Asset Management

Stewardship Plan

May 2022

HSBC | Opening up a world of opportunity

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General approach to stewardship and engagement

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.

There are three primary ways in which effective stewardship can enhance investment outcomes:

1 Driving growth

At its essence, stewardship is acting in the best interests of asset owners. This means holding boards accountable for execution oversight. It also supports spotting early sustainability themes and visionary companies behind new opportunities. As part of stewardship, engagement activities guide strategic growth plans by addressing stakeholder related challenges.

2 Managing dynamic materiality of risks

Stewardship activities put constructive pressure on companies to evaluate how they will navigate an emerging landscape of risks.

3 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 business, leading to changes that enhance growth and risk management.

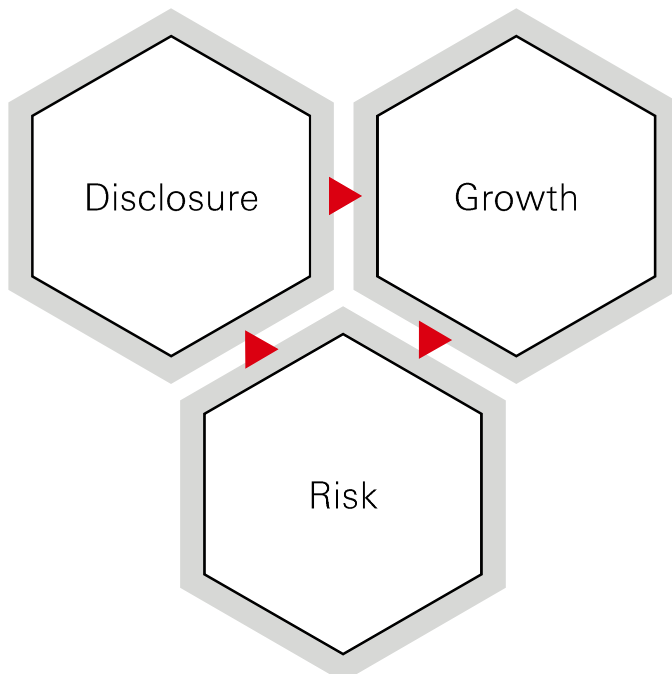


Figure 1 - The Stewardship Wheel

Altogether, stewardship and engagement is a vital component of our investment process, and offers valuable insights into the culture and quality of an investee company's leadership.

We have a six-step approach towards selecting target engagement companies.

1

Qualify global universe

- Identify the largest aggregate equity and fixed income exposures globally
- Apply a backward-looking screen under specific assessment categories, including proprietary ESG analysis
- Apply a forward-looking screen based on relevant targets and company commitments
- Experience-led assessment of engageability, covering availability of company representatives and insightfulness of prior discussions
- Where there is exposure to specific-events that cause investors' concern, we will engage reactively and establish relevant engagement objectives

2

Assess active exposure

Identify the most significant holdings, taking overweight positions into account and considering materiality of issues

3

Prioritise ability for impact

Identify issuers with over US$10 million and two per cent shareholding exposure where we can have higher absolute influence

4

Sector balanced checks

Re-balance to ensure key sectors related to net zero transition and biodiversity are included, avoiding over-weight to financial services and technology companies seen in key markets and indices

5

Consider thematic focus

Re-balance to ensure that our engagement company targets are relevant to our top down thematic priorities, including:

- Climate change
- Biodiversity and nature-based solutions
- Human rights
- Diversity, equity and inclusion
- Inclusive growth (including access to healthcare and tax transparency)
- Trusted technology and data

6

Consider geographic implications

Re-balance to ensure that our engagement has meaningful exposure in Asia and emerging markets, or companies with large exposure in those markets, given our presence and ability for impact there

How we set objectives

We apply a six-milestones based approach towards outcomes-oriented engagement:

1. Case open – raising concerns with issuer demonstrating intention to drive change
2. Case confirmed – our concerns are acknowledged by issuer as valid
3. Additionality – how HSBC Asset Management contributes to change at issuer
4. Plan for change – issuer puts in place a plan for change with required resources
5. Change delivered – targeted change complete and change outcomes specified
6. Case study written by HSBC, fact checked by issuer and published to make it accessible by all stakeholders

We assign an intensity status to each target company based on:

1. The expected frequency of engagement
2. The seniority level of access and
3. The urgency of escalation required

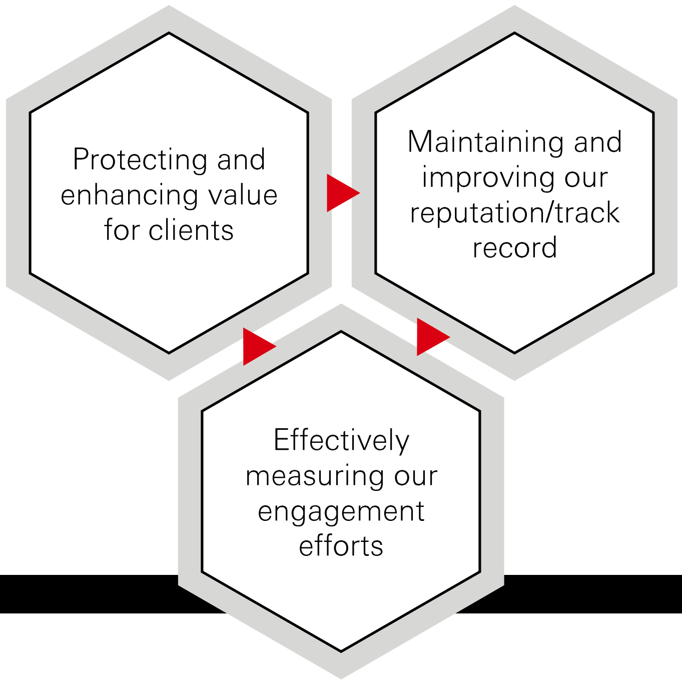
The intensity status influences the level of resources we devote to each company, and the escalation pathways we may adopt.

We will also engage with companies if an unforeseen and relevant event takes place, such as a worker safety issue. In such circumstances, we will take an event-driven approach, seek improvement commitments from the company, and provide comments on their corrective plans.

Our escalation process

Escalation in stewardship prioritises engagement over divestment. If we divest, we will be in a disadvantaged position to influence companies. However, we will divest as a last resort if we deem engagement to be unsuccessful in a time frame we consider as reasonable for companies to implement desired changes.

Figure 2 - Why we escalate?



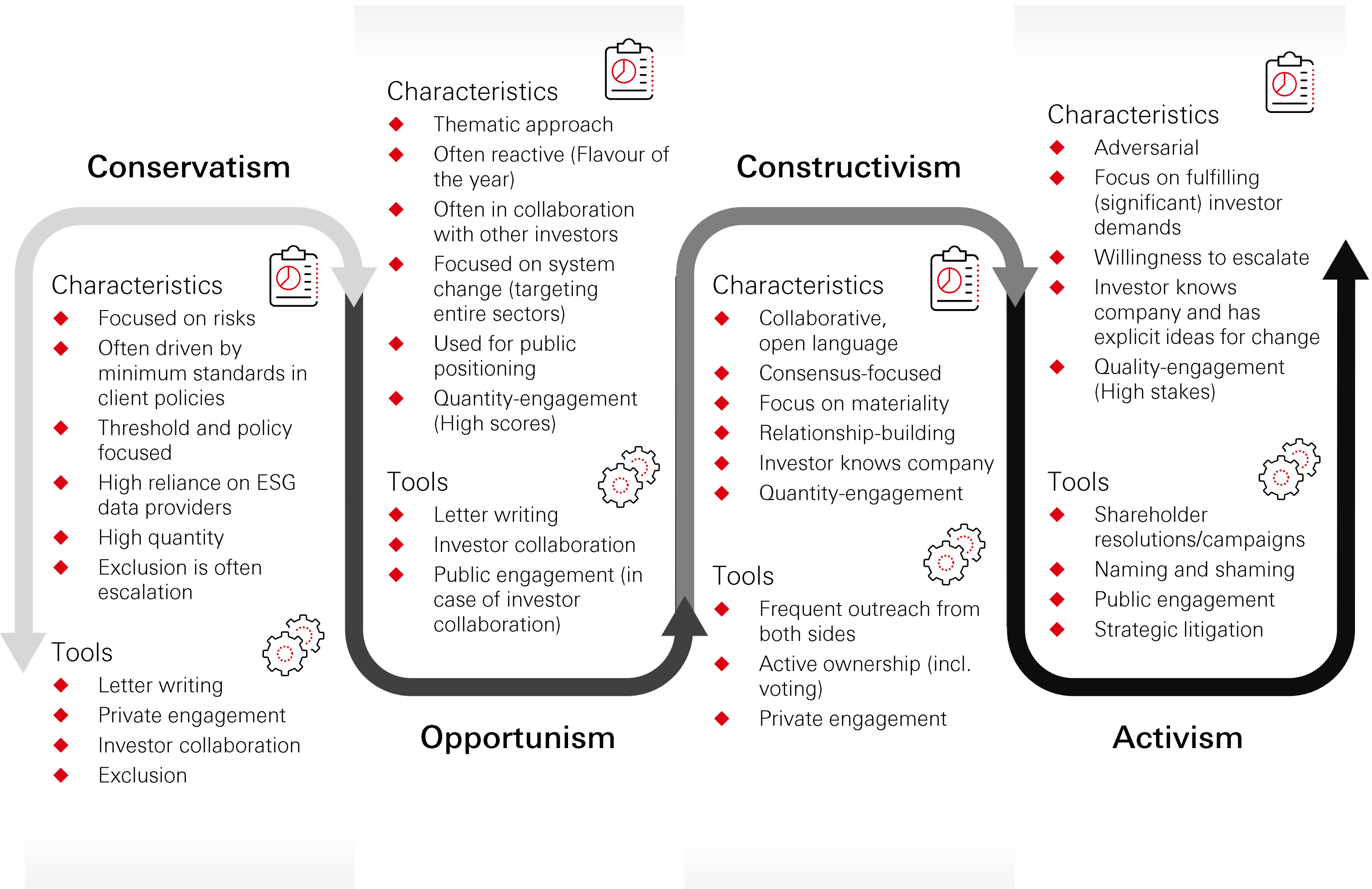
The decision to escalate is determined by several factors. For example, when an issuer does not respond, or when collaborative engagements are required to change the incumbent and undesirable practices of an industry.

Options in escalation pathways are considered early in each engagement, setting clear expectations to prevent unnecessary escalation. 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 both sides. Escalation is targeted to issuers where previous, traditional engagement has not produced the desired results.

Our escalation checklist includes but is not limited to:

- Has the issuer or its Board of Directors ignored repeated attempts to discuss needed improvements, disclosure or risk oversight?
- Has the company, C-Suite or Board of Directors become so entrenched and unresponsive that our engagement hasn't resulted in improvement?
- Is our view shared by others on the market?
- Have we satisfied our own or our clients guidelines regarding the issue, market or sector?

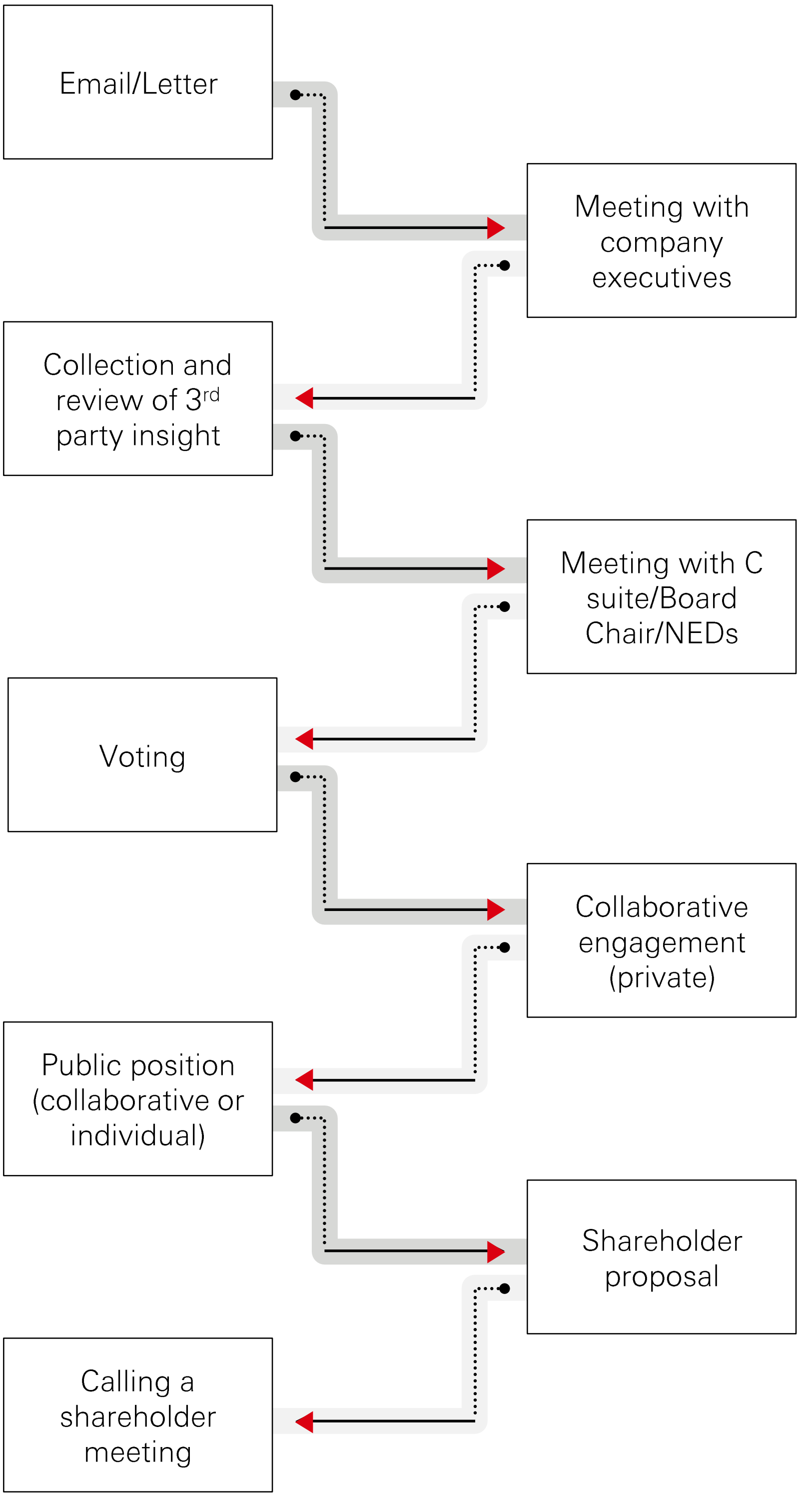
Figure 3 - Escalation characteristics and tools[1]



From our perspective, engagement characteristics (Figure 3) can overlap and will evolve. Accordingly, we use diverse strategies to reflect our view on the risk and opportunities presented by the company, region or sector, bearing in mind that changes at larger companies can be a positive catalyst for smaller sized ones. Opportunism and conservatism can be defined as top-down approaches, whilst activism and constructivism are considered bottom-up approaches.

1. Professor Robert Eccles et al (2021) Value Creation of Active Engagement, City of London UK-China Green Finance ELF Forum. HSBC is a co-author of the report. Source: Eccles, Mooij and Stroehle, 2021, Four Strategies for Effective Engagement.

Figure 4 - Potential Escalation Action Chain



We may use some or all of the methods of escalation outlined in Figure 4, and may change the order on a case by case basis. 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 the shareholder meeting in an attempt 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.

In the case of an advisory voting item receiving good support, but then disregarded or inadequately implemented by the Board, this may provide us with confidence to pursue escalation through other means. Each escalation must be judged on its own individual risks and merits. Allocation of resources to this process will increase as we progress through the action chain.

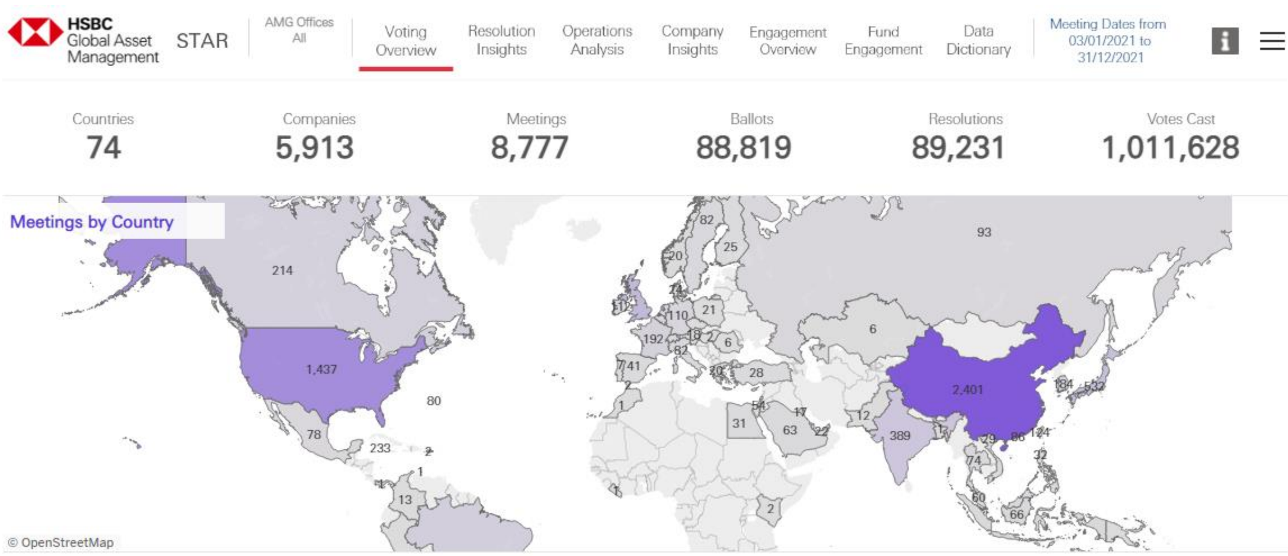
Productive escalation requires that our reporting framework be effective in tracking engagement to measure responsiveness.

The top-down stewardship strategy is proposed by the Stewardship team and approved by the Sustainability Forum, led by the Sustainability Office. This strategy is reviewed at least once a year, while voting activity is reviewed on a quarterly basis by the ESG Oversight Committee, led by the Investment function. The bottom-up voting expectations which focuses on governance, audit and accounting, and remuneration issues are published online in the Voting Guidelines.

Private engagement records and statistics are reported to clients on a regular basis.

The ESG Oversight Committee has a consolidated view on the outcomes of engagement, and milestones that have been met. The relevant statistics are available from the proprietarily developed Stewardship Tool for Analytics and Reporting, 'STAR' dashboard (Figure 5).

Figure 5 – Stewardship Tool for Analytics and Reporting ("STAR Dashboard")



If we decide to establish a public position on an issue about a company, such as through a public statement or filing a shareholder proposal, the rationale of such an escalation will be debated at the Sustainability forum, led by our Chief Executive Officer and Chief Investment Officer. The content will be reviewed by legal, compliance and risk functions.

Top-down thematic engagement and voting strategy

Our objectives and approach to addressing climate change issues align with the Climate Change policy and Coal policy published online.

Our position

We are a member of the Net Zero Asset Managers initiative[1] and commit to supporting the goal of net zero greenhouse gas ('GHG') emissions by 2050. We engage with issuers exposed to thermal coal extraction and power generation. Concretely, we focus on those with more than 20 per cent of revenues from coal extraction by the end of 2022, and 10 per cent by the end of 2025. Also in scope are those with more than 30 per cent coal-fired power generating capacity by the end of 2022, and 10 per cent by the end of 2025. We support a just transition[2] where we engage with issuers to ensure that impact assessments on workers, supply chain, communities and consumers are taken into consideration of their net zero transition plans.

What we do

We have been involved in the Climate Action 100+ since its inception and continue to lead engagement with companies, notably those with long and complicated supply chains. We continue our involvement in the CDP non-disclosure campaign, and are actively engaged in discussion with International Financial Reporting Standards (IFRS) Foundation and the International Sustainability Standards Board (ISSB) on financial and sustainability reporting 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.

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

We engage with companies on:

- Their commitment to net zero and a just transition, and how they set interim targets;
- Improving their emissions disclosure, such as scope 3 emissions; and
- Setting a reasonable price on carbon and supporting the development of a global coordinated and transparent platform for carbon markets and trading.

We expect companies to provide Climate Key Performance Indicators (KPIs) 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).

How we vote

We may vote against the Chair of the Board or the relevant Board of Directors of companies operating in high emitting sectors who fail to implement adequate reporting on climate issues.

In 2022, we apply a 'Say on Climate' watch list using Transition Pathway Initiative climate transition and Influence Map's organisational metrics as reference.

		TPI	**CA100+ influence map score**
Highest carbon intensive sectors (oil and gas, coal mining, utilities)	Developed markets	below 4	'misaligned'
	Emerging markets	below 3	
High carbon intensive sectors (airlines, aluminium, autos, cement, chemicals, consumer goods, diversified mining, industrials, paper, shipping, steel)	Developed markets	below 3	'strongly misaligned'
	Emerging markets	below 2	

Our position

According to the Stockholm Resilience Centre, which first developed the planetary boundaries framework, biodiversity and nature-based pillars of the planet's biosphere integrity are already the furthest beyond what is considered a safe level, even more so than climate change[1].

We believe that biodiversity and natural systems health are absolutely integral to future planetary sustainability, and that a narrow focus on climate change and carbon emissions will not create a resilient planet. Companies that do not address biodiversity loss will face increasing risks over time. For this reason, a few of our recent initiatives include:

- The participation in the Task Force for Nature Related Financial Disclosures (TNFD);
- The development of a natural capital real assets investment business - Climate Asset Management;
- An early signatory of the Finance for Biodiversity Pledge, and participation in the ongoing working groups; and
- The launch of a biodiversity ETF.

What we do

We are working to understand corporate impact on nature, and corporate exposure to nature decline. We are doing this by acquiring data sets to understand which companies and sectors are most exposed, and are also considering the actions an investor can take to drive change. Finally, we are providing support to a range of investment teams who require greater understanding on nature, and how to ensure their investment decision-making is aligned with a higher nature future.

Using the aforementioned data, and in collaboration with portfolio managers, we are developing a list of high impact companies that we believe our global engagement efforts should be most focused on in the medium term. Unsurprisingly, many of these companies are involved in consumer staples, utilities, and materials sectors, where they have a large biodiversity impact as well as significant dependence on nature. Our focus is on companies where we have a large 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.

1. https://www.stockholmresilience.org/

In terms of engagement outcomes, there are key areas for consideration:

1. Understanding impacts and dependencies, management and mitigation of biodiversity risk: policy and strategy, measurement, corporate action
2. Promotion of biodiversity net gain: regulations, targets, incentives
3. Encouraging biodiversity reporting, in future in line with the TNFD

How we vote

We may vote against the Chair of the Board or the relevant Board of Directors of companies operating in high impact sectors – such as consumer staples, utilities and materials – who fail to implement adequate policies and reporting on biodiversity issues. For example, we expect all companies to have a credible deforestation policy.

In 2022, we apply a Biodiversity and Nature watch list, customised from the FAIRR Protein Producer Initiative assessment and MSCI Natural Resource Management Scores, supplemented by our internal analysis. We look for companies that are highly exposed to nature risk and have a negative impact, yet are not deemed to be doing enough to mitigate the challenges.

For the poorest performers in high-impact sectors, we may vote against the Chair of the board or the relevant board of directors if a company scores below 20 based on the indicators we have highlighted as important. We aim to set higher expectations to below 40 in 2023 for relevant companies in developed markets.

Our position

All companies are expected to identify potential human rights violations by their subsidiaries and by companies with which they have an established commercial relationship.

We are committed to respecting and protecting human rights to the best of our abilities. We support and are guided by international principles and standards, and expect the companies that we invest in to be held to these standards:

- United Nations Universal Declaration of Human Rights;
- International Labour Organization's labour standards;
- United Nations Guiding Principles for Business and Human Rights;
- United Nations Global Compact; and
- The OECD Guidelines for Multinational Enterprises

What we do

We recognise that human rights issues are complex and have become increasingly politicised. Alleged human rights violations in a company's operations and/or supply chain present risks both for our investments and our reputation.

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 the hard law, 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 soft laws and expectations that may incur potential liability for companies[1].

We are guided by the UN Working Group on Business and Human Rights ten year roadmap[2], published in November 2021. The Roadmap draws attention to the key role of other influencing parties of business practices beyond regulators and investors: business lawyers and corporate advisory providers – including accounting firms, auditors, social audit providers, management consultancies, and public relations firms. We may engage with these stakeholders if we consider that they can play a role in helping companies to make improvements in their human rights practices.

1. Diggs, Regan and Parance (2019) Business and Human Rights as a Galaxy of Norms Georgetown Journal of International Law, Vol. 50, No. 2, 309.
2. https://www.ohchr.org/EN/Issues/Business/Pages/UNGPsBizHRsnext10.aspx

How we vote

We identify human rights violations using the Global Standards Screening solution from Sustainalytics[1]. This helps us to identify companies that are violating, or are at risk of violating, UNGC principles 1 and 2, and related guidelines under the UNGP and OECD Guidelines for MNEs.

Companies that are assessed as non-compliant in any of the UNGC principles are subject to our Enhanced Due Diligence process, which requires investment teams to conduct further diligence on the non-compliant issues identified. For companies that do not comply with principles 1 and 2, we have established a Human Rights watchlist, to be monitored and updated periodically. For companies with non-compliant status as at the annual shareholder meeting, we may vote against the Chair of the board or the relevant Board of Directors if they are up for re-election, on the basis that the non-compliance represents a deficiency in or failure of governance and oversight.

If the company's violation of UNGC P1 or P2 remains in place after two years, we may consider further escalation strategies, including exclusion.

1. Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights / Principle 2: Businesses should make sure that they are not complicit in human rights abuses

Our position

We are a member of the UK Diversity Project and the Hong Kong Board Diversity initiative (part of the 30 per cent club Hong Kong chapter), where HSBC Group is a member of the 30 per cent Club. On workforce disclosure, we continue to support Share Action's Workforce Disclosure Initiative (WDI) and encourage our investee companies to participate.

Within HSBC Asset Management, we have established over ten work streams to promote all forms of diversity by theme and by function. We seek to learn from our own experience to inform issuers on how to address challenges related to DEI, from pipeline development, ways to address fairness and unconscious bias, to best practices in fair hiring practices and talent management.

Globally, a high number of issuers have under 30 per cent of women on their boards. This varies somewhat by region, with an average of less than 20 per cent representation in most emerging market countries, to an average of 30 to 40 per cent in North America and Europe. We see increasing evidence that diverse companies can outperform peers thanks to the benefits brought about by having a more representative board.

By addressing gender and ethnic diversity at the board level, we hope to also begin a conversation with companies about diversity lower down the organisation, from the executive team, to the way hiring is conducted at the entry level.

What we do

We set stretching targets for board diversity in the following key markets:

- In Continental Europe, we expect large and mega cap boards to have 40 per cent gender diverse board, 35 per cent for mid cap and 30 per cent for small and micro-cap;
- In the UK, we expect FTSE100, FTSE250 and FTSE Small Cap companies to appoint at least one director from an ethnic minority background by 2022;
- 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 by 2022; we expect mega cap boards to have 40 per cent female directors; mid and large to have 35 per cent; and small and micro cap to have 30 per cent;
- In Hong Kong and Mainland China, we expect all companies to have 20 per cent female directors by 2022, to reach 25 per cent by 2025 and 30 per cent by 2028;
- In Japan, we expect TOPIX100 companies to have at least15 per cent women among directors in 2022 and to reach 20 per cent by 2025, and other companies to have at least 10 per cent in 2022; and
- In India, we expect large cap companies to have at least one independent female director by 2022 and to reach 20 per cent gender diversity by 2025.

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 impact particular sectors where systemic change may be achieved. Stock exchanges, who 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.

How we vote

We implement our voting policy on all owned companies, across active and passive mandates. Engagement will focus on larger positions in active and passive funds, and on holdings where on aggregate we hold a large share of the company. For companies not meeting our expectations, we may vote against the Chair of the nomination committee or other relevant Board of Directors, unless the company communicates a timely and credible plan to us to meet our expectations.

We encourage companies to consider not only diversity at the board level, but also at the C-level, and more broadly throughout the workforce. We will seek evidence of a board skills matrix and workforce planning to ensure a decent pipeline of diverse talent, and ask companies to articulate how they capture the DEI dividend beyond workforce disclosure statistics.

Our position

In the longer term, we believe excessive inequality may create systemic risks, such as the breakdown in social cohesion and trust, disruptions to political stability, and financial system turbulence. We believe higher, and more equitable growth is in the interests of our clients, as higher growth rates, and greater innovation, create more investment opportunities.

In the US, the average large company CEO earns 310 times the median US wage. It means that at present, executive pay represents three per cent of the free cash flow generated by the business. This is a significant cost for investors.

What we do

Monopoly power, extreme pay differentials, and tax transparency are three areas that we believe are core to challenges associated with shared prosperity. We have developed policies to enhance our engagement, voting and integration on these issues.

How we vote

We vote on executive pay in the US and the UK using an approach which promotes the need to better balance senior executives' performance, and fairness. We will vote for pay plans that meet our framework, which allows the CEO to earn between 20 and 170 times the national median wage in the United States, and United Kingdom[1]. Executives are rewarded in greater quantity for making the company bigger, or for running a more complex business[2].

Specifically, we will provide an against 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.

That being said, we will scrutinize corporate pay policies individually and with nuance. For example, we will take into account 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 a number of years, is in line with safe and fair levels of reward.

We will support shareholder resolutions that will improve access to healthcare for under-privileged communities. For companies not meeting our expectations, we may vote against the Chair of the Board or other relevant Board of Directors, unless the company communicates a timely and credible plan to us to improve access to healthcare.

1. For context, CEO to average salary in the UK is around 200x, 180x in South Africa, 140x in Germany, 130x in China, 70x in South Korea, 60x in Mexico.
2. Our voting impact analysis suggests this approach may lead us to vote against the Advisory vote on CEO pay for over half of CEO pay packages.

Access to healthcare

Our position

We are a member of the PRI Collaborative Engagement on Access to Medicine and SDG3.

We expect companies to develop approaches for systematically ensuring that research and development projects are paired with plans to increase access in poorer countries, ensure responsible promotional practices and have policies in place to address anti-bribery and corruption risks, product safety and supply chain management issues.

What we do

We engage with the big pharma, generic medicine manufacturers, vaccine manufacturers, diagnostic companies and private hospitals, referencing data and research provided by Access to Medicine Foundation[1] and our internal analysis.

We encourage companies to reference the SDI Asset Owner Platform taxonomy[2] when considering their SDG contributions to affordable healthcare.

How we vote

To be assessed on a case-by-case basis, but for companies not meeting our expectations, we may vote against the Chair of the Board or other relevant Board of Directors, unless the company communicates a timely and credible plan to us to improve access to healthcare.

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.

We will support shareholder resolutions that will improve access to healthcare for under-privileged communities.

1. https://accesstomedicinefoundation.org/
2. https://www.sdi-aop.org/

Our position

We believe that the rate corporates pay in tax is a useful action-based indicator on how a company thinks about serving wider stakeholders. In the shorter term, we also note the possible valuation impact on issuers of increased tax rates. After many years of negotiation, the 136 nation members of the OECD reached an agreement in 2021 for a minimum tax rate of 15 per cent for large companies. According to our analysis, of the 2500 largest companies in the world, 20 per cent pay under 15 per cent effective tax, and the percentage figure of the group is much higher if it is weighted by market capitalisation[1].

What we do

We identify unacceptably low tax payers, and payers who are spending heavily on tax avoidance strategies, which may conflict with their narratives on responsible corporate citizenship. We also take into consideration the proportion of audit fees spent on tax advice as an indicator.

How we vote

Engagement will focus on the largest holdings in active and passive mandates, and where tax contributions are the most inappropriately low.

We may vote against the Chair of the Board or other relevant Board of Directors, unless the company communicates a timely and credible responsible tax plan to us.

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.

1. Bloomberg data, December 2021

Our position

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 being transmitted and/or stored on a daily basis, companies should proactively engage on SDG16: Peace, Justice and Strong Institutions as an ongoing commitment. Trusted data facilitates informed decision making that is vital regarding 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, a necessary and logical step in keeping pace with the rapid digitisation undertaken by companies over the last decade.

Positive corporate actions on information security is integral to responsible environmental and social practices. Engagement should encourage companies to limit potential costs by addressing cybersecurity risks and improving overall security of their IT infrastructure.

Trusted technology and data is a critical component of the board's risk oversight responsibilities. A major breach experienced by a listed company will damage investor confidence and can lead to financial penalty. Globally, the 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 security risk.

What we do

Engagement should encourage companies to reduce potential cyber risks and improve their overall information security. Data protection, data security, and data breach prevention strategies will also help achieve this and should be integrated into information security policies.

A company will be measured against these evolving indicators:

- A company needs to have various safeguards and procedures in place regarding storage, access, protection and usage. Data collection and data ethics go hand-in-hand. The Privacy by Design concept should be implemented.
- AI and algorithms used need regular review and refinement, and tested against expected outcomes to assess deviation.
- The chief information officer (or equivalent) regularly briefs executive management and/or the board of directors on information security risks.
- A company should have up to date information security experience amongst its board of directors.
- A company should integrate information security in its risk register and has a structured process to review and update it.

- A company should put in place fit for purpose information security insurance policies.
- Companies should possess independent, 3rd party attestation or certification of their InfoSec strategy as part of their enterprise risk management (examples are FedRamp or SOC 2 or ISO 27001, FISMA, or HITRUST certification in the relevant industry). The entire company should have high standards, not just specific business segments or regions.
- Information Security training for employees should be part of a risk mitigation strategy. A minimum, annual InfoSec awareness training should be in place. Along with additional measures such as enhanced training for specific personnel, special training for the board or executives etc.

How we vote

We make assessment on a case-by-case basis, but for companies that are evidently failing to provide trusted information or ensure IT security, we may vote against the Chair of the Board or other relevant Board of Directors.

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