Asset Management

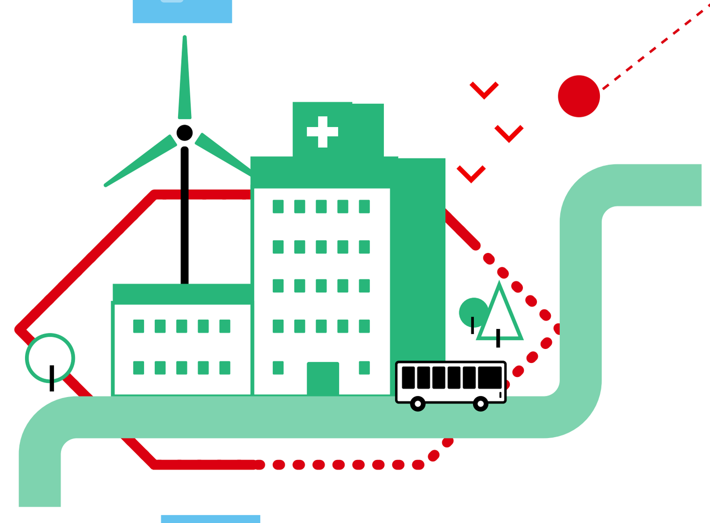
A Just Transition

Why a Just Transition is needed

1

The transition to a sustainable, low emissions future is among the most significant economic transformations of our era. It contains the potential to mitigate the worst impacts of climate change and transform living standards worldwide. However, unless a maximum number of people is enabled to contribute to and benefit from the transition, the world risks severe disruption to societies, governments and the operating environment of the companies in which we invest.

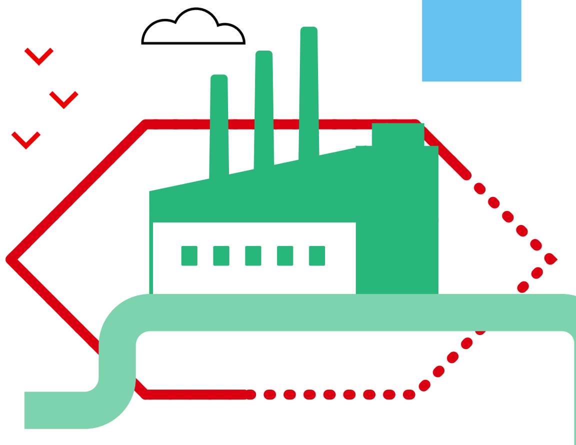
To be sustainable in the long term, a just transition is needed to green the economy in a way that is as fair and inclusive as possible.



Avoiding an unequal transition

2

There is no doubt that the transition will disproportionately impact sectors, countries and regions differently. People are at the centre of this movement, whether they be workers in heavy emission sectors facing redundancies, consumers bearing higher energy prices, or communities that have depended for years on the socioeconomic benefits of a nearby power plant. These are considerations to be taken in account when transitioning to a greener economy.



- **58.6%** Emissions by Developed Countries
- **40.9%** Emissions by Developing Countries
- **0.5%** Emissions by Least Developed Countries (LDCs)

Source: UNCTAD. 2022. "In pursuit of an inclusive energy transition".

Data Source: Global Carbon Project (emissions) and UNCTAD Statistics (GDP per capita).

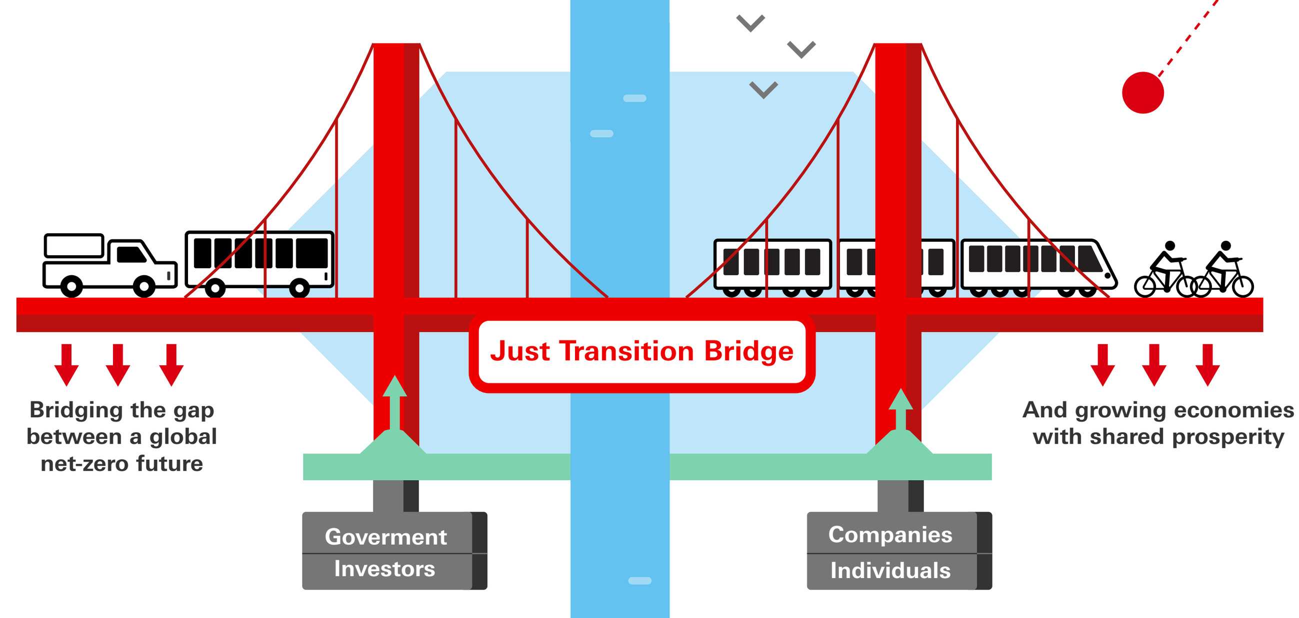
Note: CO2 emissions correspond to territorial emissions from fossil fuels

The impact of a Just Transition for investors

3

Ensuring a just transition is critical to supporting social cohesion and economic stability over the long term, thereby underpinning the operating environment of the companies that we invest in.

We believe applying the Just Transition lens to our investment approach supports our clients in achieving outcomes that better reflect the evolving risk-and-return drivers influencing asset-class performances over time.



Our role as an asset manager in a Just Transition

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We direct capital towards where it's most needed to assist the transition

As an asset manager operating in both developed and emerging markets, we know that directing financial flows solely to the most advanced countries will not address the problems we collectively seek to solve. Accordingly, we proactively create specific investment solutions in emerging markets that aim to speed up the transition.

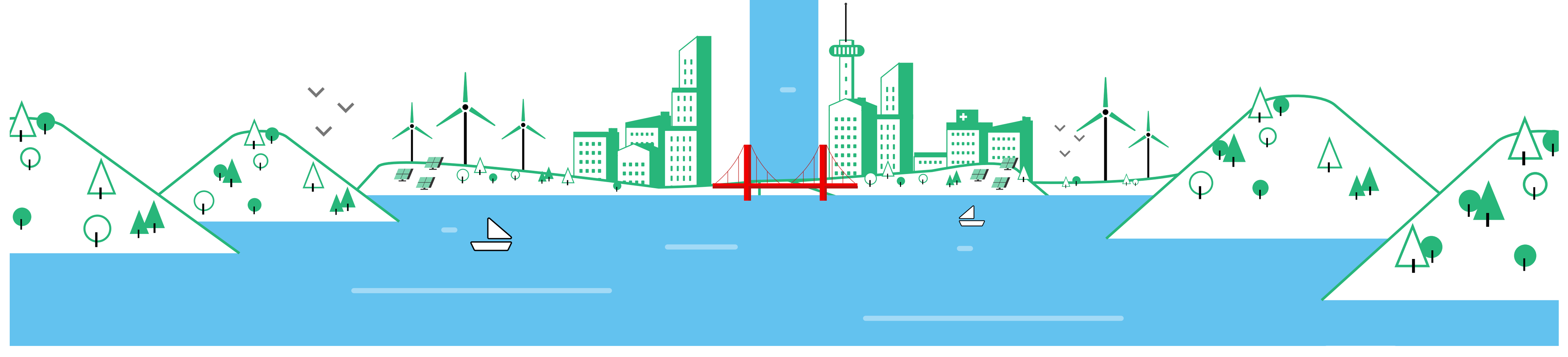
We engage with companies and policymakers to promote sustainable behaviour

We encourage companies to pivot their businesses to more sustainable models and to develop a transition plan that takes all stakeholders into consideration. We believe that effective engagement helps provide greater transparency and insights that may help us identify companies with better sustainability profiles or, conversely, discover issues that pose risks to a company's growth. We also engage with multinational institutions and policymakers to encourage them to drive the transition and social investment at scale.

We go beyond the 'E' and 'G' in ESG when evaluating companies and issuers

As part of 'S', we seek to identify the externalities of a company today and into the future, including its social impacts such as labour practices, supply chain management, inclusivity, and workplace safety. As the measurement of climate data becomes more refined, assessing the scope and scale of potential societal impacts creates both opportunities and challenges. We rise to assess both through our global network of locally based investment professionals, with deep expertise across sectors and markets.

Overall, we think that many investment opportunities will arise from the net-zero transition and that our focus on a just transition is an opportunity for us to allocate capital in a way that drives positive change.



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 on our net zero strategy, please visit: **https://www.assetmanagement.hsbc.co.uk/en/institutional-investor/about-us/road-to-net-zero.**

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