ESG bulletin 2023

Annual update on managing the Scheme's Environmental, Social and Governance (ESG) risks and opportunities

HSBC | futurefocus

For members of the HSBC Bank (UK) Pension Scheme (the Scheme)

Introduction

Welcome to this first annual update from the Trustee of the Scheme about our work managing Environmental, Social and Governance (ESG) risks and opportunities across £27 billion[1] of our Scheme's Defined Benefit (DB) and Defined Contribution (DC) assets. In this bulletin we focus on the progress being made towards our goal to achieve net-zero greenhouse gas (GHG) emissions across our Scheme's assets by 2050, or sooner.

You told us

In our 2022 member survey, we asked all our members to share their views about the Scheme's investment strategy. Unsurprisingly, members with a DC pension pot told us that continued long-term investment growth is key to them as well as the sustainability of the Scheme's investments.

The Trustee aims to enhance the value of members' DC pension pots over the long-term and to ensure members' DB pensions are paid in full as they fall due. We set and monitor the Scheme's investment strategy with a clear focus on achieving these aims for members. Our investment decision making is guided by a range of Trustee investment beliefs, that we recently updated.

One of your biggest concerns was climate change risk – this was across all member age groups. Members also want to know more about how the Trustee is managing the Scheme's impact on our environment. You can read about both topics in this bulletin.

Trustee investment beliefs

The Trustee recognises that "global systems", by which we mean the planet including its climate, people and societies have a material impact on the whole of the economic system, today and over the longer term. We believe a robust global economy, society and planet are critical elements for stable and resilient retirement outcomes for our members. ESG risks and opportunities are important factors that we consider as part of our decision making about the Scheme's assets.

Our path to net-zero GHG emissions

We have set an interim target of reducing GHG emissions by 50%, across the Scheme's listed equity and corporate bond investments by 2030, or sooner (see page 3). Positive progress has been made since 2019 (see page 3) but we know many factors could affect future reductions and this complex journey (see page 5) won't always be smooth.

We encourage a constructive dialogue between the Scheme's investment managers and the management of the companies in which the Scheme invests (these conversations are more commonly known as 'engagement'). This is an effective way to achieve both our net-zero target and more broadly, responsible consideration of ESG issues (see page 4). When engagement is unsuccessful and companies' business activities are not aligned with our objectives, we may decide to use additional investment levers, such as voting against company management, or even to withhold investment (called an 'exclusion').

Updated ESG priorities

We have chosen to prioritise a number of ESG risks and opportunities which we believe are especially financially material to the Scheme. Back in 2011, we started considering ESG issues and have been developing how we manage these ESG issues ever since, with a particular focus on climate change. In 2022, we extended our ESG priorities to include biodiversity and nature-related losses, including anti-microbial resistance, as well as diversity equity and inclusion.

[1]As as 30 September 2022

Click to watch

What are ESG issues and why are they important for my pension?

Managing environmental risks and opportunities

Examples of what we review and monitor within the Scheme's investments

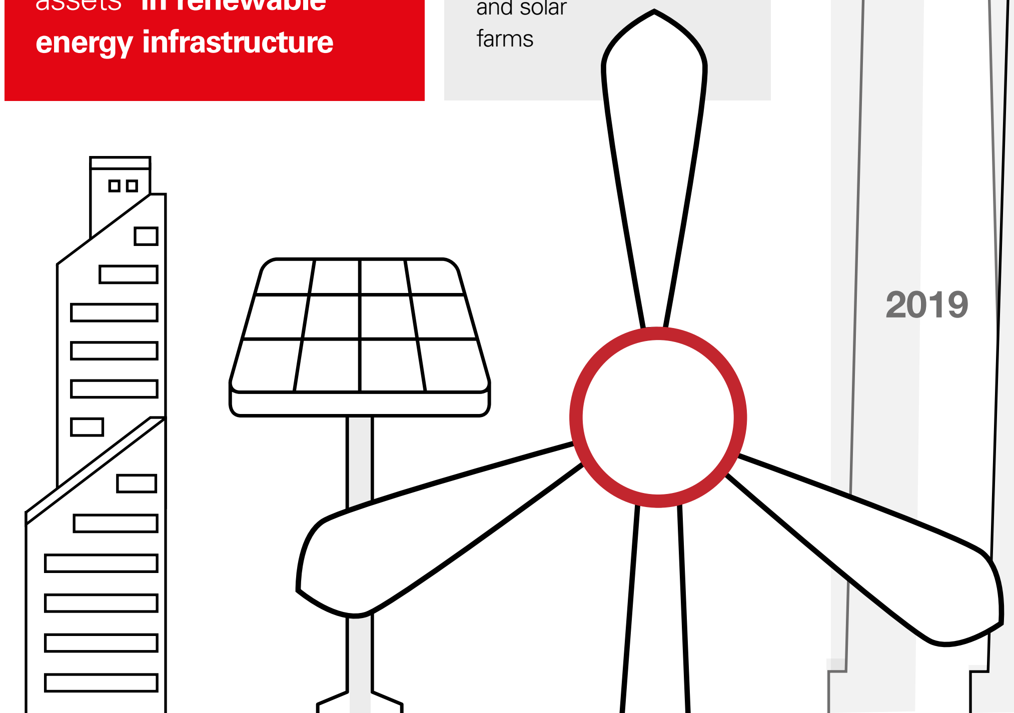
Maintaining best practice and innovation

Our **largest DC** fund[1] has been at the forefront of **managing climate risks and opportunities since** its launch in **2017**

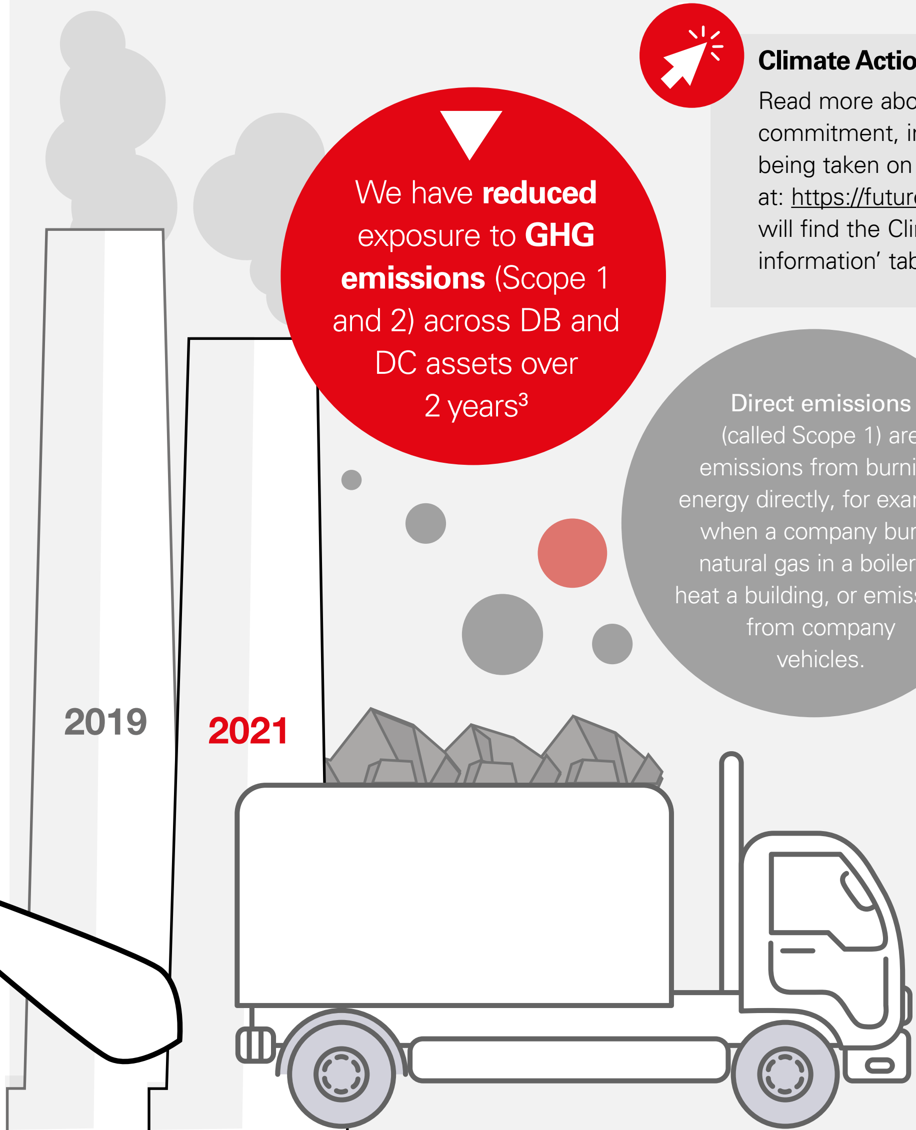
This DC fund is supported by a comprehensive programme of company engagement that promotes good management of ESG issues

We continued our support for **investment** of DB assets[2] **in renewable energy infrastructure**

This DB fund generates green revenues from onshore wind and solar farms



Measuring our Scheme's exposure to greenhouse gas (GHG) emissions



We have **reduced** exposure to **GHG emissions** (Scope 1 and 2) across DB and DC assets over 2 years[3]

Climate Action Plan

Read more about the Trustee's net-zero commitment, interim targets and the actions being taken on our Scheme website, futurefocus at: https://futurefocus.staff.hsbc.co.uk. You will find the Climate Action Plan on the 'Other information' tab in the 'Information centre'.

Direct emissions (called Scope 1) are emissions from burning energy directly, for example when a company burns natural gas in a boiler to heat a building, or emissions from company vehicles.

Indirect emissions (called Scope 2) are emissions from energy that a company purchases to run their business, for example when a company buys electricity to heat or cool buildings.

[1]For Global Equities – passive fund (DC asset) Find out more in the latest TCFD report (see page 5).

[2]For Illiquid Matching Assets – renewables (DB asset) reviewed by the Trustee in 2021. Find out more in the latest TCFD report (see page 5).

[3]For listed equities and corporate bonds (across DB and DC assets) between 2019 and 2021. Find out more in our Climate Action Plan (see above).

ESG engagement

When we select fund managers, we assess how well they incorporate ESG factors into their investment approach and their alignment with the Trustee investment beliefs (see page 2). We expect our fund managers to actively engage with the management of the companies in which the Scheme invests. This is because engaging with companies and using voting rights are effective ways to achieve change by addressing ESG risks and opportunities.

Case study about ESG engagement and our largest DC asset

The Global Equities – passive fund is our Scheme's largest DC asset. Nearly 90,000 members have £3.7 billion[1] of their DC pension pots invested in this fund.

We appointed Legal & General Investment Management to manage the Global Equities – passive fund and we actively monitor the engagement and investment progress they are making.

By engaging through Legal & General Investment Management's Global Equities – passive fund, our impact is magnified, because the £3.7 billion of our Scheme's DC assets is combined with another £1.8 billion assets from other investors, such as pension schemes, resulting in a stronger voice when engaging with company management.

In 12 months to 30 September 2022, they engaged with 255 companies over a wide range of ESG topics[2]. We have included a short case study on how they used engagement to address income inequality.

[1]As as 30 September 2022 [2]Legal & General Investment Management's Future World Fund ESG Report Q3 2022

The Trustee's approach to ESG risk management

You will find lots more information about ESG and the Trustee's aims and actions on futurefocus at https://futurefocus.staff.hsbc.co.uk. Just go to 'The Scheme' dropdown menu at the top of the landing page and choose 'Managing ESG risks'

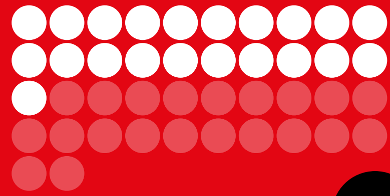
Case study Legal & General Investment Management's engagement activity[2]

412

Number of engagements with 255 companies

134

Engagements on environmental topics



Top topic

One third of all company engagements were about climate change

Case study Living wage (Sainsbury's)

Three steps taken by Legal & General Investment Management

Identify

Living wage: 'outer' London wage lower than 'inner' London.

Income inequality: cost of living crisis with low paid workers amongst the hardest hit, including many supermarket workers.

Covid-19 pandemic: highlighted contribution of supermarket workers to economy and society.

Engage

Direct engagement: since 2016, engagement with Sainsbury's asking them to pay real living wage to all employees.

Escalating our engagement: by joining ShareAction's 'Good Work Coalition.'

Shareholder resolution April 2022: escalating engagement by co-filing shareholder resolution with ShareAction, calling on Sainsbury's to become living-wage accredited employer.

Public pressure: pre-declaration of voting intentions in support of the shareholder resolution, ahead of AGM in July 2022.

Change

Following filing of the shareholder resolution in April 2022, Sainsbury's agreed to raise 'outer' to match 'inner' London's wages.

But some contractors were not included in this wage increase.

We continue to engage and the shareholder resolution remains in place for the forthcoming AGM.

Find out more and keep up to date

The Trustee recognises climate change is a systemic, long-term material financial risk to the value of the Scheme's assets. We believe we have a fiduciary duty to consider the risks arising from climate change when making investment decisions and we seek to manage these risks on behalf of the Scheme's members. At a policy level, we are supportive of initiatives that contribute towards mitigating climate change risk for our Scheme assets and help to achieve resilient retirement outcomes for our members (see page 1). Key examples are our:

- Commitment to achieve net-zero greenhouse gas ("GHG") emissions across our Scheme's DB and DC assets by 2050 or sooner, and
- Support for the Paris Agreement to minimise dangerous climate change by limiting global warming to well below 2°C above pre-industrial levels and pursuing efforts to limit it to 1.5°C.

The time-line (see right) shows the progress on key decisions made in relation to climate change and the Scheme's Task Force on Climate-related Financial Disclosures (TCFD).

Find out more details

You can keep up-to-date and find out more in our annual TCFD report. Our Statement of Investment Principles also provides more detail about the Scheme's investments and policies including those relating to ESG. You can find both on futurefocus, just go to https://futurefocus.staff.hsbc.co.uk, choose 'The Scheme' dropdown menu at the top of the landing page and then click 'Managing ESG risks'.

Time-line of key climate related actions

2015 **Climate Change Risk Policy:**

In 2015 we adopted a Climate Change Risk Policy that is recorded in our Statement of Investment Principles.

2017 **TCFD supporter signatory:**

We became a supporter of the TCFD in 2017 and published our first public TCFD report in 2018.

2018 **First TCFD Statement:**

We published our first TCFD report, following the recommendations of the TCFD as applicable to asset owners.

2020 **Project Clarity:**

In early 2020, we launched a project to enhance our integration of ESG matters, defining two priority areas for development within responsible investment "going deeper into climate change" and "enhanced engagement".

2020 **Climate Risk Management Framework:**

We built a Climate Risk Management Framework which integrated climate-related considerations into the Scheme's overall Pension Risk Management

2021 **Net-zero target and Paris Aligned Investment Initiative signatory:**

We set out our commitment to achieve net-zero by 2050.

2023 **onwards:**

We are building our net zero investment strategy, in line with best practice principles set out in the Net-Zero Investment Framework published by the Institutional Investors Group on Climate Change.

Engaging with policy development

Our policy and industry engagement focuses on supporting a regulatory environment and standards that promote the transition to net-zero by 2050. Engaging with industry bodies to improve these issues is a part of our policy and industry engagement activities. For example, over the past year we responded to public consultations by the UK's Department for Work and Pensions, the International Sustainability Standards Board, and the Glasgow Financial Alliance for Net Zero.

Asset Owner Diversity Charter

In October 2022, the Scheme became a signatory to the Asset Owner Diversity Charter. This is an important commitment to working with the investment industry to drive improvements in the transparency and standardisation of Diversity, Equity and Inclusion (DEI) practices. We believe that strong DEI practices can drive long term value, is consistent with our fiduciary duty and is the right thing to do for our members. You can find out more on our Scheme website, futurefocus at: https://futurefocus.staff.hsbc.co.uk. Just go to the 'Information Centre' and click on 'Announcements'.

Coming soon

Look out for updates on futurefocus **here**:

- ESG jargon buster
- Introduction to our ESG and Net Zero policies
- More about engagement, what it is and how it works?
- ESG and our DC investment options

Getting in contact

If you have a general question about the content of this bulletin try visiting futurefocus (https://futurefocus.staff.hsbc.co.uk) or if you have a query about your benefits, you can contact the HSBC Administration Team at:

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Legal Note

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Issued by HSBC Bank Pension Trust (UK) Limited 2023