Thermal Coal policy

December 2024

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

HSBC Asset Management

Our Net Zero Objective

We recognise climate change as a significant challenge facing our clients in their investments.

For that reason, we have made a strategic corporate commitment to the Net Zero Asset Managers initiative (NZAM).

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

In line with the Net Zero Asset Managers commitment, we have set a 2030 interim target to reduce the Scope 1 and 2 emissions intensity of 38 per cent of our assets by 58 per cent compared with 2019[1].

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

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

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

This policy forms part of our Net Zero Asset Managers commitment. It is developed in support of HSBC Group's net zero ambition and the transition from thermal coal-fired power and thermal coal mining (collectively 'thermal coal') within the 2030/40 timelines set out in the HSBC Thermal Coal Phase-Out Policy. It complements our own Energy Policy[2] as updated from time to time and is intended to help meet the dual objectives of phasing out thermal coal within science-based timeframes and of energy transition in more coal-reliant economies.

1. Implementation of our net zero ambition and interim emissions target is subject to fund board approval and / or client agreement. The assets under management in scope for the NZAM target consist of listed equity and corporate fixed income managed within our major investment hubs in the UK, Hong Kong SAR, France, Germany and US, which amounted to $193.9 billion at the end of 2019. This target is based on assumptions for financial markets and other data, including the IEA Net Zero emissions by 2050 scenario and its underlying activity growth assumptions. Carbon emissions intensity is measured as tonnes of carbon dioxide per million US dollars invested, where emissions are scaled by enterprise values including cash. Scope 1 emissions are from sources that are owned or controlled by investee companies; Scope 2 emissions are from the use of energy purchased by investee companies. Our interim target does not cover Scope 3 emissions, which are all other indirect emissions from across investee companies' value chains.

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

Thermal coal phase-out – ten-point plan

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

Investments

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

   For other issuers with more than 10 per cent revenue exposure to thermal coal, participation by actively managed portfolios in IPOs or primary fixed income financing is subject to enhanced due diligence to help ensure that the issuer has a credible transition plan.

   We will divest over time from issuers whose transition plans are considered incompatible with our net zero objective.
4. **Our actively managed sustainable fund ranges already exclude issuers with more than 10 per cent revenue exposure to thermal coal, unless the issuer has a credible transition plan.**

Research and Engagement

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

   Client risk and issuer transition plans are assessed as part of due diligence, based on factors including: level of ambition to reduce greenhouse gas emissions; clarity of transition strategy, including metrics, governance and targets; adequacy of disclosure; credibility of any proposed abatement assumptions; abated power generation; and consideration of principles of just transition.

6. We **continue to engage with issuers**, prioritising those where we have the highest exposure. We have initiated engagement with all listed issuers held in our active fundamental portfolios with more than 10 per cent revenue exposure to thermal coal, and those with more than 10 per cent revenue exposure to metallurgical coal. We shall prioritise engagement with issuers in our passive and active systematic portfolios according to size of holding and those issuers with poor emissions disclosure and / or no public net zero target, engaging with all listed issuers held in these portfolios with more than 10 per cent revenue exposure to thermal or metallurgical coal by the end of 2025, subject to portfolio turnover constraints.

7. As we extend our engagement, **we will normally vote against the re-election of chairs of listed issuers** covered by our active fundamental equity engagement with more than 10 per cent revenue exposure to thermal coal which do not provide TCFD or equivalent reporting. We will also normally vote against chairs where transition plans remain weak following engagement. We intend to extend this voting to issuers covered by our passive and active systematic engagement by the end of 2025, subject to portfolio turnover. For voting holdings in carbon intensive sectors, we already use Transition Pathway Initiative (TPI)[3] scores in addition to other internal and external research to assess issuers' progress with transition. This may include votes against the re-election of the chair or relevant board director of thermal coal issuers.

3. The Transition Pathway Initiative (TPI) assesses companies on two dimensions based on publicly available information: corporate climate governance and carbon emissions, and provides an overall scoring from Level 0 (unaware) to 4 (strategic assessment). The TPI Centre online tool is publicly available at the following link: http://www.transitionpathwayinitiative.org/sectors

Passive products

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

Clients

9. We continue our **active engagement with clients** to inform and support their own net zero commitments.

Further actions

- We will work with index providers to extend the range of indices and passive products that do not have exposure to thermal coal. As the net zero transition progresses, we expect thermal coal exposure to decrease across all indices.
- We shall review other asset classes in due course under our Net Zero Asset Managers initiative commitments.

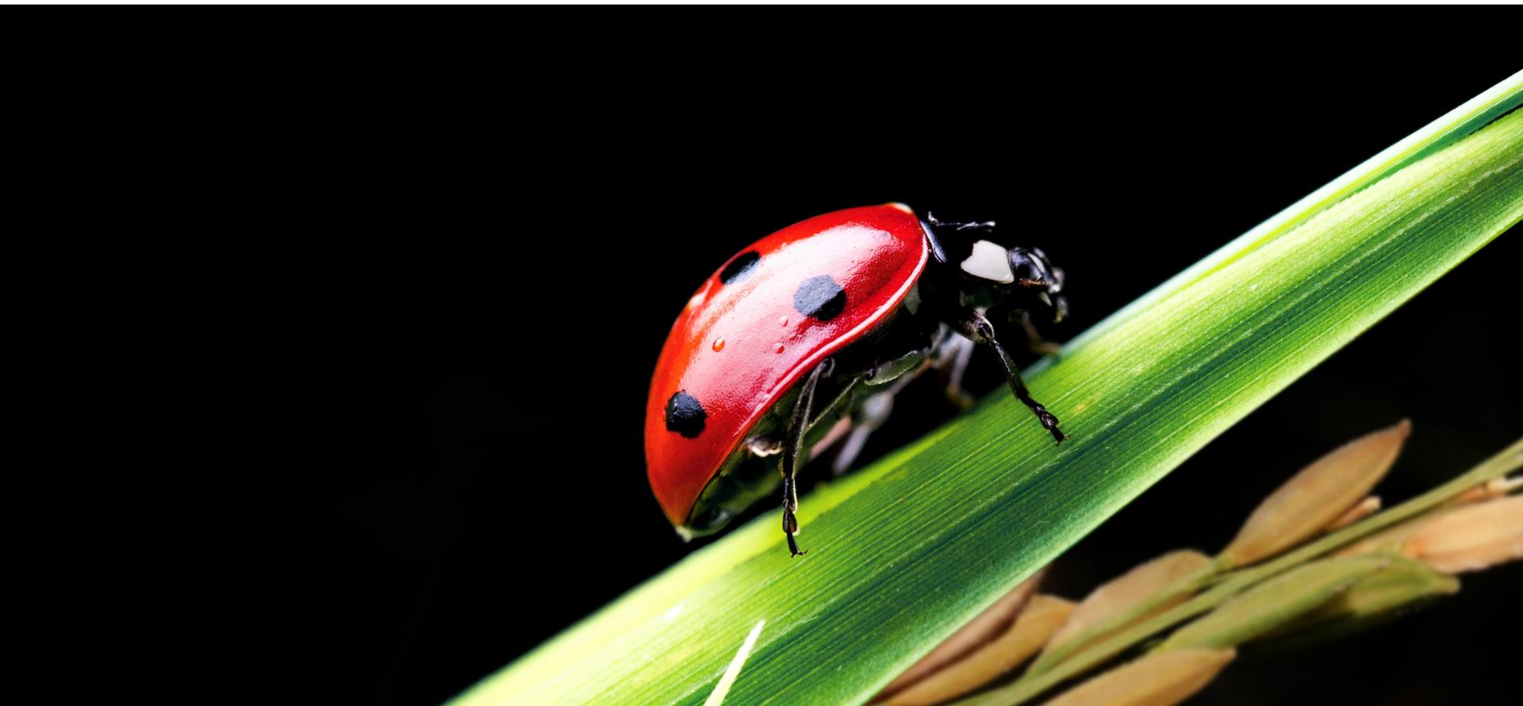
Application

- This policy will be reviewed at least annually, to consider changes in relevant external factors (e.g. changes in the scientific assessment of climate change impact, transition pathways and future risk or changes in governmental or regulatory treatment). Reporting on overall progress towards our NZAM commitments will reflect the impact of this policy alongside other factors.
- Where we do not have full portfolio discretion, or board/equity control such as joint ventures, independent director-controlled fund boards and client segregated mandates, commitments included in this policy are subject to client, fund director and regulatory approval.
- These commitments apply to actively managed portfolios as set out, except certain alternatives and other portfolios where we do not have sole discretion.
- The thermal coal phase-out commitment does not apply to index funds and passive ETFs, although we expect thermal coal exposure to decrease across all indices and will not launch new index funds or passive ETFs with more than de minimis thermal coal exposure.
- Multi-asset or fund of fund strategies utilising third party, systematic or passive funds may be unable to implement certain aspects of this policy, with potential limited exposure to issuers that would otherwise be excluded. Sustainable multi-asset or fund of funds strategies seek funds with aligned / similar restrictions where these are available.
- We recognise that state-owned enterprises in non-EU / OECD markets may be subject to different national development planning cycles and take those timeframes into account where necessary. Due diligence and enhanced due diligence of such issuers monitors how far sufficient progress is being made on transition planning. This will not impact our 2040 active holdings phase-out.
- We apply this policy at issuer level. Where issuers form part of a wider group, we consider the activities of the group including the level of credibility of its transition plan and apply the policy to the extent appropriate.
- References to more than 10 per cent revenue are intended to identify issuers with significant exposure to thermal or metallurgical coal. Where companies exceed this level due to changes in commodity price or other factors beyond an increase in production, we may set aside the relevant threshold.
- We use third party data providers to monitor issuers' exposure to certain activities and / or breaches of standards. Whilst we assess providers as part of ongoing monitoring, it is not possible to guarantee their accuracy, completeness, quality of judgement or timeliness. We may set aside their data or scoring where our own due diligence suggests that it may be inaccurate, incomplete or disproportionate.
- Our voting activity covers all equity holdings managed in our UK, France, Hong Kong SAR, Singapore, Malta and India offices – whether in active fundamental, active systematic or passive portfolios – over which we have voting discretion, with some commitments in this policy subject to third party data coverage and our discretion to consider other factors. Our voting records are publicly available online.

Application (cont'd)

- Further information on our engagement related to climate change is available in our Stewardship Plan[4].
- New investment in 'Buy and Maintain' and 'Buy and Hold' assets will be assessed according to this policy; existing holdings will be managed in client interest, which may include holding to maturity where there is a fiduciary or regulatory obligation to do so.
- Existing and new client on-boarding requirements set out in the HSBC Thermal Coal Phase Out Policy are applied by HSBC Group where relevant as part of its on-boarding process for Asset Management clients.
- Oversight of the application of this policy is conducted as part of our governance and risk framework, which includes formal governance committees at global and local business levels. Implementation may be led at asset class level, supported by other investment and business functions.
- For portfolios not classified as sustainable, the purpose of due diligence is to understand the issuers' transition plans and to inform investment views and engagement objectives. Due diligence and enhanced due diligence are reviewed by Asset Class ESG Investment Committees or other delegated investment functions, overseen by our ESG Investment Committee. They may also consider country and regional context, as well as other risks to transition plans.
- Beyond 2030, emerging market portfolios may exceptionally continue to hold issuers with exposure to thermal coal in the small number of OECD markets included in emerging market portfolio benchmarks

4. Please visit the page 'Stewardship' on our public website for more details on our Stewardship Plan.



Glossary

Actively managed portfolios – include:

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

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

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

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

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