Sustainable investment methodology

May 2024

This document is produced in accordance with the SFDR Regulation (Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019)". This is a regulatory document and not a marketing document. This document is not by any means intended as an investment advice.
Today, we and many of our customers contribute to greenhouse gas emissions. We have a strategy to reduce our own emissions and to develop solutions to help our clients invest sustainably. For more information visit https://www.assetmanagement.hsbc.com/about-us/net-zero

HSBC Asset Management | Opening up a world of opportunity

‘Sustainable investment’ under Article 2(17) SFDR

The SFDR Regulation (Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019) on sustainability-related disclosures in the financial services sector came into force in 2021 with the obligation for financial institutions to make principles-based disclosures on ESG-related activity.

Under this regulation, as defined in Article 2, point (17) SFDR, sustainable investment has been defined as investment that generates net-positive environmental and/or social outcomes. The resulting market-wide challenge has been around measuring individual holdings’ environmental and social contribution, while ensuring that positive contributions do not come with negative side-effects – i.e. adverse impacts.

Sustainable Investment is an investment in an economic activity that contributes to an **environmental objective** or an investment in an economic activity that contributes to a **social objective** provided that such investments **do not significantly harm** any of those objectives and that the investee companies follow **good governance** practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance.

How do we measure corporate sustainability?

- Our proprietary investment framework (‘methodology’) enables us to determine whether an instrument/issuer can be defined as a ‘Sustainable Investment’ according to Article 2 (17) SFDR and therefore accounted for when disclosing the proportion of investment in ‘Sustainable Investment’ and when monitoring compliance with fund level commitments.
- Over recent years, our methodology has grown from seeking historical revenue alignment to the Sustainable Development Goals (SDGs) defined by the United Nations, to a more holistic view that considers also the compatibility of business models, operational activities, and ambitions. This scope enlargement better reflects the company’s commitment and actions to address sustainability challenges.
- The assessment also includes a ‘Do No Significant Harm’ (DNSH) test while considering good governance. This test includes the consideration of principal adverse impacts (PAI), as required by the SFDR regulation. PAI consists of a list of environmental and social factors to be taken into account and reported – these include, among others, greenhouse gas emissions and intensity, carbon footprint, emissions to water or gender pay gap.

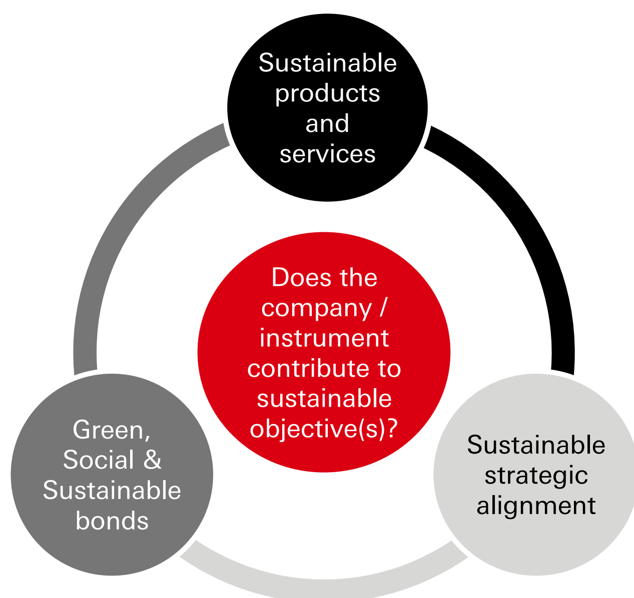
Source: HSBC Asset Management as of July 2023
Representative overview of the investment process, which may differ by product, client mandate or market conditions.

Assessing whether an investment is sustainable

In our methodology, there are multiple ways that an instrument or issuer can be deemed 'sustainable' which underpins the assessment of a company's sustainability characteristics.

Our assessment is based on whether the investment can contribute to UN SDGs under these three dimensions[1]:

- The company's net contribution to one or more UN SDGs based on their source of revenue
- Convergence of the entire business models of the company towards UN SDGs framework
- UN SDGs-compatible projects and/or use of proceeds



In-depth analysis is conducted based on multiple third-party data sources and internal analysis and research. Data sources include Sustainalytics, S&P Trucost, FTSE Green Revenue, and our proprietary GreenShare and EU Taxonomy[2] data.

Sustainability thresholds have been established in each area, and issuers/instruments that clear at least one of these three aforementioned dimensions will be deemed sustainable.

The 2030 Agenda for Sustainable Development, adopted by all United Nations Member States in 2015, provides a shared blueprint for peace and prosperity for people and the planet, now and into the future.

At its heart are the 17 SDGs, which are an urgent call for action by all countries - developed and developing - in a global partnership.
They recognise that ending poverty and other deprivations must go hand-in-hand with strategies that improve health and education, reduce inequality, and spur economic growth – all while tackling climate change and working to preserve our oceans and forests.

Please visit https://sdgs.un.org/goals for more information.

1. These three dimensions and respective thresholds or indicators may change over time without prior notice depending, for example, on regulations change or clarifications, data availability, technological progress, etc. The parameters are at the date indicated.
2. The EU taxonomy is a cornerstone of the EU's sustainable finance framework and an important market transparency tool that helps direct investments to the economic activities most needed for the transition, in line with the European Green Deal objectives. It is a classification system that defines criteria for economic activities that are aligned with a net zero trajectory by 2050 and the broader environmental goals other than climate. More information can be found on the website: https://finance.ec.europa.eu/sustainable-finance/tools-and-standards/eu-taxonomy-sustainable-activities_en

Source: HSBC Asset Management as of July 2023
Representative overview of the investment process, which may differ by product, client mandate or market conditions.

Three dimensions of sustainability[1]

To which extent an investment contribute to one or more of the 17 UN SDGs?

Sustainable product and service - Quantitative score
Net sustainable revenue or net projected in 3-5 years >=30%

Measuring the % of net-positive sustainable revenues aligned with one or more of the 17 UN SDGs: measuring current or expected SDG-aligned revenues (CAPEX[2], OPEX[3] or EBITDA[4]) netted out by the unsustainable products & services (Tobacco, Thermal Coal, Banned weapons, very severe Environmental, Social and Governance (ESG) controversies etc.).

Sustainable strategic alignment - Proven & verified (SMART[5])

Business models

Sustainable Business Model scorecard >=50% of the scorecard achieving highest rating

The assessment of the sustainable level of a company's business model takes into consideration its operations, value chain, sustainable development strategy, as well as the management of the impacts of its activities on the environment and communities. Positive contribution is identified based on alignment with the UN SDGs.

Sustainable Thematic

Company's thematic revenue >=20% or, Sustainable Thematic scorecard >=30%

These thresholds are adapted for emerging industries enabling sustainable economy practices in a growing and/or fragmented industry (such as circular economy)

Ambitions & practices

Verified progress towards the company forward-looking sustainable ambitions through relevant standards established by relevant industry bodies such as approved Science-based Targets (SBTi) [6] for credible carbon reduction targets.

Energy Transition pathway

Assessment of activities that contribute to the energy transition and those that go against in order to determine the green share of the company's business (percentage of turnover) funding the energy transition or the shift towards renewables. A company is considered as a "sustainable transitioning asset" based on its green share intensity and alignement with the Towards Sustainability Label[7] for the traditional energy (oil and gas) and power generation sectors.

Green, Social & Sustainable bonds - Specific sustainable use of proceeds

For fixed income instruments, we consider green, social and sustainability bonds as sustainable investments based on the fact that there is a clear and direct contribution to environmental and social objectives. Green, social and sustainability bond instruments, as defined by the International Capital Market Association ("ICMA")[8], and structured in accordance with its principles or guidelines contribute by design to an environmental and/or social objective(s) mapped to the UN SDGs.

1. **These three dimensions and respective thresholds or indicators may change over time depending, for example, on regulations change or clarifications, data availability, technological progress, etc.**
2. Capital expenditures (CapEx) is money invested by a company to acquire or upgrade fixed, physical or non-consumable assets. Capex is primarily a one-time investment in non-consumable assets used to maintain existing levels of operation within a company and to foster its future growth. Capex is used to buy or invest in tangible capital assets, such as real estate; raw materials; and plant, property and equipment.These assets benefit a company beyond one fiscal year. Intangible, nonphysical assets, such as patents and licenses, also qualify as Capex.
3. Opex (operational expenditure) includes selling, general and administrative expense, which are costs incurred through the main business activities, or overhead.
4. EBITDA, or earnings before interest, taxes, depreciation, and amortization, is an alternate measure of profitability to net income. By stripping out the non-cash depreciation and amortization expense as well as taxes and debt costs dependent on the capital structure, EBITDA attempts to represent cash profit generated by the company's operations.
5. SMART is the acronym for specific, measurable, achievable, relevant, and time-bound
6. Science-based targets provide a clearly-defined pathway for companies to reduce greenhouse gas emissions, helping prevent the worst impacts of climate change and future-proof business growth. Targets are considered 'science-based' if they are in line with what the latest climate science says is necessary to meet the goals of the Paris Agreement – limiting global warming to 1.5°C above pre-industrial levels.
7. More information can be found on the website: https://towardssustainability.be
8. More information can be found on the website: www.icmagroup.org/assets/documents/Sustainable-finance/2022-updates/Mapping-SDGs-to-GSS-Bonds_June-2022-280622.pdf

Source: HSBC Asset Management as of July 2023
Representative overview of the investment process, which may differ by product, client mandate or market conditions.

Our methodology assessment (see the three dimensions on the previous page) also includes a “Do Not Significantly harm” (DNSH) test while considering good governance processes.

Sustainable Investments meet the requirements of the DNSH principle as provided by SFDR (under its article 2, point (17)) , by netting out activities according to our sustainable and standard exclusions.

Do No Significantly Harm Exclusions

For Corporate issuers:

- Banned & controversial weapon score[1]
- Tobacco production revenue > 0% [2]
- Thermal coal extraction revenue > 10% [2]
- Thermal coal power generation revenue > 10% [2]
- United Nations Global Compact = non-compliant [2,3]
- Highest Controversies Flag [2]

For Sovereign Issuers:

- Social Violation Flags [2]
- Any of the countries on the HSBC sanction list

Finally, DNSH is considered alongside good governance of investee companies which is a basic requirement of our fundamental analysis and investment process.

Good governance assessment

Our consideration goes beyond governance or ESG (environmental, social and governance) scores. The quality of governance is assessed on the basis of criteria specified in the investment process that include, but are not limited to, business ethics, corporate culture and values, governance framework, and corruption.

We determine the materiality of governance by focusing on the governance framework, controversies and compliance with the principles of the UN Global Compact and the OECD Guidelines at the intent of multinational companies.The minimum threshold is to exclude very severe ESG controversies for active funds.

1. Data sources include ISS-Ethix
2. Data sources include Sustainalytics. Examples of controversies: activities related to child labour, major environmental damages, corruption & bribery, pollution etc.
3. The United Nations Global Compact is a voluntary initiative based on CEO commitments to implement universal sustainability principles and to undertake partnerships in support of UN goal - https://unglobalcompact.org/

Source: HSBC Asset Management as of July 2023
Representative overview of the investment process, which may differ by product, client mandate or market conditions.

This document is produced and distributed by HSBC Asset Management.

This document is a regulatory reporting and not a marketing document. It is produced in accordance with the SFDR Regulation (Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019).

The value of investments and the income from them can go down as well as up and investors may not get back the amount originally invested. The capital invested in the fund can increase or decrease and is not guaranteed. The performance figures contained in this document relate to past performance, which should not be seen as an indication of future returns. Future returns will depend, inter alia, on market conditions, fund manager's skill, fund risk level and fees. Where overseas investments are held the rate of currency exchange may cause the value of such investments to go down as well as up. Investments in emerging markets are by their nature higher risk and potentially more volatile than those inherent in some established markets. Economies in Emerging Markets generally are heavily dependent upon international trade and, accordingly, have been and may continue to be affected adversely by trade barriers, exchange controls, managed adjustments in relative currency values and other protectionist measures imposed or negotiated by the countries and territories with which they trade. These economies also have been and may continue to be affected adversely by economic conditions in the countries and territories in which they trade. Mutual fund investments are subject to market risks, read all scheme related documents carefully.

The contents of this document may not be reproduced or further distributed to any person or entity, whether in whole or in part, for any purpose. All non-authorised reproduction or use of this document will be the responsibility of the user and may lead to legal proceedings. The material contained in this document is for general information purposes only and does not constitute advice or a recommendation to buy or sell investments. Some of the statements contained in this document may be considered forward looking statements which provide current expectations or forecasts of future events. Such forward looking statements are not guarantees of future performance or events and involve risks and uncertainties. Actual results may differ materially from those described in such forward-looking statements as a result of various factors. We do not undertake any obligation to update the forward-looking statements contained herein, or to update the reasons why actual results could differ from those projected in the forward-looking statements. This document has no contractual value and is not by any means intended as a solicitation, nor a recommendation for the purchase or sale of any financial instrument in any jurisdiction in which such an offer is not lawful. The views and opinions expressed herein are those of HSBC Asset Management at the time of preparation, and are subject to change at any time. These views may not necessarily indicate current portfolios' composition. Individual portfolios managed by HSBC Asset Management primarily reflect individual clients' objectives, risk preferences, time horizon, and market liquidity. Foreign and emerging markets. Investments in foreign markets involve risks such as currency rate fluctuations, potential differences in accounting and taxation policies, as well as possible political, economic, and market risks. These risks are heightened for investments in emerging markets which are also subject to greater illiquidity and volatility than developed foreign markets. This commentary is for information purposes only. It is a marketing communication and does not constitute investment advice or a recommendation to any reader of this content to buy or sell investments nor should it be regarded as investment research. It has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of its dissemination. This document is not contractually binding nor are we required to provide this to you by any legislative provision. All data from HSBC Asset Management unless otherwise specified. Any third party information has been obtained from sources we believe to be reliable, but which we have not independently verified. HSBC Asset Management is the brand name for the asset management business of HSBC Group, which includes the investment activities that may be provided through our local regulated entities. HSBC Asset Management is a group of companies in many countries and territories throughout the world that are engaged in investment advisory and fund management activities, which are ultimately owned by HSBC Holdings Plc. (HSBC Group).

The above communication is distributed by the following entities:

- In Argentina by HSBC Global Asset Management Argentina S.A., Sociedad Gerente de Fondos Comunes de Inversión, Agente de administración de productos de inversión colectiva de FCI N°1;
- In Australia, this document is issued by HSBC Bank Australia Limited ABN 48 006 434 162, AFSL 232595, for HSBC Global Asset Management (Hong Kong) Limited ARBN 132 834 149 and HSBC Global Asset Management (UK) Limited ARBN 633 929 718. This document is for institutional investors only, and is not available for distribution to retail clients (as defined under the Corporations Act). HSBC Global Asset Management (Hong Kong) Limited and HSBC Global Asset Management (UK) Limited are exempt from the requirement to hold an Australian financial services license under the Corporations Act in respect of the financial services they provide. HSBC Global Asset Management (Hong Kong) Limited is regulated by the Securities and Futures Commission of Hong Kong under the Hong Kong laws, which differ from Australian laws. HSBC Global Asset Management (UK) Limited is regulated by the Financial Conduct Authority of the United Kingdom and, for the avoidance of doubt, includes the Financial Services Authority of the United Kingdom as it was previously known before 1 April 2013, under the laws of the United Kingdom, which differ from Australian laws;
- in Bermuda by HSBC Global Asset Management (Bermuda) Limited, of 37 Front Street, Hamilton, Bermuda which is licensed to conduct investment business by the Bermuda Monetary Authority;
- in Canada by HSBC Global Asset Management (Canada) Limited which provides its services as a dealer in all provinces of Canada except Prince Edward Island and also provides services in Northwest Territories. HSBC Global Asset Management (Canada) Limited provides its services as an advisor in all provinces of Canada except Prince Edward Island;
- in Chile: Operations by HSBC's headquarters or other offices of this bank located abroad are not subject to Chilean inspections or regulations and are not covered by warranty of the Chilean state. Further information may be obtained about the state guarantee to deposits at your bank or on www.sbif.cl;
- in Colombia: HSBC Bank USA NA has an authorized representative by the Superintendencia Financiera de Colombia (SFC) whereby its activities conform to the General Legal Financial System. SFC has not reviewed the information provided to the investor. This document is for the exclusive use of institutional investors in Colombia and is not for public distribution;
- in Finland, Norway, Denmark and Sweden by HSBC Global Asset Management (France), a Portfolio Management Company authorised by the French regulatory authority AMF (no. GP99026) and through the Stockholm branch of HSBC Global Asset Management (France), regulated by the Swedish Financial Supervisory Authority (Finansinspektionen);
- in France, Belgium, Netherlands, Luxembourg, Portugal, Greece by HSBC Global Asset Management (France), a Portfolio Management Company authorised by the French regulatory authority AMF (no. GP99026);
- in Germany by HSBC Global Asset Management (Deutschland) GmbH which is regulated by BaFin (German clients) respective by the Austrian Financial Market Supervision FMA (Austrian clients);
- in Hong Kong by HSBC Global Asset Management (Hong Kong) Limited, which is regulated by the Securities and Futures Commission. This video/content has not be reviewed by the Securities and Futures Commission;
- in India by HSBC Asset Management (India) Pvt Ltd. which is regulated by the Securities and Exchange Board of India;

- in Italy and Spain by HSBC Global Asset Management (France), a Portfolio Management Company authorised by the French regulatory authority AMF (no. GP99026) and through the Italian and Spanish branches of HSBC Global Asset Management (France), regulated respectively by Banca d'Italia and Commissione Nazionale per le Società e la Borsa (Consob) in Italy, and the Comisión Nacional del Mercado de Valores (CNMV) in Spain;
- in Mexico by HSBC Global Asset Management (Mexico), SA de CV, Sociedad Operadora de Fondos de Inversión, Grupo Financiero HSBC which is regulated by Comisión Nacional Bancaria y de Valores;
- in the United Arab Emirates, Qatar, Bahrain & Kuwait by HSBC Global Asset Management MENA, a unit within HSBC Bank Middle East Limited, U.A.E Branch, PO Box 66 Dubai, UAE, regulated by the Central Bank of the U.A.E. and the Securities and Commodities Authority in the UAE under SCA license number 602004 for the purpose of this promotion and lead regulated by the Dubai Financial Services Authority. HSBC Bank Middle East Limited is a member of the HSBC Group and HSBC Global Asset Management MENA are marketing the relevant product only in a sub-distributing capacity on a principal-to-principal basis. HSBC Global Asset Management MENA may not be licensed under the laws of the recipient's country of residence and therefore may not be subject to supervision of the local regulator in the recipient's country of residence. One of more of the products and services of the manufacturer may not have been approved by or registered with the local regulator and the assets may be booked outside of the recipient's country of residence.
- in Peru: HSBC Bank USA NA has an authorized representative by the Superintendencia de Banca y Seguros in Perú whereby its activities conform to the General Legal Financial System - Law No. 26702. Funds have not been registered before the Superintendencia del Mercado de Valores (SMV) and are being placed by means of a private offer. SMV has not reviewed the information provided to the investor. This document is for the exclusive use of institutional investors in Perú and is not for public distribution;
- in Singapore by HSBC Global Asset Management (Singapore) Limited, which is regulated by the Monetary Authority of Singapore. The content in the document/video has not been reviewed by the Monetary Authority of Singapore;
- in Switzerland by HSBC Global Asset Management (Switzerland) AG. This document is intended for professional investor use only. For opting in and opting out according to FinSA, please refer to our website; if you wish to change your client categorization, please inform us. HSBC Global Asset Management (Switzerland) AG having its registered office at Gartenstrasse 26, PO Box, CH-8002 Zurich has a licence as an asset manager of collective investment schemes and as a representative of foreign collective investment schemes. Disputes regarding legal claims between the Client and HSBC Global Asset Management (Switzerland) AG can be settled by an ombudsman in mediation proceedings. HSBC Global Asset Management (Switzerland) AG is affiliated to the ombudsman FINOS having its registered address at Talstrasse 20, 8001 Zurich. There are general risks associated with financial instruments, please refer to the Swiss Banking Association ("SBA") Brochure "Risks Involved in Trading in Financial Instruments";
- in Taiwan by HSBC Global Asset Management (Taiwan) Limited which is regulated by the Financial Supervisory Commission R.O.C. (Taiwan);
- in the UK by HSBC Global Asset Management (UK) Limited, which is authorised and regulated by the Financial Conduct Authority;
- and in the US by HSBC Global Asset Management (USA) Inc. which is an investment adviser registered with the US Securities and Exchange Commission. "

NOT FDIC INSURED ◆ NO BANK GUARANTEE ◆ MAY LOSE VALUE

Copyright © HSBC Global Asset Management Limited 2024. All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, on any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of HSBC Global Asset Management Limited.

AMFR_2024_ESG_ESG_0034. Expires: 30/06/2025