

HSBC ASSET MANAGEMENT TO PHASE OUT THERMAL COAL INVESTMENTS

- Active funds to exclude thermal coal companies by 2030 in the EU and OECD; and globally by 2040
- Stronger engagement with company management that could result in voting against the reappointment of board members
- Divestment over time from companies with inadequate transition plans

22 September 2022 – HSBC Asset Management (HSBC AM), has announced its policy to phase out coal-fired power and thermal coal mining ('thermal coal') from its listed holdings.

HSBC Asset Management will actively work with company boards to support the transition away from thermal coal in the EU and OECD markets by 2030, and globally by 2040. Those companies who do not show credible plans to transition away from thermal coal within the timeframe will lose the support of HSBC AM, including voting against company chairs at AGMs or, ultimately, divesting.

The policy is in line with the Net Zero Asset Managers initiative of which HSBC AM is a signatory. In 2020, the HSBC Group set an ambition to align its financed emissions to net zero by 2050. Today's announcement is an important step towards the bank achieving its net zero ambition, contributing further to the Group-wide announcement to phase out coal-fired power and thermal coal mining.

Nicolas Moreau, CEO, HSBC Asset Management said: "This is a determined step to phase out thermal coal. Global emissions will only be reduced if there is concerted collaboration to meet the goals of the Paris Agreement and we are committed to playing our part. We have already stopped direct investments in new or existing thermal coal projects. We are working on two fronts: coal phase out will go hand-in-hand with pioneering new investment solutions in our Alternatives business to scale sustainable infrastructure investment and venture capital for critical climate technology solutions.

"We believe in working in partnership with our clients to transition away from thermal coal, while supporting a just transition. But we are clear that we will need to walk away from companies who don't or won't take active credible steps to reduce emissions."

The main highlights of the new policy include:

- **Engagement with active and passive holdings** – If engagement has not been successful HSBC AM will not vote for the re-election of chairs of listed issuers with more than 10 per cent revenue exposure to thermal coal which do not provide Task Force on Climate-related Financial Disclosures (TCFD) or equivalent reporting. It will also vote against chairs whose company's transition plans remain inadequate following engagement.¹
- Strengthened engagement with these issuers; with the option of divesting over time from companies whose transition plans are considered incompatible with HSBC AM's net zero objective.
- **Active portfolios** - By the end of 2030, HSBC AM will not hold listed securities of issuers with more than 2.5% revenue exposure to thermal coal in EU / OECD markets and globally by 2040 across its actively managed portfolios. Applicable to all portfolios where HSBC AM has investment discretion and funds where HSBC AM has significant control.²
- From today, actively managed portfolios will not participate in IPOs or primary fixed income financing by issuers engaged in thermal coal expansion.
- For all other issuers with more than 10 per cent revenue exposure to thermal coal, participation in IPOs or primary fixed income financing will be subject to enhanced due diligence³ of transition plans to ensure alignment with HSBC AM's Net Zero objective.

- **Passive** - There will be no new Exchange Traded Funds (ETFs) or index funds with more than 2.5% exposure to thermal coal issuers. The only exception, would be if an ETF or index fund's strategy has specific Paris-aligned 1.5°C objectives and / or clear divestment pathways. HSBC AM will work with index providers to extend the range of indices and passive products that do not have exposure to thermal coal, on the expectation that thermal coal exposure will decrease.

HSBC AM will also review other investment strategies (e.g. alternatives and liquidity) and will publish interim emission reduction targets and progress against them, for assets identified as being managed in line with net zero by 2050 or sooner.

The policy will be reviewed annually to consider changes in relevant external factors.

HSBC AM is committed to delivering investment strategies that enable an affordable and secure energy transition, whilst phasing out thermal coal. An urgent ramp-up of investment in clean energy infrastructure is critical and through its Alternatives business, HSBC AM is focused on initiatives to accelerate clean energy solutions, as well as early stage technologies to support a resilient low carbon energy system. These include climate technology venture capital and investment in sustainable infrastructure projects. To further support the transition to net zero, its joint venture with Pollination, Climate Asset Management, enables investment in nature-based solutions to both reduce emissions, and protect and restore biodiversity.

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Media enquiries to:

Mat Barling + 44 (0) 738 479 4295 mathew.barling@hsbc.com

Gita Bartlett +44 (0) 779 670 4281 gita.bartlett@hsbc.com

Notes to editors:

- See full policy for how HSBC AM will apply the policy in practice: <https://www.assetmanagement.hsbc.co.uk/en/institutional-investor/about-us/responsible-investing/policies>
- See HSBC Group policy for full details: <https://www.hsbc.com/-/files/hsbc/our-approach/risk-and-responsibility/pdfs/211214-hsbc-thermal-coal-phase-out-policy.pdf>

[1] - For voting, HSBC Asset Management uses Transition Pathway Initiative scores to assess issuers' progress with transition, alongside its own analysis. HSBC AM intends to have engaged with all listed issuers with more than 10 per cent revenue exposure to thermal coal in active portfolios by the end of 2023 and for all ETF / index portfolios by the end of 2025.

[2] - Examples would include areas where HSBC AM does not have full portfolio discretion, or board/equity control e.g. joint ventures, independent director controlled fund boards and client segregated mandates. For now, commitments included in this policy will be subject to client, fund director and regulatory approval.

[3] - Under Enhanced Due Diligence for IPOs and primary debt issuance, investment teams will have to assess the transition plans of any issuer with more than 10 per cent revenue exposure to thermal coal for alignment with HSBC AM's Net Zero Objective. This assessment will be overseen by Asset Management's Asset Class ESG Committee and ESG Oversight Committee.

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HSBC Asset Management is the marketing name for the asset management businesses of HSBC Holdings plc.

HSBC Holdings plc

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