zero Commitments
2. Climate Strategy and Risk Management
3. Emissions Reporting
4. A Just Transition

9.4.1c We expect companies to provide Climate Key Performance Indicators aligned with international best practices on disclosure and reporting, including but not limited to:

- How they monitor and disclose climate-related risk management procedures.
- Metrics used to assess climate-related risks.
- Timeframes for monitoring risks; and
- The role of board/management (sustainability committee or similar).

9.4.1d Market specific expectations applied to voting and engagement can be found in answers to Principle 12, under section 12.2.4.

9.4.2 Biodiversity and Nature

9.4.2a Biodiversity loss is a broad and complex issue. In addition to engaging with companies on avoiding and minimising impacts on biodiversity and ecosystem services, we believe the topic is best approached through a focus on specific aspects that impact it including but not limited to deforestation (on key commodities such as palm oil, beef, leather, timber, pulp and paper), regenerative agriculture, responsible husbandry (including by taking a one health approach to

[1] https://www.netzeroassetmanagers.org/
[2] Financing a Just Transition - Grantham Research Institute on climate change and the environment (lse.ac.uk)

address antimicrobial resistance), animal welfare, water management, plastic and other pollution, and circularity by design.

We continue to work to understand company impact and exposure to biodiversity and its decline - both on our own business and that of our holdings. We do this by working with biodiversity data providers to understand which companies and sectors are most exposed, and how we can begin to address negative impacts.

9.4.2b We have developed a list of companies that we believe our global engagement efforts should be most focused on in the short and medium term given their high impacts and dependencies on biodiversity. Data to inform this selection is drawn from numerous internal and external sources including FAIRR, MSCI, Iceberg Data Labs, World Benchmarking Alliance, Forest 500, CDP water, forests, and climate, as well as InfluenceMap. In addition, we also engage where we have significant ownership, where we believe there to be a good chance of engagement success, and where the company is held in a fund with higher sustainability expectations, such as our sustainable ETF range as example. Some companies will be part of our ongoing engagements, while others may be part of engagement campaigns focused on areas of interest.

9.4.2c We expect companies with high exposure to deforestation risks to have a deforestation policy and will in time also expect a broader dedicated biodiversity policy. Companies must begin to recognise the importance of biodiversity loss, and that while it shares many synergies with climate change and plays a key role in mitigating and adapting to climate change, it also has distinct challenges that must be addressed. Companies with high exposure to biodiversity risks should look to present a vision and plan that aligns them with a biodiversity positive future that halts biodiversity loss and puts it on a path to recovery by 2030, which is necessary to achieve the Convention on Biological Diversity's vision of living in harmony with nature by 2050.

9.4.2e Market specific expectations applied to voting and engagement can be found in answers to Principle 12 under section 12.2.5.

9.4.3 Human Rights

9.4.3a To fulfil our fiduciary duty to clients and as a responsible corporate citizen, we are committed to promoting business respect for human rights amongst our investee companies. We support and are guided by international principles and standards, and expect that our portfolio companies to be held to these standards:

- United Nations Universal Declaration of Human Rights (UDHR).
- International Labour Organization's (ILO) labour standards.
- United Nations Guiding Principles for Business and Human Rights (UNGP).
- United Nations Global Compact (UNGC); and
- The OECD Guidelines for Multinational Enterprises (MNEs)

We have joined Advance, a stewardship initiative launched by the PRI for investors to act on human rights and social issues and will be participating as a Lead Investor.

9.4.3b We seek to apply an approach that is independent and fact-based, considering the salience of human rights issues. We engage with companies to consider not only "hard laws", such as the French Duty of Vigilance, UK Modern Slavery Act, Hong Kong Modern Slavery Bill, and California Transparency in Supply Chain Act, but also globally recognised principles such as the UNGP and UNGC.

9.4.3c We work with investment teams to engage with portfolio companies when UNGC non-compliance or human rights related controversies are identified through our existing ESG integration processes. In addition to this, we are guided by 'A Roadmap For The Next Decade Of Business And

Human Rights', published by the UN Working Group on Business and Human Rights in November 2021.

We also participate in collaborative engagements through industry associations or working groups to amplify our voice, escalate concerns, or enhance access to company management.

9.4.3d Through our engagement with portfolio companies, we aim to provide effective guidance on how they should respect human rights through their operations, provision of products/services, and value chain management, and encourage them to communicate their impacts.

Following the Galaxy of Norms, we start with corporate compliance of hard laws such as modern slavery acts, and communicate our expectations on the company's disclosure, such as identifying human rights risks in in business operations and value chains and incorporating human rights as a salient issue in its enterprise risk management and strategic planning. We also expect companies to adequately respond and take appropriate action in a timely manner against allegations and controversies.

To ensure portfolio companies remain proactive and forward-looking, we may expect them to map out a human rights strategy, identify ways to contribute to the three key pillars of the UNGP and the progression of industry practices through relevant industry initiatives and standards. We also expect to see evidence of effective board oversight of a forward-looking and comprehensive human rights management programme.

9.4.3e Market specific expectations applied to voting and engagement can be found in answers to Principle 12, under 12.2.6.

9.4.4 Diversity, Equity & Inclusion

9.4.4a We align our DEI engagement strategy with HSBC Asset Management's own efforts and achievements in promoting DEI within the firm. Within HSBC Asset Management, we have established more than ten work streams to promote all forms of diversity by theme and by function – gender, ethnicity, ability, LGBTQi+, mental health, social mobility, spirituality, and self-knowledge, working parents, commercial and investments. Our own experience of best practices and challenges informs the engagement objectives we set for each issuer in our coverage.

9.4.4b Ensuring diversity, equity, and inclusion at all levels of the company including board and C-suite levels is imperative for the long-term success of businesses. HSBC Asset Management is a member of the 30% Club UK's Investor Group, Diversity Project, and the Hong Kong Board Diversity initiative (part of the 30% club Hong Kong chapter). To promote the wider agenda of human capital management beyond DEI, we continue to support ShareAction's Workforce Disclosure Initiative (WDI) and encourage our investee companies to participate.

9.4.4d the availability of data on diversity in areas other than gender is also limited partly due to lack of awareness of their importance. Data collection can also be challenging due to market-specific circumstances. We will therefore set appropriate objectives for each issuer [in our engagement coverage] depending on its profile and position.

To achieve DEI objectives, we may engage with other stakeholders to enable systemic change, including stock exchanges, who dictate some corporate governance rules to all their listed companies, and recruiters, whose practices can influence diverse hiring outcomes.

9.4.4d Market specific expectations applied to voting and engagement can be found in answers to Principle 12, under 12.2.7.

9.4.5 Inclusive Growth and Common Prosperity

9.4.5a We are concerned by high levels of economic inequality experienced in some regions of the world. Over time, we believe excessive inequality may create systemic risks, such as breakdowns in social cohesion, disruptions to political stability, and undue financial system turbulence.

We believe growth is likely to be more enduring when more people have income to spend, and the security and time to create new businesses. Therefore, transitioning to a more inclusive economy helps create the next generation of investable opportunities.

9.4.5b We define inclusive growth as sustainable economic activity that is pre-distributive; allowing more people to share in the rewards of growth because they are fairly recognised for their role in its creation. Inclusive growth is of critical importance in both developed and emerging markets, and the just transition is a form of inclusive growth. Shared prosperity relates to the explicit need to reduce inequalities across companies, supply chains, countries, and regions. Our definition focuses on the need for rapid workforce treatment improvement, and poverty reduction.

9.4.5c As well as impacting inequality, high pay at the top of corporations is expensive to our clients. For example, in the US, we calculate that high executive pay means shareholders subcontract three per cent of the free cash flow generated by the business to executive teams. This is a steep hurdle to successfully compounding investment returns, and there is also growing research to suggest that the higher paying companies perform more poorly than lower payers.

We are building on the US and UK CEO pay frameworks from 2022 to apply similar frameworks for continental Europe, North America, and Japan in 2023. The frameworks allow for higher pay levels for larger and more complex businesses and are based on the multiple of CEO total compensation relative to the median income in the country in which their company is based.

9.4.5d We believe that workforces are a critical asset to businesses and are at the heart of achieving inclusive growth and shared prosperity. For this reason, HSBC Asset Management is a long-standing member of the Workforce Disclosure Initiative, which is a $10.5 trillion investor coalition working to improve corporate transparency on workforce issues. Over time, participants in the WDI have significantly increased their workforce knowledge and reporting. Each year we engage with over 30 companies that we want to see participate in the WDI. HSBC is also a supporter of living wages and will continue to encourage companies to become living wage accredited, as part of working with the Good Work Coalition.

9.4.6d Market specific expectations applied to voting and engagement can be found in answers to Principle 12, under 12.2.8.

9.4.6 Trusted Technology and Data

9.4.6a Access to information is a basic human right and has proven to be a vital enabler for sustainable development in areas such as health, environment, alleviating poverty and fighting corruption. With huge quantities of data and information transmitted and/or stored daily, companies should proactively engage on SDG16 as an ongoing commitment of which trusted technology and data is an enabler. Trusted data facilitates informed decision making that is vital to a sustainable future. Companies therefore have a responsibility to ensure that data collection, storage, mining, and dissemination is undertaken responsibly and securely. At the heart of this is information security.

9.4.6b The adoption of AI and Machine Learning (ML) in business decision making, meaning access to, and understanding of data/analytics, is increasing. This can improve the quality of decision making but additional cyber strategies will need to be developed, putting greater emphasis on corporate and personal digital identity protection and fraud prevention; all areas supported by a growth in the adoption of AI and ML.

9.4.6c Through engagement, we look for and assess positive corporate actions on trusted technology and data that contribute to responsible environmental and social practices. Engagement should encourage companies to limit potential costs by addressing risks and improving the overall approach to this theme.

We examine whether effective protection, security and prevention strategies have been integrated into information security policies. This is a critical component of a board's risk oversight responsibilities. Globally, a board of directors will be called to account for any adverse impact due to their alleged failures to institute appropriate corporate governance to protect against cyber risk. We use Ranking Digital Rights and the World Benchmarking Alliance (WBA) Digital Inclusion Benchmark as references for our engagement assessment.

9.4.6d An assessment of whether corporate responsibility to respect human rights extends to and addresses issues in the digital environment is vital. Does a company take positive and proactive action to uphold, protect and respect human rights as part of general wellbeing of its users within a digital environment? A challenge for companies is that they must strive to refrain from interference with or curtailing the enjoyment of human rights, whilst simultaneously ensuring protection from implied or actual harm. The presence of a fully independent and expert-driven committee to ensure human rights are respected and upheld in the digital environment would be ideal. Whenever possible, transparency and accountability regarding content must be addressed.

9.4.7 Public Health

9.4.7a Access to healthcare is a basic human right and one of the Sustainable Development Goals (SDG 3). Many people living in the world's poorest countries are missing out on access to vital healthcare. The COVID-19 pandemic has made the extent of this crisis abundantly and undeniably clear. The gap between the "haves" and the "have-nots" has become unacceptable and must be closed, and investors have a role to play in narrowing this gap.

9.4.7b We are a member of the PRI Collaborative Engagement on Access to Medicine and SDG3. We are also members of the Access to Medicine Foundation. Good health is impossible without access to affordable pharmaceutical products and healthcare services. We engage with the Big Pharma, generic medicine manufactures, vaccine manufacturers, diagnostic companies, and private hospitals, referencing data and research provided by Access to Medicine Foundation and our internal analysis. We encourage companies to reference the Sustainable Development Investment Asset Owner Platform taxonomy when considering their SDG contributions to affordable healthcare.

The topic of Anti-microbial resistance (AMR) is important to address, and as part of this we work with the Investor Action on AMR initiative to leverage investor influence to combat drug-resistant superbugs. As part of this, we engage with investee companies, either bilaterally or as part of collaborative engagements.

9.5 Engagement examples

9.5.1 Proactive engagement with Objectives completed

9.5.1a

Indian power utility – Asia Equity team led engagement

Objective	• Clarify the company's decarbonisation strategy on thermal coal power generation capacity planning and progress on renewable energy capacity expansion • Set and disclose a business plan with science-based short-term and mid-term GHG emissions reduction targets • Improve board independence
Activity	We met with the Chairman & CEO to clarify new thermal capacity, renewables capacity, energy intensity reduction targets, sustainable supply chain, capex plans
Outcomes	The company made a commitment to add no new greenfield thermal power plants. Expansion of brownfield assets are to meet expectations from the national government. The company signed a Memorandum of Understanding (MoU) with a key business partner to reduce carbon intensity from its coal fired units.
Investment Consideration	Monitor company progress on its climate transition plans and continue to engage with Indian regulators such as SEBI and the Ministry of Power on elevating standards.

9.5.1b **Asian Automotive Company**

Objective	• Develop a business strategy better aligned with the Paris agreement (e.g., set a science-based target) • Board to have at least 2 female directors or 20% women • A significant reduction in cross-shareholdings
Activity	Held several meetings with company executives to discuss their net zero ambition, EV strategy and lobbying activities and pressed for better alignment with the Paris agreement. We also pressed for more gender diversity at board and senior management level, and a reduction of cross-shareholdings.
Outcomes	The company invited us to its first ever investor meeting with an independent director, which helped us assess board effectiveness. The company has developed science-based emissions reduction targets. The company also published an improved report on lobbying.
Investment Consideration	Monitoring

9.5.2. Joint engagement (internal) with Objectives completed, deepening ESG integration

9.5.2a **Northern European multinational involved in oil and gas handling** – engagement with Listed Equity Infrastructure team

Objective	• Improved short term and long-term incentive plans (STIP and LTIP) KPIs to reflect shareholder value creation • Company to reduce leverage
Activity	Conducted peer comparison. LTIP is based on 3 KPIs: EPS, Strategy Execution and Sustainability Execution. EPS has a weight of 50%, Strategy Execution and

	Sustainability Execution are weighted equally at 25% each. This strategy has been focused just on growth and heavy spending, not value creation for shareholders.
Outcomes	The company has agreed that STIP will use operating capex instead of cost, rewarding cash flow generation, and LTIP will use operating cash return to replace EPS. Leverage will be around 2.5-3.0X.
Investment Consideration	Monitoring performance-linked remuneration and quantum

9.5.2b **Asian Electricity Utility** – engagement with Asia Credit team

Objective	• Disclose emission reduction targets for 2030 in line with finalised national energy plan • Develop and disclose a detailed climate strategy and capex plan on how such targets are to be achieved • Develop a process for proactive engagement with community and NGO stakeholders • Commit to developing science-based emission reduction targets over the medium- long term
Activity	We engaged with Company's Treasury team, to better understand the company's climate strategy and timelines for developing emissions reduction targets, and detailed capex plans. The capex for renewable energy and targets has yet to be set. Targets are not aligned with climate science.
Outcomes	The company clarified that due to updates to national NDC's and the new administration's energy plan, the company has had to revisit its emissions targets. The company will plan to continue to repurpose coal-fired power stations, using gas instead.
Investment Consideration	As targets are not aligned with climate science, there will be no purchase of any bonds directly issued by the company as per HSBC Asset Management's coal policy published in 2022.

9.5.2c **Unnamed company in the construction sector** – engagement with India onshore team

Objective	• Clarify and respond to allegations of forced labour, and child labour which resulted in a series of fatalities • Publish supplier code of conduct and deepen approach to supplier engagement, audits, and due diligence.
Activity	In June 2022, we reached out to the company for clarification on several local media reports on child mortality and fatality issues on site. We requested clarification and details from the company on its supply chain management and audit practices.
Outcomes	The company agreed to engage, and we spoke to the CRO and Head of Investor Relations on the management of these issues, who further clarified that these violations were not on-site, but beside a contractor facility located nearby. We outlined expectations regarding supply chain audits and the need for more robust due diligence and reporting – both onsite and at contractor facilities. The company is enhancing its contractor on-boarding and due

	diligence process and agreed to disclose its Supplier Code of Conduct and additional details on its contract workforce.
Investment Consideration	Monitoring progress. A follow-up to be scheduled 1Q of 2023.

9.5.2d **Barclays PLC** – engagement with UK Credit Research Team

Objective	• Commit to no new oil and gas financing • Address loopholes in coal policy related to funding companies engaged in coal expansion • Set emission reduction targets for other commit intensive sectors • Commit to and disclose approach to engagement with clients on achieving net zero objectives
Activity	We supported the company by voting for its climate strategy at its AGM, opting to engage on issues of concern, discussing climate strategy and topics related to ethical business practices with the investor relations team. We also shared good practice examples from leading peers in the sector and discussed approach to and governance around client engagement on net zero objectives, including how the company may incorporate just transition considerations within this strategy.
Outcomes	In its 2022 Sustainability Report, the company shared details on new governance around general corporate financing for coal companies and brought forward coal exit for U.S. The company also set reduction targets for other carbon intensive sectors; however, we continue to engage on the topic of oil and gas. The company has also committed to and disclosed its approach to engagement with clients on achieving NZE objectives.
Investment Consideration	We noted continued improvement in the company's climate strategy and continue to engage with Barclays.

9.5.2.e **First Abu Dhabi Bank** – engagement with Global Credit Team

Objective	• Develop and disclose emission reduction targets for its financing activities (scope 3) • Produce first TCFD Report, outlining the company's approach to scenario analysis and climate risk management • Increase and develop objectives around engagement with clients on climate risk management
Activity	Discussed good practice regarding portfolio foot printing. The bank acknowledged the importance of the Partnership for Carbon Accounting Financials (PCAF) methodology which it will aim to adhere to in its reporting. The bank also raised the challenges it faces in its access to ESG data. We raised the importance of a climate risk assessment or scenario analysis and shared potential plans from the local regulator to conduct a stress test. We

	discussed the need for client engagement, which the bank raised as a priority focus.
Outcomes	The bank confirmed that it will be reporting on its scope 3 emissions and will be publishing results in 2023. It will be the first Middle Eastern bank to develop a coal policy and targets, which were published in 2023.
Investment Consideration	Ongoing engagement

9.5.3 Collaborative engagement (external) with Objectives completed

9.5.3a **Glencore** – As CA100+ co-lead

Objective	• Strengthen short term targets such as ending its greenfield Valeria project • Improved disclosure around capex plans that are Paris-aligned • Establish and disclose a Just transition strategy for impacted assets and communities • Set specific targets linked to remuneration that shall lead to absolute emission reduction
Activity	Glencore's emissions targets are misaligned with 1.5 degrees and require urgent action to reduce emissions. We engaged with the CEO to voice our concerns over assumptions used in Paris aligned scenario analysis. We co-filed a shareholder proposal asking for improved disclosure on 1.5-degree alignment in December 2022.
Outcomes	In November 2022, Glencore noted it would withdraw applications for approval for the new greenfield Valeria coal mine in Australia and commit to a just transition plan. Enhanced medium term target from 40% to 50% GHG emissions by 2035 to come primarily from reduction in coal assets. Glencore also committed to exit from World Coal Association (intention stated in progress report)
Investment Consideration	Index holding to preserve value and to reduce risks

9.5.3b **Vedanta Limited** – As CA100+ co-lead

Objective	• Clear decarbonisation roadmap to achieve net-zero by 2050, including short (2025) and medium (2030-2035) GHG emissions reduction targets aligned to SBTi. • Disclose details of capital allocation and R&D plans for each business segment to achieve net-zero. • Board and senior management to have their long-term incentive plans aligned to net zero targets. • Company to develop an internal carbon price, publish a TCFD-aligned report and disclose its scope 3 emissions.
Activity	We have been co-leading the CA100+ engagement with the company since 2019 and continue to press the company on their climate commitments through one-on-one as well as via CA100+ group meetings. While recognising

	the company's efforts and 2C alignment, we highlighted the importance of setting science-based reduction targets aligned to 1.5C pathway. We expressed our concerns with the company's acquisitions of captive thermal coal mines during the year and explained our position and expectation on thermal coal and expansion activities given the continued dependence on thermal coal for power in the short to medium term. We highlighted our Thermal Coal Policy to Vedanta and offered to meet with the Board Sustainability Committee to further discuss investor expectations and best practices. We also highlighted the significance of just transition considerations in the company's net zero strategy and encouraged them to map out the stakeholder impact of their transition plans and strategy.
Outcomes	Vedanta has provided further clarity and assurance on its commitment to decarbonisation and net-zero, despite recent acquisitions of captive thermal coal mines. The tone and messages from the company were positive, however we expect to see more concrete action in the coming year. Since our last meeting, Vedanta published their second TCFD report, providing more detail on their net zero plans, scenario analysis, scope 3 emissions mapping and short/medium/long term priorities, as well as confirming the introduction of an internal carbon price, which has been positive.
Investment Consideration	We appreciate the company's clear plan and targets to reduce GHG emissions. We will monitor the progress to see how well they implement their plan. We would also look to see if the company takes steps to improve its low governance score.

9.5.4. Reactive / Routine engagement with Objectives completed

9.5.4a **Unnamed business services company** – engagement with French Equity and Credit teams

Objective	Assess controversy relating to company labour management, linked to human rights violations
Activity	Engage to help company change practices in workforce management, specifically employee wellbeing and retention
Outcomes	Company signed global union agreement with union federation and provided was more open to investors, discussing long-held concerns with their labour management behaviours.
Investment Consideration	Monitoring, and looking for attractive entry point for thematic funds if company can continue to show positive improvements in next few quarters.

9.5.4b **Pennon Group** – engagement with Listed Infrastructure Equity team

Objective	Assess controversy relating to water quality management at Southwest Water
Activity	Urge company to accelerate sewage pollution management plan and cease to be industry laggard, as measured by OFWAT
Outcomes	Pennon have accelerated the installation of monitors at sewage discharge points so that 100% of locations will be covered by 2023 Q2

Investment Consideration	Given the salient and increasingly material situation the team has not added to the holding until laggard status revised

9.5.5 Stalled or Failed engagements that did not meet Objectives

9.5.5a **State-owned utility company in a South Asia country** – engagement with Emerging Markets Debt team

Objective	Due diligence of ESG performance at the entity and at the issuance instrument level, mapped to HSBC proprietary green bond expectations
Activity	Research on sovereign rating, including macroeconomic conditions, current account deficit. Reviewed climate strategy and energy transition plans and have concerns around credibility of reduced coal exposure for power generation.
Outcomes	Unable to obtain credible evidence of ESG claims and performance.
Investment Consideration	Lack of required transparency and credible evidence led to the investment decision of 'Do not invest'

9.5.6 Select Thematic Engagements Overview

9.5.6a Inclusive Growth & Shared Prosperity: **Workforce Disclosure Initiative (WDI)[3] –** An active member of WDI initiative covering 35 companies. This collaborative engagement allowed us to compare the ESG performance of major UK based supermarkets over several years, which enabled us to confidently decide on whether to co-file a shareholder proposal at J Sainsbury in 2022.

9.5.6b Biodiversity & Public Health: **FAIRR Antimicrobial resistance (AMR) and Public Health[4]** - We encouraged seven of the world's largest publicly listed animal pharmaceutical companies to disclose their approach to antimicrobial stewardship, including AMR mitigation efforts across four key areas: (1) Managing AMR in the Environment; (2) Sales & Marketing; (3) Research & Development; and (4) Stakeholder Engagement & Political Influence. They are **Zoetis Animal Health**, **Elanco Animal Health**, **Dechra Pharmaceuticals**, **Phibro**, **Vetoquinol**, **Virbac**, **MSD**. We have requested to meet with companies to discuss our concerns, but progress has been slower than anticipated.

9.5.6c DE&I: **HK Board Diversity Initiative[5]** – An active member of the Initiative, writing to 26 companies with no women on board to express our concerns. 2022 Voting Guidelines had already set a higher bar by local standards, at 20% gender diversity.

9.5.6d: Climate Change: **CDP Non-disclosure campaign[6]** – Supported active outreach of 16 companies with global coverage – Hong Kong, United States, Europe, UK, including on climate, water, and forest questionnaires.

[3] https://shareaction.org/investor-initiatives/workforce-disclosure-initiative
[4] https://www.fairr.org/
[5] https://www.boarddiversityhk.org/
[6] https://www.cdp.net/en/investor/engage-with-companies/non-disclosure-campaign

CA100+ - Co-lead engagements for six companies. They are BHP, BMW, Glencore, TD Bank, Saudi Aramco, and Vedanta. Supporting investors for seven companies. They are BP, Chevron, Coal India, Exxon, POSCO, Shell and United Tractors.

9.6 Engagement statistics

Engagements

ESG issues were raised in engagements with 2,150 companies and other issuers during 2022. A breakdown of the list of ESG issues engaged on are as follows. The figures do not necessarily add up to 100% because multiple issues can be raised with the company during one meeting:

Issues	***Number***	***%***
Environmental		
Climate change	1,102	32.0
Biodiversity and nature	841	24.4
Pollution and waste	332	9.6
Social		
Labour sourcing and safety	955	27.7
Human capital management	258	7.5
Inequality	743	21.6
Product liability and safety	259	7.5
Governance		
Corporate behaviour	744	21.6
Corporate governance	1,324	38.4
Corporate reporting	375	10.9
Financial performance	660	19.0
Strategy and purpose	500	14.2
Leadership CEO/Chair	714	20.7
Remuneration	703	20.4
Risk management	310	9.0
Shareholder rights	72	2.1
Strategy and capital use	1,018	29.5

20.4% of engagements are with Chief Executive Officers (CEOs) and 14.3% with Chief Financial Officers (CFOs). 1.8% engagements are with board chair or committee chairs on boards, 0.9% with other board directors. Engagements also took place with Chief Sustainability Officers (CSOs), corporate secretary and legal counsels.

9.7 Policy and regulatory engagement with objectives completed

9.7.1a ISSB Consultation

Objective	Shaping the future of financial and sustainability reporting globally
Activity	The UKEB is national standard setter for IFRS Accounting Standards. Contributed to the discussion and webinar. In July 2022, we commented on six key topics aligned with the issues discussed at the UKEB response to ISSB, covering: definition, boundaries, and global baseline; content – business model, enterprise value and value chain; materiality defined and applied;

	connectivity – recognition, measurement, and timeframe; assurance and auditability and pace of change – effective and implementation dates, phasing, and proportionality. We interacted with regulators from FRC, technical specialists from ISSB, and preparers from companies. Full video recording for our contribution is available online[7]. In addition, ISSB S1 and S2 Consultations. Provided feedback and input on the ISSB's two exposure drafts IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information ("IFRS S1") and IFRS S2 Climate Related Disclosures via industry associations such as ACGA, HKGFA, ASIFMA and ICGN.
Outcomes	UKEB final comment letter for ISSB published online[8].
Investment Consideration	HSBC Asset Management's Stewardship model has a three-pillar approach - guiding companies on appropriate disclosure to improve transparency is a key part in helping companies to improve access to capital which may also have a positive impact on relevant third-party ratings. Improving disclosure expectations support long term value creation of companies and their ratings.

9.7.1b **China Green Bond Standards**

Objective	China to specify use of proceeds of green bonds at a minimum of 95%
Activity	Engaged with Assistant General Manager at Shanghai Stock Exchange to share best practice examples and rationale for improving green bonds issuance standards for Chinese companies, both onshore and offshore. Our concerns were acknowledged.
Outcomes	Reported by Reuters on 24 Aug, citing a notice by Shanghai Stock Exchange (SSE) that starting this month, SSE requires 100% of the proceeds from green bond issuances to be invested in green projects such as clean energy, versus at least 70% previously. Separately, CSRC has instructed both the Shanghai and Shenzhen exchanges to revise rules to bring issuances of such bonds in line with the newly published China Green Bond Principles, which was issued on Jul 29 and will be mandatory for exchange-traded bonds.
Investment Consideration	Consider increasing weighting of Chinese green bonds

9.7.1c **Engagement with Taiwan Financial Supervisory Commission (FSC), Taiwan Stock Exchange (TWSE) and Taiwan Depository & Clearing Corporation (TDCC)**

Objective	Build rapport with the Taiwan regulators through alignment on corporate governance and sustainability disclosures for listed companies
Activity	Sharing HSBC 2022 Stewardship Plan and Voting Guidelines, including challenges in ensuring board effectiveness, especially for founder/family-controlled companies and access to board directors

[7] https://www.endorsement-board.uk/recording-of-virtual-outreach-event-on-issb-s-exposure-drafts
[8] https://www.endorsement-board.uk/issb-exposure-drafts-ifrs-s1-and-ifrs-s2

Outcomes	TWSE is supportive of our Stewardship Plan 2022, however this is a global document and they encouraged us to align our Taiwan Stewardship Code compliance with global practice
Investment Consideration	Improve HSBC Taiwan Stewardship Code Compliance Reporting

9.7.1d **Recommendations to Chief Executive of HKSAR via HKIFA**

Objective	• To push for higher policy regulatory standards of stewardship and corporate sustainability practices and disclosures • To improve HSBC AM's industry visibility in Hong Kong and set up future opportunity to directly engage with HK government and policymakers
Activity	Provided four key recommendations to the new Chief Executive via the HK Investment Funds Association (HKIFA), on responsible ownership principles, capacity building of the ecosystem, ESG integration and corporate reporting.
Outcomes	Recommendations acknowledged
Investment Consideration	Demonstrated active participation in industry association to amplify the influence of active asset manager

9.7.1e **Engagement with Hong Kong Stock Exchange (HKEX)**

Objective	Build rapport and connect with HKEX on any updates to the ESG and corporate governance requirements in the listing rules
Activity	We shared our thematic focus areas and priorities for 2023, including emerging topics such as just transition. We highlighted voting trends and our intent to hold board members accountable on climate change and board diversity. We discussed the importance of climate related disclosures for corporates, and alignment with TCFD recommendations and ISSB proposals. We also discussed the importance of sustainability assurance to improve trust and transparency in ESG data and information across the market. We also discussed the need to upskill and educate boards on their role in addressing and managing ESG risks, and the appointment of lead independent directors and their engagement with investor as a key mechanism of accountability to address risks associated with controlled companies and those directors with excessive board mandates.
Outcomes	We had a productive dialogue with HKEX and will continue to support Hong Kong on its corporate sustainability and corporate governance aspirations and push for higher standards.
Investment Consideration	Continue to push investee companies for improved transparency, utilising regulator expectations as a lever

9.8 Reflections

9.8.1

Stewardship at HSBC Asset Management is composed of three key elements:

- Exercising shareholder rights through voting.
- Thought leadership on systemic and material issues that impact long term business value creation; and
- Outcomes-oriented approach to engagement for all asset classes that is an integral part of investment decision making.

In 2023, we continue to build on the 2022 Stewardship Plan[9], with the following improvements:

- Details on how we approach engagement across active and versus passive funds
- Code of Conduct regarding collaborative engagements to address the risks of anti-competition issues

The Plan included an outcomes-based, and milestones-led approach to engagement, aligned with the UK Stewardship Code. There were 299 engagements that followed this approach in 2022, 8.7% of a total of 3,456 engagements.

Stewardship Activities planned for the coming year include the following:

- Bringing stewardship insights into new and recent thematic fund development
- Enhancing data production and control to better inform clients and links to investment team
- Engagement with clients and stakeholders to inform and enhance our stewardship efforts
- Formulation of new topical policies with specific engagement campaigns and voting actions

[9] https://www.assetmanagement.hsbc.co.uk/en/institutional-investor/about-us/responsible-investing/stewardship

ENGAGEMENT

Principle 10

Signatories, where necessary, participate in collaborative engagement to influence issuers.

Our Approach

Collaborative action can help to pool expertise and amplify outcomes with select issuers. Ideal objectives and outcomes are often agreed and discussed prior to a meeting with other investors and should be shared objectives that relate to improved ESG disclosure or positive social or environmental outcomes that generate stakeholder value. These objectives should be in line with agreed industry standards or frameworks where applicable. HSBC may initiate such discussions directly through an ESG association or be invited to participate in such collective action.

We take part in a collaborative engagement when we think there is a suitable platform or initiative that can amplify our impact. We act independently in our investment decisions, and do not coordinate investment decisions with any members of collaborative engagements. When we take part in collaborative engagements, we:

- Do not share our proprietary rating (improving, stable, deteriorating) post engagement with collaborators.
- Do not share how engagement input may impact investment decisions for a particular issuer (except in case examples disclosed in RFPs or in regulatory reports).
- Do not discuss vote decisions before they become publicly available unless we have co-filed a shareholder resolution as the intension would have been obvious.

We have actively participated in several collaborative engagements initiatives to drive positive change, including the 30% Club UK, Climate Action 100+, Emerging Markets Investors Alliance (EMIA), FAIRR Initiative, PRI Advance, Asia Corporate Governance Association (ACGA), ShareAction Workforce Disclosure Initiative (WDI) and World Benchmarking Alliance (WBA), among others.

Climate Action 100+ (CA100+)

Limiting global warming to 1.5°C requires rapid, far-reaching, and unprecedented changes in all aspects of society. The scale and speed of the transition that is required, means that even an orderly transition will impact how companies operate now and in the future. Given the systemic nature of the challenge, our participation in Climate Action 100+ (CA100+), has formed a central role in our engagement on this critical issue as this global initiative with 700 investor signatories covering USD68 trillion provides us with greater ability to influence companies.

We have been a proud signatory to the initiative since its inception 5 years ago and have played an active role as co-lead or support investor for companies across sectors and geographies. Over the past year we have actively contributed ideas and feedback to help shape the initiative's future strategy and priorities as it enters its second phase (2023-2030).

We co-lead engagements with companies. They are BHP, BMW, Glencore, Toronto Dominion Bank Saudi Aramco, and Vedanta. Supporting investors for seven companies. They are BP, Chevron, Coal India, Exxon, POSCO, Shell and United Tractors

The initiative has had a significant role during the past year in encouraging companies with carbon exposure to make net zero commitments for 2050 and announce action plans and milestones for progress before them. Amongst companies where we have been involved with engagement, the following CA100+ targets have made this commitment: ArcelorMittal, BHP, BP, Equinor, Rio Tinto, Royal Dutch Shell and Total. In 2022, we focused on transition pathways and achievable interim targets, including those where we have doubts about the short to medium term 1.5-degree alignment, such as Glencore.
Workforce Disclosure Initiative (WDI) We are an active member of WDI initiative. The initiative aims to improve corporate transparency and accountability on workforce issues, provide companies and investors with comprehensive and comparable data and help increase the provision of good jobs worldwide. We engage with several holdings (around 20-40 targets) each year on participating in the initiative and have had good success in opening discussion with holdings, and persuading some, from a range of geographies, to take part. Notably, the collaborative engagement allowed us to compare the ESG performance of major UK based supermarkets over several years, which contributed to decisions on whether to co-file shareholder proposals.
HK Board Diversity Initiative This is a group of asset owners and asset managers, with the aim to improve board diversity among Hong Kong listed companies. We are an active member of the initiative, writing to 26 companies with no women on their board to express our concerns.
FAIRR FAIRR is one of the world's fastest-growing investor networks focusing on ESG risks in the global food sector. Our membership provides us with access to in-depth company research a wide range of sustainability issues such as climate, biodiversity, human capital, public health, and labour rights. We have also actively participated in collaborative engagements with food producers, manufacturers, and retailers, amongst others. In 2022, we encouraged seven of the world's largest publicly listed animal pharmaceutical companies to disclose their approach to antimicrobial stewardship, including AMR mitigation efforts across four key areas: (1) Managing AMR in the Environment; (2) Sales & Marketing; (3) Research & Development; and (4) Stakeholder Engagement & Political Influence. They are **Zoetis Animal Health**, **Elanco Animal Health**, **Dechra Pharmaceuticals**, **Phibro**, **Vetoquinol**, **Virbac**, **MSD**. We have requested to meet with companies to discuss our concerns, but progress has been slower than anticipated. We also participated in a collaborative engagement on sustainable aquaculture, where we encouraged the world's largest salmon companies to develop a strategic, science-based approach to diversifying feed ingredient sources to better manage ESG risks associated with sourcing wild forage fish and soy. We also conducted an on-site company visit alongside other investors to learn more about practices in this area. In the latter half of the year, we joined an initiative focused on biodiversity waste and pollution, focusing on the potential inadequate management of manure and the negative impacts of nutrient pollution on biodiversity and ecosystems.
Emerging Markets Investors Alliance (EMIA) The Emerging Markets Investors Alliance enables institutional emerging market investors to support good governance, promote sustainable development, and improve investment performance in the governments and companies in which they invest.

Access to Medicine Foundation We are a member of the PRI Collaborative Engagement on Access to Medicine and SDG3. We are also members of the Access to Medicine Foundation. Good health is impossible without access to affordable pharmaceutical products and healthcare services. We engage with big pharmaceutical companies, generic medicine manufacturers, vaccine manufacturers, diagnostics companies, and private hospitals, referencing data and research provided by Access to Medicine Foundation and our internal analysis.
PRI Advance PRI Advance is a stewardship initiative which launched at the start of 2023, where institutional investors will work together to act on human rights and social issues. We are currently participating as a Lead Investor.
Good Work Coalition (GWC) We joined ShareAction's GWC in 2022, following working with the coalition on an inclusive growth and shared prosperity co-filing earlier in the year. The group exists to promote improving working conditions amongst issuers, with a particular focus on sectors where low pay and less secure hours are present. We have also supported the coalition's work on addressing ethnicity pay gap disclosures in the UK market.

Case studies

10.1a **Glencore** – As CA100+ co-lead

See under 9 above

10.1b **Vedanta Limited** – As CA100+ co-lead

See under 9 above

10.1c – **BMW** – supporting investor of CA100+ company

Objective	• Publish an annual review of all corporate climate activities • Publish Paris-aligned accounting
Activity	As part of the CA100+ collaboration, we sent BMW a letter in February 2022 urging that the company make a commitment to an annual review of all corporate climate lobbying activities. We had multiple meetings in Q1 and Q2 with senior executives responsible for government affairs and communicated our expectations for reporting on lobbying. In Q4, we met the company to discuss the CA100+ benchmark assessment, welcoming improvements in performance. We held a separate meeting to discuss lobbying, where we provided feedback on the initial report and suggested improvements. We also signed a joint letter to encourage Paris-aligned accounting.
Outcomes	In April 2022, the company told us that it was planning to provide an annual report on corporate climate lobbying activities, and it published its first Climate Engagement Report, which covers different markets and trade associations that it is a member of. This and other factors contributed to

	improvements in its CA100+ benchmark assessment. The company was receptive to our feedback on its initial lobbying report and suggestions for improvements we provided in Q4.
Investment Consideration	Monitoring progress

10.1d **PEMEX** – supporting investor of CA100+ company

Objective	Disclosing scope and coverage of short-, medium- and long-term climate targets; provide evidence of climate governance; credible evidence that health and safety measures have improved following pipeline an explosion in 2019 and reduce methane emissions
Activity	We engaged with the company via CA100+. We reviewed the company's performance against the Transition Pathway Initiative Net Zero Benchmark and contributed views on UNGC non-compliance status among areas for improvement in disclosure.
Outcomes	In November 2022, PEMEX provided a detailed ESG outlook presentation covering emissions reductions performance, water use, energy efficiency improvements, ecosystem conservation related to biodiversity, health and safety protection systems, relations with unions, board governance and compliance programmes; ESG targets up to 2025. PEMEX provided details of corrective measures including timely detection of pipeline leaks and taps. This has improved PEMEX's ability to deploy ground patrols for the immediate identification and sealing of pipeline taps to prevent additional extraction of hydrocarbons. PEMEX provides an English translation of its ESG Q&A on its website.
Investment Consideration	Monitoring progress

10.1e **WH Group** – co-lead FAIRR company.

Objective	• Human capital management strategy (US/China) including board oversight, worker protection, grievance metrics and worker representation • Social impact assessment of future of work strategies
Activity	Following on our 1-on-1 engagement with the company, we collaborated with the FAIRR investor group to highlight six key social topics: (1) worker engagement on industry trends, (2) sick pay, (3) employment contracts, (4) grievance mechanisms, (5) worker representation and (6) governance oversight. We also questioned WH Group's approach to assessing the challenges and opportunities that broader industry trends, such as climate transition and automation strategies, present to its workforce. This also ties to our involvement in the Business Commission to Tackle Inequality, a cross-

	sectoral and multi-stakeholder coalition of organizations whose mission is to tackle inequality. We discussed how labour metrics inform the company's workforce management strategy and the reporting structure to the Board. We encouraged the company to provide more disclosure on the social issues highlighted.
Outcomes	Company acknowledged investor concerns on health and safety issues, fair working conditions and worker representation. The company will aim to provide a competitive incentive package, sick leave entitlements and illustrate current approaches on reporting to the board and increase worker representation.
Investment Consideration	Monitoring promised changes

10.1f **Human rights in healthcare**. We engaged with our internal stakeholders, particularly our Sustainable Healthcare Equity team covering five companies, Dexcom, Edwards Lifesciences, Exact Sciences, Masimo and Teleflex. We built on existing evaluations which rated companies on clinical outcomes and access to healthcare to include product impact and operational impact assessments that cover supply chain and distributor oversight.

We applied the UN Guiding Principles for Business and Human Rights (UNGP) three pillar model to evaluate if these companies have demonstrated their abilities to support the State to Protect, that demonstrate the company's ability to respect human rights, and if there is sufficient disclosure on access to remedy. All companies in questions address human rights issues, but articulation of their respective guidelines differ.

We found that there is room for improvement via engagement with issuers, especially around the need for companies to explicitly state their support for UNGP, and report on how they approach them. We also noted need for improvement in access to remedy, where corporate responses are generally deemed to be the least developed of the three pillars. Companies could also improve regarding human rights disclosure and related KPIs, as well as measurement and tracking methods. In general, while approaches to addressing human rights differ by company and while companies might not always address the issue through a specific policy, all of them have shown willingness to engage and to make improvements on their policies and in implementation.

ENGAGEMENT

Principle 11

Signatories, where necessary, escalate stewardship activities to influence issuers.

11. Our escalation process

11.1 Escalation in stewardship prioritises engagement over divestment. If we divest, we will be in a disadvantaged position to influence beneficial outcomes. However, we may divest from active funds as a last resort if we deem engagement to be unsuccessful, and where there has been no change implemented over a reasonable period.

Figure 1 **Why we escalate?**

11.2 If we do not observe sufficient progress or traction, our escalation process can be applied in a strategic or tactical manner. Whether engagement is successful or stalled, it provides insights into the culture and quality of decision making at companies, and informs our understanding of improving or deteriorating trends, which can contribute to buy/sell, or overweight or underweight decisions.

Conversely, when our strategies fail, this may indicate management weakness or unwillingness to address material issues, lending support to potential divestment decisions. When evaluating stalled engagement situations, inadequate progress, and possible failure to achieve our objectives, we consider market and region-specific nuances such as cultural expectations, geopolitical challenges, local regulations, and practices. Escalation may be initiated by a member of the stewardship or investment team, in discussion with the responsible portfolio manager.

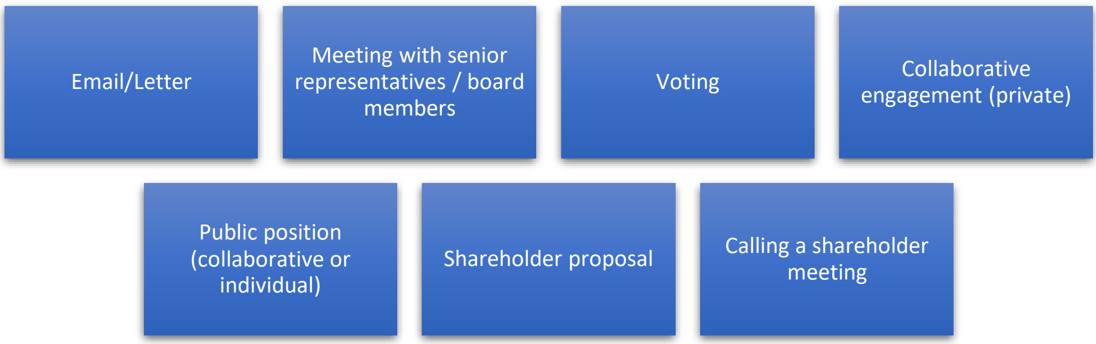
11.3 Options in escalation should be considered early in each engagement, setting clear expectations to prevent escalation where it can be avoided. We are explicit about the information we seek and why we are suggesting a particular course of action to prevent expectations mismatch and misunderstanding on either side.

11.4 Our considerations for escalation, include but are not limited to:

- Has the issuer or its board ignored repeated attempts to discuss needed improvements, disclosure, or risk oversight?
- Has the company, C-Suite or board become so unresponsive that our engagement hasn't resulted in improvement?
- Is our view shared by other investors and stakeholders in the market?
- Have we satisfied our own or our client guidelines?

11.5 We may use some or all the methods of escalation outlined in Figure 2. It may be possible or necessary to consider escalation within the sphere of voting itself too. This may include informing a company of our voting intention ex ante a shareholder meeting to drive change, supporting a shareholder-led proposal brought by another investor following unsuccessful engagement, or supporting one item and voting against another related item to express our concern on a specific matter, such as remuneration related votes, to fine tune our messaging.

Figure 2 Potential Escalation Tools



11.6 Each escalation must be judged on its own individual risks and merits. Allocation of resources to this process will vary depending on the escalation tool employed.

11.7 Productive escalation requires our reporting framework to be effective in tracking engagement to measure progress and responsiveness.

11.8 In circumstances where a listed company has continued to demonstrate ongoing poor performance and has been closed to engagement, we may consider the need to table a shareholder proposal. Discussions related to the co-filing of shareholder proposals with other investors are limited to where we are explicit in our vote intentions as a proponent of a shareholder proposal.

11.9 Escalation example:

J-Power

Objective	• Set and disclose a business plan with short term science-based and based and mid-term GHG emissions reduction targets aligned with the Paris Agreement • Disclose details of how J-Power assesses alignment of CAPEX plans with its greenhouse gas (GHG) emission reduction targets • Disclose details of how J-Power's remuneration policies will incentivise progress against its GHG emissions reduction targets
Activity	Held three meetings with an executive director to challenge its strategy to maintain coal power generation by relying on carbon capture utilisation and storage and ammonia co-firing, technologies which have not been proven successful at a commercial scale. We also pressed for near-term science-based targets and a business plan to achieve these targets. We co-filed shareholder proposals in April 2022.
Outcomes	The main proposal received 26% support, and the other two 18% and 19% respectively.
Investment Consideration	Follow new coal policy published in September 2022 and may need to consider divestment if progress remains below our expectations.

J Sainsbury

Objective	Company to become first living wage accredited UK supermarket
Activity	We had multiple engagements with the company at various levels (CEO, Chair, IR, HR lead). Through links to ShareAction's Good Work Coalition (we are now a formal member) we escalated to shareholder resolution co-filing. 17% of shareholders voted for the resolution (higher than expected given concentrated private ownership of stock).
Outcomes	The company acknowledges the importance of living wages and raised 20,000 staff to London living wage standards in Q2 2022 and kept staff above living wage in Q1 2023.
Investment Consideration	If the company continues to show positive progress on employee retention and inequality reduction, the company could become a candidate for a wider range of funds.

EXERCISING RIGHTS & RESPONSIBILITIES

Principle 12

Signatories actively exercise their rights and responsibilities.

12.1 Our Approach

Our stewardship approach includes exercising shareholder rights through voting and an outcomes-oriented approach to engagement for all asset classes. Research on systemic and material issues that impact long-term business value creation also forms part of our approach. These stewardship activities help the core of our business by directly supporting investment decisions.

12.1.1 We regard exercising voting rights at company meetings and engaging around shareholder meeting as an important part of our stewardship responsibilities. We aim to vote on all equities for which clients have given us voting authority, except where this is not practical for reasons such as share blocking or overly burdensome power of attorney requirements.

12.1.2 Our voting and engagement approach are integrated with thematic examples outlined in our Stewardship and Engagement Plan. At the beginning of each year, we set out our voting expectations for issuers, and publish them online to ensure that we communicate our expectations clearly and fairly to issuers, and to our clients.

12.1.3 We support local governance codes and international principles of good governance given our active participation in the International Corporate Governance Network (ICGN), and on important topics where we believe systemic issues require more stewardship influence, we will set higher expectations and engage with companies specifically on those issues to drive positive change outcomes. These areas include ensuring board independence, strengthening composition, have a say on appropriate and transparent executive remuneration, improve disclosure and audit practices, clarity on capital issues, strengthening shareholder rights. We also selectively support shareholder resolutions that are aligned with our expectations and desired change outcomes.

12.2 Global voting guidelines

12.2.1 As global investors we recognise that corporate governance codes, standards and practices vary across different markets. We expect companies to apply good governance practice for their market of listing and for larger companies, to meet globally recognised good governance standards. We look to directors of companies to provide effective stewardship and ensure that the companies act in the long-term interests of all shareholders. Our voting guidelines help us to hold them accountable, while also outlining how we assess and vote on shareholder proposals tabled at AGMs.

12.2.2 The full text of these guidelines is available at:

https://www.assetmanagement.hsbc.com/about-us/responsible-investing/-/media/22AC2E22F28A48449287D967922CFAB1.ashx

The key elements are as follows:

- The Board's Role and Leadership, including our expectations on independence and diversity
- How we hold Boards accountable for the management of ESG risk, including on diversity, climate change, and biodiversity

- Remuneration and our advocacy for equitable pay structures based on principles of inclusive growth and shared prosperity
- Accountability through timely, appropriate, and detailed disclosure
- Expectations on ensuring reliable audit, accounts, and assurance
- Capital issues and shareholder rights, where shareholders should have equal voting and other rights
- How we treat shareholder resolutions, on climate change, biodiversity among other ESG areas
- Our voting process, including how we oversee deployment of our voting guidelines

12.2.3 Our approach is deployed across most markets. We reflect corporate governance standards and practices across different markets in the design and application of our guidelines. We employ specific regional and local factors, in consideration of local regulation and performance. For example, we have developed more specific criteria on board balance and diversity in the US, the UK, Continental Europe, Hong Kong, and Mainland China. In 2023, we deepened our approach for the following areas:

12.2.4 Climate change: We may vote against the re-election of the Chair of the Board or relevant board director of companies in a carbon intensive sector if their strategy or actions required for low carbon transition falls short of our expectations. We apply a 'Say on Climate' watch list using Transition Pathway Initiative (TPI) climate transition and InfluenceMap's organisational metrics as reference. For the highest carbon intensive sectors in the Developed Markets (DM), we may vote against if the company's TPI score is below 4 or if the InfluenceMap score is D or worse (for CA100+ in-scope companies only). These sectors are oil and gas, coal mining, and electric utilities. In Emerging Markets (EM), we may vote against if the company's TPI score is below 3, or if the InfluenceMap score is D or worse. For other carbon intensive sectors – defined as airlines, aluminium, autos, cement, chemicals, consumer goods, diversified mining, industrials, paper, shipping, and steel, we may vote against if the company's TPI is below 3 or if the InfluenceMap score is D or worse (for CA100+ in-scope companies only), applicable to both DM and EM. Vote decisions may change if new information from the issuer is provided in a timely and comprehensive manner to address our concerns through proactive engagement from companies.

Our objectives and approach also align with the HSBC Asset Management Climate Change Policy and the 2022 Thermal Coal Policy published[10] in September 2022. As outlined within the Thermal Coal Policy, in addition to engaging with issuers who derive more than 10% revenue exposure to thermal coal, we will also vote against the re-election of chairs at these companies whose transition plans remain inadequate, and/or who do not provide TCFD disclosure or equivalent reporting. We referenced Bloomberg TPI climate score and CDP data when determining the quality of TCFD disclosure of companies.

12.2.5 Biodiversity and nature:

We may vote against the re-election of the chair or relevant board director who fail to implement adequate policies and reporting on biodiversity and nature issues. For example, companies with high exposure to deforestation risks should look to have a deforestation policy and over time also a

[10] https://www.hsbc.com/news-and-media/media-releases/2022/hsbc-asset-management-to-phase-out-thermal-coal-investments

dedicated biodiversity policy. We will continue to use MSCI Natural Capital Scores and FAIRR's Protein Producer Index to inform our voting and will raise our expectations and apply a higher cut-off. In addition, from 2023, we will also consider information from:

1. The World Benchmarking Alliance's Nature Benchmark and Seafood Stewardship Index, the Benchmark assesses 1,000 companies across twenty-two industries and considers twenty-five nature indicators and 18 core social indicators, and the Index examines the 30 most influential companies in the seafood industry.
2. The Forest 500 report that tracks the policies and performance of the 350 most influential companies and 150 most influential financial institutions linked to deforestation in their supply chain and investments.
3. Iceberg Data Labs, which informs our biodiversity ETF, assessing companies across twenty-two industries using 25 nature indicators and 18 core social indicators: and
4. The InfluenceMap Industry Influence on Biodiversity Policy report and information that show industry associations' engagement on biodiversity-related policies and regulations, and the companies that comprise the associations' membership.

12.2.6 Human rights: We identify human rights violations using Global Standards Screening from Sustainalytics. This helps us systematically to identify companies that are violating, or are at risk of violating, United Nations Global Compact (UNGC) Principles 1 to 6[11], a step change from 2021.

We also refer to industry-recognised human rights benchmarks, including Know the Chain, Ranking Digital Rights, World Benchmarking Alliance's Corporate Human Rights Benchmark (CHRB) and 2022 Social Transformation Baseline Assessment.

For companies that do not comply with UNGC Principles 1 to 6, or if they fall below our expectations in other reference benchmarks, we have established a Human Rights watchlist and may vote against the re-election of the chair or relevant board director.

We may change our use of third-party reference benchmarks and expectations over time, as companies' management of salient human rights issues evolve.

For human rights related shareholder proposals, we will decide on a case-by-case basis.

Companies that are assessed as non-compliant in any of the UNGC principles are subject to our Enhanced Due Diligence (EDD) process on an annual basis, as a minimum, which requires investment teams to conduct further diligence on the company on the non-compliant issues identified, and for the team to evidence engagement progress towards these issues, if any.

Vote decisions may change if new information from the issuer is provided in a timely and comprehensive manner to address our concerns through proactive engagement from companies.

12.2.7 Diversity, equity & inclusion: We set stretching targets for board diversity in the following key markets –

[11] Principle 1: Business should support and respect the protection of internationally proclaimed human rights; and
Principle 2: make sure that they are not complicit in human rights abuses.
Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.
Principle 4: the elimination of all forms of forced and compulsory labour.
Principle 5: the effective abolition of child labour; and
Principle 6: the elimination of discrimination in respect of employment and occupation.

- In Continental Europe, we expect large and mega cap (€4bn or more) boards to have 40% gender diverse board, 35% for mid cap (between €500mn and €4bn) and 30% for small and micro-cap (under €500m).
- In the UK, we expect FTSE100, FTSE250 and FTSE Small Cap companies to appoint at least one director from an ethnic or racial minority background; for FTSE350 companies to have 40% gender diversity and 35% for other companies.
- In the US, we expect companies in the Russell 3000 or S&P 1500 indices to have at least one director from racially or ethnically diverse background; we also expect mega cap (US$50bn or more) boards to have 40% gender diversity, mid and large (US$5-50bn) to have 35% and small and micro-cap (up to US$5bn) to have 30%.
- In Hong Kong and Mainland China, we expect all companies to have 20% gender-diverse boards.
- In Japan, we expect all companies to have 15% gender-diverse board: and
- In India, we expect all companies to have at least one independent female director.

For companies not meeting the expectations, we may vote against the re-election of the chair of the nomination committee or other relevant board directors, unless the company communicates a timely and credible plan to us to meet our expectations.

We may consider expanding our diversity vote to other relevant markets.

We are however mindful that increasing board diversity can only achieve so much change, and that change in other parts of companies will also be needed. To this end, we may decide to research and engage with other agents that may contribute to systemic change. Stock exchanges, which dictate some corporate governance rules to all their listed companies, and recruiters, whose practices can influence diverse hiring outcomes, are two candidates for enhanced engagement.

12.2.8 Inclusive growth: We vote on executive pay in North America, Western Europe, and Japan using an approach which we believe sends a clear message to our investee companies about the need to better balance senior executives' performance, and fairness. We have developed a quantum-based framework. Under this approach, we will vote for pay plans that meet our framework, which allows the CEO, to earn a fair multiple of the national median wage. Ranges vary slightly by region to adjust for past pay levels, and in some countries most executives already fit into the fairness framework. Executives are rewarded in greater quantity for making the company's shares grow in value, or for running a more complex business.

Specifically, we will provide an against vote on a company's 'say on pay' advisory shareholder vote, if our framework indicates that there is an excessive, inequality enhancing, pay situation. If we vote against a company on excessive pay three years in a row, and do not feel that the board is adequately responding to our concerns on high pay, we may vote against members of the remuneration committee who have been in their roles for three years.

We will scrutinise corporate pay policies individually and with nuance. For example, we will consider specific situations where exercising share options may lead to a spike in total remuneration in a particular year, which may give the impression of a high pay situation, which, averaged across several years, is in line with safe and fair levels of reward.

Vote decisions may change if new information from the issuer is provided in a timely and comprehensive manner to address our concerns through proactive engagement from companies.

12.4 Board independence: Significant independent representation on the board is important to ensure appropriate challenge and protection of investor interests. In 2022, we further enhanced how treatment of controlled companies. Our criteria are outlined below:

- Developed Markets except continental Europe and Japan: We expect all companies to have at least 50% independence on the board[12][13]. If the level is not met, we will vote against the (re-)election of non-independent, non-executive directors.
- Continental Europe: We expect all non-controlled companies and large cap (€4 billion or more) controlled companies to have at least 50% independence on the board14. We expect smaller controlled companies to have at least one third independence. If these levels are not met, we will vote against the (re-)election of non-independent, non-executive directors.
- Japan: We expect Prime Market companies to have at least one third independence among directors and all other companies to have at least 20% or two independent directors, whichever is higher. We apply higher expectations for controlled companies in line with the local Corporate Governance Code15; an independent majority at Prime Market companies and one third at other companies. If these expectations are not met, we will vote against the re-election of the nomination committee chair as well as the (re-) election of non-independent, non-executive directors.
- Korea: We vote against non-independent director nominees when independent directors comprise less than majority of the board in case of large (KRW 2 trillion or more of assets) companies; or less than 25% in the case of smaller companies.
- Emerging Markets: We vote against non-independent non-executive directors where less than one third of the board is independent. We also vote against proposals where candidates are not named.

12.5 Voting Rights: In line with our aim to ensure fair treatment of all shareholders, we voted against US companies where unequal voting rights are in place, with a plan to extend a similar policy to Europe in 2024. We also voted against top executives of companies which allocate over 10% net assets in cross-shareholdings in Japan.

12.6 Auditor Tenure: In 2022, we further clarified our expectations for auditor tenure for UK and South Africa, with plans to expand this further for other markets. Our approach is outlined below:

We review auditor independence and any concerns that are flagged when deciding on the re-election of external or statutory auditors. We expect companies to tender audit work at least once every ten years.

UK – In line with the Guidelines of the Pension and Lifetime Savings Association (PLSA), we may vote against the audit committee chair where 1) the tenure of the auditor exceeds ten years; and 2) there has not been a recent tender process; and/or 3) there is no disclosure on plans to put the audit service out to tender. We may also vote against the audit committee chair if the auditor tenure exceeds 20 years.

South Africa – In light of the Independent Regulatory Board for Auditors rule, we may vote against the audit committee chair where 1) the tenure of the auditor exceeds ten years and there is no

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[12] Same as above

[13] In the UK, we expect at least half of the board excluding the chair to be independent, in line with the Corporate Governance Code.

[14] Same as above

[15] https://www.jpx.co.jp/english/news/1020/b5b4pj0000046kxj-att/b5b4pj0000046l07.pdf

public commitment to rotate their audit firm within a year; or 2) the auditor has been reappointed before the end of a five-year cooling off period.

In 2024, we may extend a similar policy limiting auditor tenure to below 20 years and expecting a tender process every 10 years to other markets, including the US. In addition, we may start voting against the appointment of auditor in the UK and South Africa as well as voting against the audit committee chair, should the company fail to meet the above expectations.

12.7 Voting service provider

We use Institutional Shareholder Services (ISS) as our global proxy voting research and vote instruction platform provider. ISS provides custom policy recommendations based upon our voting guidelines.

These guidelines are used for voting all funds and accounts managed in locations set up on the ISS platform, including Canada, US, UK, France, India, and Hong Kong. Fund supervisory bodies have adopted our guidelines in line with local practice.

12.8 Client voting policies

All client accounts for which we vote have our guidelines applied to them. A small number of clients have retained voting rights for themselves, usually to ensure consistency across managers. Whilst we prefer to apply our guidelines due to better alignment with our investment and engagement approach, we have responded positively to questions about whether we could apply clients' own policies to segregated mandates, subject to agreement on practical arrangements, although none have chosen to take this up. For clients holding investments in pooled funds, there would be practical challenges – each vote would have to be split (which is not permitted in all markets) – to apply a different policy to a portion of a fund and could raise issues of equal treatment but we have agreed to examine these challenges and issues should a client reach with appropriate scale within a fund ask us to do so.

12.9 Stock lending and voting

Some funds were subject to stock lending in 2022. We have taken this step as we believe that the additional returns that can be achieved would serve clients' best interest. We ensure that securities lending is conducted according to industry best practice to protect our clients' assets, for example with strict rules about the monitoring and quality of collateral. Our securities lending activity is undertaken in line with the Principles for Sustainable Securities Lending, published by the ISLA Council for Sustainable Finance.

All securities on loan are available for recall for the purpose of voting. In 2022, we recalled securities on an ad hoc basis to vote on resolutions where there was the most significant engagement alignment. We have reviewed the process for the current year to recall securities more systematically.

13.0 Securing voting rights

Voting set-up is part of our normal new fund set-up process. As ISS is also proxy voting provider to HSBC in its role as custodian and most of our funds are in the custody of HSBC, funds are typically available to be voted from set-up. ISS also procures ballots for meetings of which it has become aware even if these have not initially been received for holdings in every fund. Our middle office voting teams also monitor meetings up to the instruction deadline even if holdings have already been voted to ensure that any new holdings can be voted. We regularly review all funds set up for voting to ensure we have the maximum intended coverage.

13.1 Voting in practice

In 2022, we introduced the Proxy Voting Dashboard, where voting information is available online and real time[16]. There are five years of vote information statistics dating back to January 2017. Users can search by markets and by company names, security identification number or ticker number. The dashboard consists of votes cast by proposal category, separated by management or shareholder proposals.

In 2022, HSBC AM voted at more than 7,000 meetings, with over 72,000 resolutions. We voted 85% of resolutions in line with management, compared to 89% in 2021. By geography, the top five markets account for over 60% of the total votes cast.

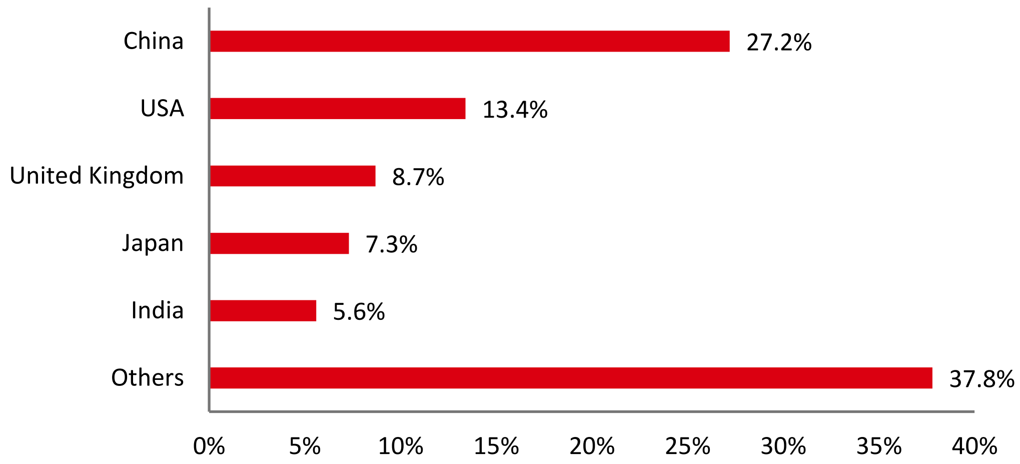
The issues we most frequently opposed were director re-elections predominantly for reasons of insufficient independence or gender diversity, followed by remuneration. We voted against management 4.8% of the time due to concerns related to a company's ability to manage climate, human rights, and diversity related risks.

On 76 resolutions (less than 0.1%) our vote was different from the initial view based upon our voting guidelines, from the ISS custom recommendation. On these occasions, we determined that guidelines had not be correctly applied, circumstances particular to the company meant that we should not apply the guidelines, or the company had undertaken to address the issue concerned. 35% related to director elections, 18.4% related to capitalisation. 32.9% of these votes were against management.

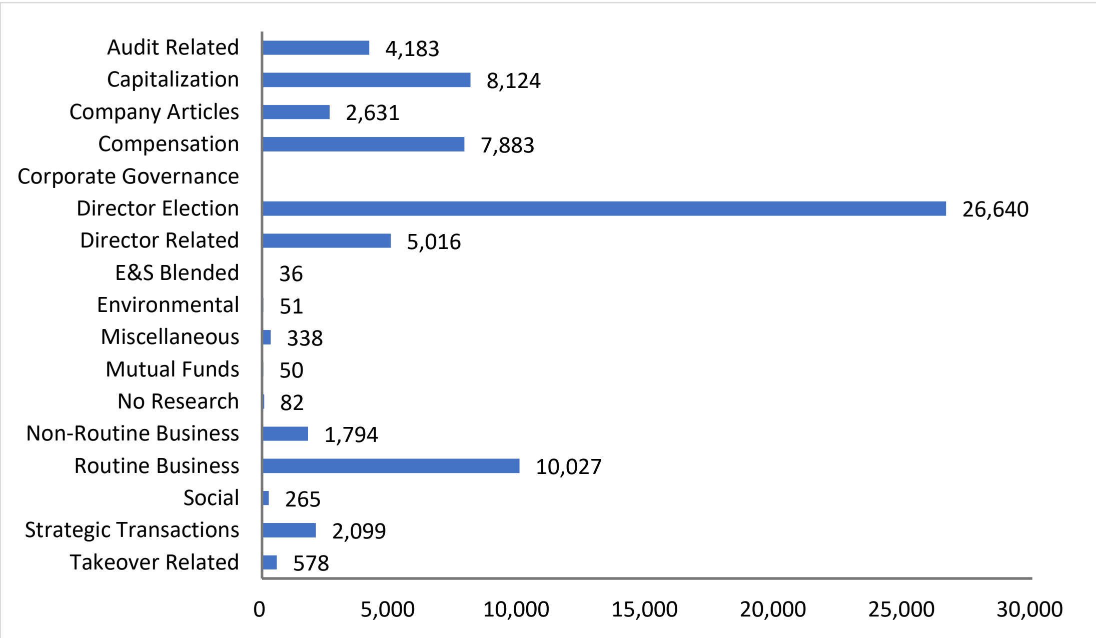
Our votes differed from the ISS standard policy recommendation on more than 10% of resolutions. More than half of these votes were against management, with capitalisation and director elections in China, and compensation in the US, predominantly where we had voted against management more often than ISS.

Resolutions by Country

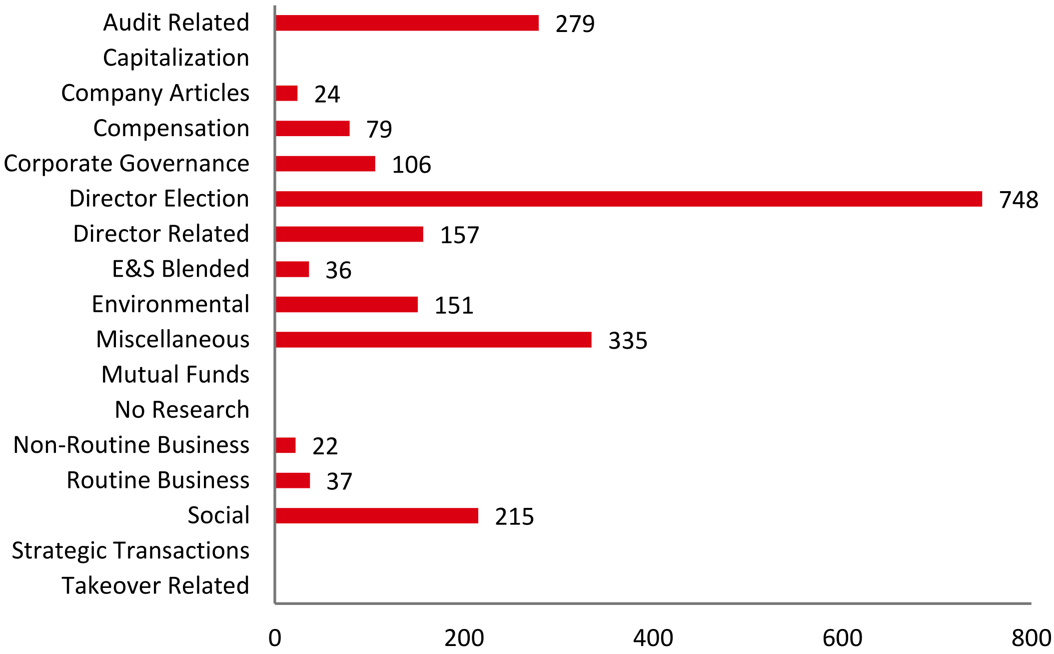
[16] https://vds-staging.issgovernance.com/vds/#/MjIwNw==



Management resolutions (votes cast by proposal category)



Shareholder resolutions (votes cast by proposal category)



All our votes are disclosed at: [VDS Dashboard (issgovernance.com)]

Where we did not vote, this was invariably in markets with burdensome power of attorney requirements and / or for markets or meetings where there is shareblocking. Many of our holdings are in retail funds which receive unpredictable daily in and out flows. The blocking of shares between the date of instruction and of the meeting could impede the ability of these funds to trade certain holdings; we have determined that this client interest outweighs the benefit of participating in the small proportion of shareholder meeting impacted. A small number of meetings may not be voted because the ballot was not received until after the deadline for instruction – which may arise with a recently acquired holding.

13.2 Shareholder resolutions

Shareholder resolutions are used as an engagement tool to encourage changes in corporate behaviour. We support shareholder resolutions on ESG issues where these are in line with the principles of good governance outlined in our voting guidelines or where we consider the issue to be material and the proposal to be in the best long-term interest of clients.

This means we support greater disclosure and the introduction of appropriate policies (provided the proposal is not overly prescriptive).

As outlined in our voting guidelines, on climate change, we typically support resolutions asking for the adoption of climate change policies, Paris-aligned transition plans and/or quantitative greenhouse gas emission reduction targets, and resolutions asking for annual assessments of portfolio resilience. We also considered climate factors in director re-elections.

The proposals which we supported, by proposal category are outlined below.

13.3 Shareholder proposal led engagements

We continue to engage with companies on the need for effective climate transition plans and on other social issues. Where engagement is unsuccessful, we may explore means for escalation through shareholder action.

In 2022, we co-filed a set of three climate-related shareholder proposals at J-Power, a large Japanese utility highly exposed to coal power generation. The proposals were the first of their kind in Japan led by a group of institutional investors. The main proposal seeking a business plan with science based GHG emissions reduction targets aligned with Paris Agreement received 26% support, while the two associated proposals were supported by 18% and 19% of shareholders, respectively.

We also co-filed a climate-related shareholder proposal at Glencore in December 2022, to be tabled at the company's AGM due to take place in May 2023.

On the social side, we co-filed a shareholder resolution at J Sainsbury's, a UK grocery chain, asking the company to become living wage accredited. The co-filing aligned with our inclusive growth and shared prosperity theme and stemmed from our research into UK grocers using the Workforce Disclosure Initiative dataset, and our engagement with the company. The resolution received support from almost 20% of investors, and since filing Sainsbury's has not offered staff wage rates below the living wage level, although they are still not real living wage accredited.

13.4 Fixed income rights & responsibilities

We participate in bond holder meetings for the restructuring of bond as they arise. We do not have voting guidelines for these meetings as each item is regarded as an investment decision, where the client's interest as investor is the sole consideration. We vote in the interest of holders of the bond in question rather than for any other interest.

We have not been involved in any bond holder restructuring committee in recent years. We would need to address insider information concerns before participating.

Whilst we do not usually find that there is scope to renegotiate the terms of a bond offered for sale on issue, we have found circumstances where we have needed to question information about the use of green bond proceeds. Our assessment of green bonds relies on a bottom-up approach to make sure that the bond finances projects that provide clear environmental benefits. This includes making sure that the green bond framework follows the Green Bond Principles but also that the projects to be financed are eligible under the Climate Bonds Initiative (CBI) taxonomy. In addition, to screen and control that green bonds are environmentally sound and support the transition to a post-carbon economy, the stated aims of the green funding projects should be transparent, well disclosed and reported. When this is not the case, we write to the issuer seeking a third-party opinion as to the sustainability purposes of the bond, and commitments to sustainability reporting. Disclosed information that is easily accessible enables informed decisions and enhances investors' trust.

13.5 Other asset classes

Debt – for private debt and infrastructure debt, there are restructurings which can be initiated by the issuers and occasionally by investors. These are rarely on environmental or social issues but can relate to changes in the governance of the debt. We determine our stance based on investment interest of our clients.

13.6 Voting examples

Below please find a snapshots of our voting activities in 2022

Company name	**Sanofi**	**J Sainsbury**	**Barclays PLC**
Date of vote	03/05/2022	07/07/2022	04/05/2022
Summary of the resolution	Director Re-election	Shareholder resolution on the living wage.	Approve Barclays' Climate Strategy, Targets and Progress for 2022
How you voted	Against Management	We voted for (against management recommendation)	We supported the resolution, contingent on further engagement to address what we noted were gaps in its strategy. We voted in line with management.
Outcome of the vote	The proposal passed	The proposal did not pass; however, this was a significant shareholder commitment to pay equity.	The proposal passed with support from approximately 80.8% of shareholders.
Implications of the outcome e.g., were there any lessons learned and what likely future steps will you take in response to the outcome?	We'll continue to promote higher standard for fully independent audit committees throughout European companies	We voted FOR, as we are a co-filer of the resolution. With cost-of-living challenges growing the argument for living wages is only growing in the supermarket sector to support staff. Taking a lead on this matter could also reflect well on JS's cost of capital and shareholder ESG profile view. We continue to engage with management on this topic	We have maintained collaborative and frequent engagement with the company, who has addressed some of the issues we identified, and continues to demonstrate incremental progress, with new sector guidance in its most recent report, published in 2023.

Company name	Rio Tinto	Tesla	AT&T
Date of vote	08/04/2022	04/08/2022	19/05/2022
Summary of the resolution	Approve Climate Action Plan	Shareholder proposal on racial and gender board diversity	Shareholder proposal to consider pay disparity between executives and other employees
How you voted	Supported (with management)	Whilst the company's board has two (29%) female directors and two directors from ethnic minority background, the board gender diversity falls below our expectation of 40%, and we believe the proposal warrants our support.	Supported the resolution (against management recommendation)
Outcome of the vote	The proposal passed	The proposal did not pass	The proposal did not pass
Implications of the outcome e.g., were there any lessons learned and what likely future steps will you take in response to the outcome?	Scope 3 emissions reporting remains a significant challenge for miners, which Rio Tinto is making strides to address. We therefore supported the proposal.	We will likely vote in a similar fashion should no significant improvements be made by next AGM. We will contact the company to explain our rationale and continue to discuss these issues with the company.	The spirit of the proposal is very aligned with our inclusive growth and common prosperity stewardship theme. We agree that US executive pay, exhibited at AT&T, is too high compared to European and Japanese pay levels, and we agree that high pay inequality may create systemic sustainability issues. We continue to engage with the company

Company name	Microsoft	Sumitomo Mitsui Financial Group (SMFG)	BHP
Date of vote	13/12/2022	29/06/2022	10 November 2022
Summary of the resolution	Shareholder proposal to report on Tax Transparency	Shareholder proposal to Amend Articles to Disclose Plan Outlining Company's Business Strategy to Align Investments with Goals of Paris Agreement	Shareholder proposals on Climate Accounting and Audit and Policy Advocacy
How you voted	Supported the resolution (against management recommendation)	Supported the resolution (against management recommendation)	Did not Support the resolution (with management recommendation)
Outcome of the vote	The proposal did not pass	The proposal did not pass	The proposal did not pass
Implications of the outcome e.g., were there any lessons learned and what likely future steps will you take in response to the outcome?	We will contact the company to explain our rationale. The proposal encourages tax transparency reporting, in line with our expectations.	According to publicly available research, SMFG (SMBC Group) has increased financing on fossil fuel between 2016 and 2021 (including on coal and tar sands. Voting in line with our Guidelines, and taking a principle-based approach, we supported the proposal. We will contact the company to explain our rationale.	BHP was amongst the first companies to include scenario analysis in its reporting and to publish an assessment of the impact of different scenarios on its assets. The company also promised to step up on improved disclosure on scenario analysis including assumptions, and integrate climate accounting work into financial reporting, aligned with the engagement objective we have already set early this year. We will contact the company to explain our rationale. .