

In this section, we outline our engagement themes and key actions that we believe mitigate risk and/or enhance value and therefore encourage investee companies to work towards in order to address the relevant issues associated with these themes.

These actions provide guidance on good practices. We recognise that issuers are at different stages of progress. In practice, we adapt our approach to reflect each organisation’s specific circumstances, maturity and risk exposure. Our aim is to set engagement objectives that are clear, actionable and tailored to the capabilities and context of the issuers we engage with. This includes a strong focus on regional context, particularly for emerging markets and developing economies (EMDE), to ensure we strike the right balance between meaningful change and the specific nuances of each region.

The key actions we outline are not exhaustive, and we acknowledge that many of our themes are interconnected, with each potentially influencing and being influenced by the others.

## Overview of themes

Theme	Key engagement topics	
Corporate Governance	<ul style="list-style-type: none"> <li>Board effectiveness</li> <li>Accountability</li> </ul>	<ul style="list-style-type: none"> <li>Market standards</li> <li>Disclosures and transparency</li> </ul>
Climate Change	<ul style="list-style-type: none"> <li>Strategy</li> <li>Risk and reporting</li> <li>Adaptation and physical risks</li> </ul>	<ul style="list-style-type: none"> <li>Just Transition</li> <li>Governance</li> </ul>
Bioeconomy and Natural Capital	<ul style="list-style-type: none"> <li>Strategy</li> <li>Risk and reporting</li> </ul>	<ul style="list-style-type: none"> <li>Governance</li> <li>Engagement</li> </ul>
Human Rights	<ul style="list-style-type: none"> <li>Policy and oversight</li> <li>Due diligence and mitigation</li> </ul>	<ul style="list-style-type: none"> <li>Grievance mechanisms and remediation</li> <li>Supply chain and contractor management</li> <li>Ongoing monitoring and disclosures</li> </ul>
Social Opportunities	<ul style="list-style-type: none"> <li>Working conditions</li> <li>Fair reward</li> </ul>	<ul style="list-style-type: none"> <li>Inclusion and belonging</li> <li>Access and affordability</li> </ul>
Trusted Technology and Data	<ul style="list-style-type: none"> <li>Technology and data risks</li> <li>Security and protection</li> </ul>	<ul style="list-style-type: none"> <li>Privacy and digital rights</li> <li>Technology and data solutions</li> <li>Technology and data governance</li> </ul>

## Corporate Governance



### Why we engage

We believe that good corporate governance is critical to business success and value creation. It provides the framework for accountability, transparency, and effective decision making.

Boards are responsible for maintaining high standards of corporate governance and holding management to account for the performance of the business. They play an important role in overseeing the implementation of corporate strategy and promoting a strong company culture that aligns with investor interests and broader stakeholder expectations. Additionally, boards oversee the company’s management of risks and opportunities, as well as capital allocation decisions, including those related to sustainability. We believe that an effective board will help management navigate today’s complex and uncertain macroeconomic environment, building resilience across the company.

In our engagements, we expect our investee companies to uphold high standards of corporate governance. Just as boards hold management to account, our role is to hold boards to account on behalf of our clients.

### Issues relating to this theme include:

Business Ethics	Corruption & Instability
Management of the Legal & Regulatory Environment	Business Risk Management
Governance Issues (pay, ownership structure, board, remuneration)	Transparency, Reporting, and Accounting

## Corporate Governance

### Engagement approach

We reference the International Corporate Governance Network (ICGN)'s Global Governance Principles (2021),<sup>8</sup> the G20/OECD Principles of Corporate Governance (2023),<sup>9</sup> as well as local codes.

<p><b>Board effectiveness</b></p>	<ul style="list-style-type: none"> <li>◆ When setting engagement objectives, we recognise the interconnectedness of different governance issues. For example, the separation of the Chair and CEO roles, overall board independence and diversity levels are closely linked to the board's approach to succession planning. Succession planning may be influenced by the presence of a controlling shareholder, a highly influential leader, or entrenched culture and values.</li> <li>◆ For directors to succeed in discharging their duties and responsibilities, we consider a number of attributes, including but not limited to relevant leadership experience, independence, skill sets, succession planning, attendance and time commitments, and the composition and effectiveness of board-level committees.</li> </ul>
<p><b>Accountability</b></p>	<ul style="list-style-type: none"> <li>◆ We expect corporate strategies and incentive structures to align with – and for the board to act to protect – minority shareholder interests. This includes ensuring appropriate levels and structures of remuneration, guardrails against the over-concentration of power (e.g., through weighted voting rights), as well as sound capital allocation and shareholder return policies.</li> <li>◆ We also engage companies on business continuity, incident management, business ethics, anti-bribery and corruption, whistleblowing mechanisms and audit effectiveness. We expect boards to provide oversight on these issues and remediation measures.</li> </ul>
<p><b>Market standards</b></p>	<ul style="list-style-type: none"> <li>◆ We aim to engage with regulators and respond to market consultations that seek to enhance corporate governance, either directly with standard setters or via industry associations. We participate in industry organisations and initiatives, including those with a specific focus on sustainability topics. (See System Stewardship in Section 3 for further information.)</li> </ul>
<p><b>Disclosures and transparency</b></p>	<ul style="list-style-type: none"> <li>◆ We encourage companies to disclose how they identify and manage sustainability risks, as well as how the board oversees these risks.</li> <li>◆ We support the adoption of IFRS sustainability disclosure standards and advocate for the assurance of these disclosures to strengthen investor trust and confidence.</li> <li>◆ We also support transparency on taxes, lobbying activities and political donations.</li> </ul>

8. The ICGN's Global Governance Principles can be accessed via this link: <https://www.icgn.org/icgn-global-governance-principles>.

9. The G20/OECD Principles of Corporate Governance can be accessed via this link: <https://www.oecd.org/corporate/principles-corporate-governance/>.

## Climate change



## Why we engage

Climate change continues to reshape our world, with far-reaching and systemic implications for investors. The Intergovernmental Panel on Climate Change (IPCC), in its most recent Synthesis Report, estimates that emissions have already resulted in a 1.1°C rise, with 1.5°C likely to be reached by 2030.<sup>10</sup> Without significant action, global temperatures are projected to rise between 2.2°C and 3.5°C by 2100.<sup>11</sup> Such an increase would result in more frequent extreme weather events, rising sea levels, and irreversible ecological damage.

Increased exposure to extremely high temperatures is linked to a reduction in firms' revenues and operating income,<sup>12</sup> while changing temperatures and weather shocks are associated with negative economic impacts.<sup>13</sup>

To address climate risks, policymakers and regulators have acted, aiming to reduce emissions, improve climate reporting, and enhance risk management while also facilitating the movement of capital to companies at the forefront of the transition to a low-carbon economy. However, the global regulatory environment remains volatile, with shifting political dynamics adding further uncertainty. For our investee companies, this means growing exposure to transition risks and the need to adopt flexible and forward-looking strategies that align with sustainability goals while also navigating evolving regulatory frameworks.<sup>14</sup>

The cost of inaction is estimated to far outweigh the cost of mitigation needed to limit global warming to within 2°C. Adaptation alone requires huge investment; developing countries, for example, are estimated to need between \$215 billion and \$387 billion per year this decade alone to adapt to climate change.<sup>15</sup>

For investors, addressing physical climate risks within portfolios and actively pursuing investments in adaptation solutions, may enhance the resilience of their portfolios to the impacts of climate change.

Corporate stewardship plays a key role in integrating climate risks and opportunities into investment strategies by encouraging companies to prepare for a changing climate landscape.

10. Intergovernmental Panel on Climate Change (IPCC). (2023). Summary for policymakers. In H. Lee & J. Romero (Eds.), *Climate change 2023: Synthesis report. Contribution of Working Groups I, II and III to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change* (pp. 1-34). IPCC. [https://doi.org/10.59327/IPCC/AR6-9789291691647\\_001](https://doi.org/10.59327/IPCC/AR6-9789291691647_001).
11. *Ibid.*
12. Pankratz, N., Bauer, R., & Derwall, J. (2023). Climate change, firm performance, and investor surprises. *Management Science*, 69(12). <https://doi.org/10.1287/mnsc.2023.4685>.
13. Tol, R. S. J. (2024). A meta-analysis of the total economic impact of climate change. *Energy Policy*, 185, 113922. <https://doi.org/10.1016/j.enpol.2023.113922>.
14. See the following paper for a study on how transition risk impacts firm performance in different regions: Reboredo, J. C., & Ugolini, A. (2022). Climate transition risk, profitability, and stock prices. *International Review of Financial Analysis*, 83, 102271. <https://doi.org/10.1016/j.irfa.2022.102271>.
15. United Nations Environment Programme (UNEP). (2023). *Adaptation gap report 2023*. <https://www.unep.org/resources/adaptation-gap-report-2023>.

## Climate change

Issues relating to this theme include:

Climate Transition Risk	Green Solutions	Net Zero Strategy	Energy Management
Just Transition Risk	Physical Climate Risk	GHG Emissions	

### Responsible Investing Policies

Our global responsible investing policies have been developed to guide our investment and engagement activities.<sup>16</sup> Our policies are subject to change over time to respond to evolving global norms, regulatory developments, and client preferences.

### Coal Policy

Under the HSBC AM Coal Policy, we engage with companies with more than 10 per cent revenue exposure to thermal and/or metallurgical coal, prioritising those in which we have the highest exposure.

### Energy Policy

Under the HSBC AM Energy Policy, we will engage with and assess transition plans of listed issuers responsible for around 70 per cent of relevant emissions. We have commenced engagement with Oil and Gas, and Power and Utilities companies in this group, and will continue to have conversations with these companies as they transition.



16. HSBC AM policies, including our Coal and Energy policies, are available via this link: <https://www.assetmanagement.hsbc.com.hk/en/intermediary/about-us/responsible-investing/policies>.

## Climate change

### Engagement approach

When engaging with companies, we consider a variety of risks and potential value creation opportunities, including our internal net zero alignment assessment of those constituting our top 70% of financed emissions. We highlight good practices below and encourage priority companies, where climate change is a relevant issue, to work towards these.

<p><b>Climate strategy</b> including decarbonisation and emissions reduction</p>	<ul style="list-style-type: none"> <li>◆ Set a net zero ambition from the company that covers all material areas of business and operations, aligned with the objectives of the Paris Agreement.</li> <li>◆ Develop clear short and medium-term emission reduction targets, for scope 1, scope 2 and material scope 3 emissions.</li> <li>◆ Set out sector-based decarbonisation strategies supporting the achievement of the company's net zero target, including climate solutions and objectives to grow green revenue.</li> <li>◆ Set out capital expenditure plans to support the company's climate targets and objectives.</li> <li>◆ For companies covered under our Coal or Energy policies, set out a credible transition plan.</li> </ul>
<p><b>Climate risk and reporting</b></p>	<ul style="list-style-type: none"> <li>◆ Disclose emissions data and seek independent assurance of this information.</li> <li>◆ Publish comprehensive climate risk disclosures and scenario planning, including details on assumptions used e.g., carbon pricing. We strongly encourage companies to align with the recommendations of the TCFD and report in accordance with IFRS S2.</li> </ul>
<p><b>Climate adaptation and physical risks</b></p>	<ul style="list-style-type: none"> <li>◆ Evaluate and disclose potential risks, resilience gaps and opportunities related to physical climate impacts over short, medium and long-term horizons against established pathways. This should encompass the company's assets, operations and value chain.</li> <li>◆ Develop a clear plan to manage, monitor and adapt to physical risks, including measures to strengthen operational and value chain resilience, as well as metrics and targets to track progress over a period of time.</li> <li>◆ Embed physical climate risk considerations into corporate strategy, capital expenditure plans and risk management processes to support business resilience.</li> <li>◆ Disclose the impacts of physical events on the company's operations and value chain, where significant.</li> <li>◆ Assess how physical climate hazards - such as heat stress, wildfire smoke, extreme weather, and vector-borne disease - affect the health of workers, customers, communities and other stakeholders, and disclose the company's response, including mitigation measures and/or related opportunities if relevant for sector.</li> </ul>
<p><b>Just Transition</b></p>	<ul style="list-style-type: none"> <li>◆ Set out how the company has engaged with stakeholders, including workers, suppliers, and communities to identify impacts associated with the energy transition in their climate strategy.</li> <li>◆ Identify risks and opportunities related to a Just Transition and develop a suitable approach to addressing these considerations.</li> <li>◆ Integrate Just Transition objectives within transition plans, for example, specific metrics or objectives in relation to employee training and development, green job creation, and dialogue, among others.</li> </ul>
<p><b>Climate governance</b> including lobbying</p>	<ul style="list-style-type: none"> <li>◆ Ensure senior management is accountable for the company's climate strategy and that there is sufficient board oversight of material climate risks.</li> <li>◆ To publish the company's climate policy engagement position and assess alignment of lobbying activities with the goals of the Paris Agreement.</li> </ul>

### Climate change

#### Spotlight: Methane Emissions

Methane is a significant contributor to global warming, with the fossil fuel sector producing more than 35% of methane emissions caused by human activities.<sup>17</sup> To align with the IEA's Net Zero by 2050 scenario, emissions must decrease by 75% by 2030, with the IEA estimating that 30% of methane emissions can be avoided at no net cost for the fossil fuel sector.<sup>18</sup>

Reducing methane emissions in the coal mining and the oil and gas sectors presents the largest and most immediate opportunity. Methane is released during coal extraction and from leaks, venting, and flaring in oil and gas operations, leading to inefficiencies and financial losses. These sectors face increasing scrutiny due to tightening global regulations.

We encourage companies in these sectors to actively reduce methane emissions by measuring and transparently reporting them, setting reduction strategies with clear targets, and participating in initiatives like the Oil and Gas Methane Partnership (OGMP) 2.0.<sup>19</sup>

Investors can facilitate transformation by engaging with companies, supporting policy development, and refining assessment methodologies. Addressing methane emissions is both a regulatory necessity and an opportunity to enhance operational efficiency and financial performance. By meeting these expectations, companies can demonstrate leadership in methane management, mitigate regulatory and market risks, and contribute to global climate goals, ultimately protecting and enhancing long-term investor returns.

17. International Energy Agency. (2025). Global Methane Tracker 2025: Understanding methane emissions. <https://www.iea.org/reports/global-methane-tracker-2025/understanding-methane-emissions>.

18. Ibid.

19. Please refer to the following link for further information: <https://www.ogmpartnership.org/>.



### Bioeconomy and natural capital



#### Why we engage

The bioeconomy, in this context, refers to an economic system that utilises biological resources, such as plants, animals, and microorganisms, to produce food, materials, and energy. Natural capital refers to the world's stocks of natural assets, including geology, soil, air, water, and all living things.

Biodiversity loss and the degradation of natural ecosystems have reached critical levels, posing significant economic, ecological, and social risks. Ecosystem services are important for many of the industries and companies in which we invest on behalf of our clients - over half of the world's total GDP is estimated to be moderately or highly dependent on nature and its services.<sup>20</sup> Similarly, exceeding "tipping points" in key ecosystem services, such as wild pollination, marine fisheries, and timber provision, could result in losses of \$2.7 trillion in global GDP by 2030 – over 2% of global output - with low-income countries hit hardest.<sup>21</sup> Companies that negatively impact biodiversity and nature are increasingly exposed to regulatory and reputational risks, as governments and the public pay more attention to these issues.

Over one quarter of the world's species are now estimated to be threatened with extinction.<sup>22</sup> This decline jeopardises ecosystem services essential for human wellbeing, such as pollination, water purification and the regulation of our climate. Nature offers many social benefits to society, in addition to its inherent worth. As a result, there is growing interest from investors in business models that help to restore, rather than degrade, biodiversity and nature.

The bioeconomy and natural capital are broad and complex issues, but they can be addressed in our engagements by focusing on key areas, including (but not limited to) deforestation, agricultural practices (such as regenerative agriculture), responsible husbandry (including animal welfare and mitigating antimicrobial resistance), the overexploitation of natural resources, pollution (air, water, land), and promoting the circular economy.

20. World Economic Forum. (2020). Nature risk rising: Why the crisis engulfing nature matters for business and the economy. [https://www3.weforum.org/docs/WEF\\_New\\_Nature\\_Economy\\_Report\\_2020.pdf](https://www3.weforum.org/docs/WEF_New_Nature_Economy_Report_2020.pdf). See also PricewaterhouseCoopers. (2023). Managing nature risks: A guide for business. <https://www.pwc.com/gx/en/strategy-and-business/content/sbpwc-2023-04-19-Managing-nature-risks-v2.pdf>.
21. Johnson, J. A., Ruta, G., Baldos, U., Cervigni, R., Chonabayashi, S., Corong, E., Gavryliuk, O., Gerber, J., Hertel, T., Nootenboom, C., & Polasky, S. (2021). The economic case for nature: A global earth-economy model to assess development policy pathways. World Bank. <https://hdl.handle.net/10986/35882>.
22. Please refer to the IUCN Red List for further information: <https://www.iucnredlist.org/>.

## Bioeconomy and natural capital

Issues relating to this theme include:

Air Quality, Pollution & Toxic Waste	Nature-Based Solutions	Raw Material Sourcing	Biodiversity & Ecological Impacts
Nature Strategy	Water & Wastewater Management	Circular Economy Solutions	Product Design & Lifecycle Management

### Engagement approach

We recognise that biodiversity and nature encompass a broad range of topics and that practices continue to evolve in this space. We highlight good practices below and encourage priority companies, where bioeconomy and natural capital are relevant issues, to work towards these. As part of this we also consider sector and industry specific actions.

We acknowledge that this topic is complex and that addressing it through setting targets, as an example, can be challenging, particularly as science-based sectoral pathways and universal data metrics continue to evolve. However, we encourage companies to continue to make progress, and to utilise the many public resources available. During our engagements, we aim to share knowledge to support positive outcomes.

We encourage companies we engage with to:

<b>Bioeconomy and natural capital strategy</b>	<ul style="list-style-type: none"> <li>◆ Publicly recognise the importance of biodiversity and nature loss, and to commit to minimising their negative impacts, as well as to work towards conserving and restoring ecosystems across their operations and value chains by 2030.</li> <li>◆ Develop a company-wide plan on how they will achieve this. We believe that companies should prioritise action where they can contribute most positively to biodiversity and nature, such as implementing a zero-deforestation policy or committing not to operate in or source from biodiversity-sensitive areas as examples.</li> <li>◆ Set clear time-bound and science-based targets informed by their specific impacts, dependencies, risks, and opportunities, and include information about baselines and methodologies used.</li> </ul>
<b>Bioeconomy and natural capital risk and reporting</b>	<ul style="list-style-type: none"> <li>◆ Assess the impacts, dependencies, risks, and opportunities related to biodiversity and nature across their operations and value chains.</li> <li>◆ Publicly disclose progress on nature and biodiversity topics at least annually in sustainability reports and/or in other reporting frameworks. We also encourage companies to work towards reporting under the Taskforce for Nature-related Financial Disclosures (TNFD).</li> </ul>
<b>Bioeconomy and natural capital governance</b>	<ul style="list-style-type: none"> <li>◆ Establish and disclose board-level and management oversight to promote accountability and transparency, and be clear about the scope of activities covered.</li> <li>◆ Upskill employees on biodiversity and nature topics relevant to the company.</li> </ul>
<b>Bioeconomy and natural capital engagement</b>	<ul style="list-style-type: none"> <li>◆ Work across value chains to learn and share best practices, in collaboration with Indigenous Peoples and Local Communities when they are affected.</li> <li>◆ Work to positively influence system-level change through participation in trade associations and interactions with policy makers and other stakeholders.</li> </ul>

## Human Rights



### Why we engage

Businesses play an important role in respecting and upholding human rights, which is increasingly recognised as a key factor in regulatory compliance, reputational risk management, operational stability, and supply chain resilience. As investors, we prioritise human rights allegations that carry the greatest risk of causing or contributing to significant adverse impacts by companies in our investment portfolios.

Failure to address these violations can escalate into legal penalties, regulatory investigations, operational and supply chain disruptions, damage to brand reputation, boycotts, and loss of market access. These risks not only impact the financial performance of individual investee companies but also create financial and reputational risks for our clients' investments.

Human rights legislation and regulations have been on the rise around the world, evolving from disclosure requirements to include mandatory supply chain due diligence and import controls. There are ongoing industry efforts to standardise human rights disclosures, such as the recently launched Taskforce on Inequality and Social-related Financial Disclosures (TISFD) and IFRS' work plan to explore human capital as a potential future disclosure standard.<sup>23</sup>

Adverse human rights impacts, such as modern slavery, can arise in any sector. However, certain industries, geographies, or business models are at heightened risk. When engaging with investee companies, we focus on adverse impacts that a company has accountability, oversight and influence over, whilst recognising that an issue may sometimes be intertwined with broader political and systemic challenges and may be beyond the company's control.

### Issues relating to this theme include:

Human Rights

Community Relations

Supply Chain Management

23. Please refer to the following links for further information: <https://www.tisfd.org/> and <https://www.ifrs.org/projects/work-plan/human-capital/#about>.

## Human Rights

### Engagement approach

We highlight good practices below and encourage priority companies, where human rights are a relevant issue, to work towards these.

<p>Human rights policy and oversight</p>	<ul style="list-style-type: none"> <li>◆ Establish a public policy committing to respect human rights, ideally aligned with a global standard such as the UN Guiding Principles for Business and Human Rights, the UN Global Compact, or the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct.<sup>24</sup></li> <li>◆ Provide evidence of board and senior management oversight of human rights commitments, practices, and performance.</li> </ul>
<p>Due diligence and mitigation</p>	<ul style="list-style-type: none"> <li>◆ Develop a robust due diligence process to identify, assess, and disclose human rights impacts on stakeholders from the company’s operations, products and services, and business relationships. The approach may vary depending on industry, geography or business model.</li> <li>◆ Establish measures to avoid causing or contributing to adverse human rights impacts and implement mitigation plans, prioritising those with highest risks.</li> <li>◆ Identify and report on key performance indicators to track mitigation measures and adverse impacts.</li> <li>◆ Update due diligence assessments periodically.</li> </ul>
<p>Grievance mechanisms and remediation</p>	<ul style="list-style-type: none"> <li>◆ Provide grievance channels that are legitimate, accessible, predictable, equitable, transparent and free from perceived or actual retaliation.</li> <li>◆ Where violations are found, ensure timely investigation and develop corrective action plans. Consider third-party opinions, and provide impacted stakeholders with effective remedies and communications.</li> <li>◆ Report on grievance data, including number, type, location and resolutions.</li> <li>◆ Where applicable, report on efforts to consult, engage or enter mediation with relevant stakeholders, and the outcomes.</li> </ul>
<p>Supply chain and contractor management</p>	<ul style="list-style-type: none"> <li>◆ Conduct pre-onboarding due diligence and ongoing monitoring of suppliers and contractors to assess their exposure to human rights risks.</li> <li>◆ Conduct supplier and contractor audits using a risk-based approach, based on human rights due diligence assessments, while ensuring independence of auditors.</li> <li>◆ Where applicable for specific industries, obtain independent certifications from suppliers based on recognised standards, and encourage them to seek certifications from suppliers at various levels of the supply chain (“Tier-N” suppliers).</li> </ul>
<p>Ongoing monitoring and disclosures</p>	<ul style="list-style-type: none"> <li>◆ Ensure findings are integrated into relevant business processes, and monitor for evolving and emerging risks on an ongoing basis.</li> <li>◆ Provide greater transparency through disclosures across these areas, including relevant metrics, targets and case studies.</li> </ul>

We recognise that sometimes system-level stewardship is needed to tackle broader challenges related to human rights – for example, to improve the transparency and consistency of human rights data and assessments carried out by commercial data providers.

24. Please refer to the following links for further information: [https://www.ohchr.org/sites/default/files/documents/publications/guidingprinciplesbusinesshr\\_en.pdf](https://www.ohchr.org/sites/default/files/documents/publications/guidingprinciplesbusinesshr_en.pdf); <https://unglobalcompact.org/what-is-gc/mission/principles>; and <https://mneguidelines.oecd.org/>.

## Social Opportunities



### Why we engage

Significant investment opportunities can arise from societies becoming more economically inclusive, with a greater number of people having higher incomes to spend and invest. In our own portfolios, we have observed through our engagement that companies providing good working conditions, and fair reward, report to have employees who are more engaged and productive, thereby driving our investee companies forward through loyalty, innovation, and excellent customer service. Academic research has found a link between employee satisfaction and firm value for countries with flexible labour markets, with companies listed among the “Best Companies to Work For” outperforming their peers in stock market performance.<sup>25</sup> Research has also found that the positive relationship between employee satisfaction and outperformance is particularly strong during market downturns, which can be beneficial for investors, employees, and wider society.<sup>26</sup>

Widening access and affordability to essential services – such as banking, insurance, medicine and education – may support long-term value creation by expanding economic participation and increasing household financial resilience. Empirical studies show that expanding financial services to underserved populations can benefit financial institutions, including stronger performance and profitability, although this is influenced by country context.<sup>27</sup>

While the specific outcomes of diversity can vary based on a range of factors – such as company culture and governance – diversity of experiences, skills, viewpoints and backgrounds is recognised by investors and other stakeholders as a way to bring broader perspectives to decision-making, and enhance the ability to navigate complex challenges. Gender diversity has been positively linked with firm performance,<sup>28</sup> although the broader social context remains important in determining the strength of this relationship.<sup>29</sup>

### Issues relating to this theme include:

Access & Affordability	Employee Engagement
Labour Relations	Inclusion & Belonging
Health & Safety	Social Inclusion Opportunities

25. Edmans, A., Pu, D., Zhang, C., & Li, L. (2023). Employee satisfaction, labor market flexibility, and stock returns around the world. European Corporate Governance Institute (ECGI) - Finance Working Paper No. 433/2014. <http://dx.doi.org/10.2139/ssrn.2461003>.
26. Boustanifar, H., & Kang, Y. D. (2021). Employee satisfaction and long-run stock returns, 1984-2020. Financial Analysts Journal, 78(3), 129-151. <http://dx.doi.org/10.2139/ssrn.3933687>.
27. Saidi, H., Hakimi, A., Adili, L., & Hamdi, H. (2025). Does financial inclusion improve bank performance in the MENA region? Evidence from GCC and non-GCC countries. Banking & Finance. <https://doi.org/10.1080/23311975.2025.2547083>.
28. Brahma, S., Nwafor, C., & Boateng, A. (2021). Board gender diversity and firm performance: The UK evidence. International Journal of Finance and Economics, 26(4), 5704-5719. <https://doi.org/10.1002/ijfe.2089>.
29. Zhang, L. (2020). An institutional approach to gender diversity and firm performance. Organization Science, 31(2). <https://doi.org/10.1287/orsc.2019.1297>.

## Social Opportunities

### Engagement approach

We highlight good practices below and encourage priority companies, where social opportunities are relevant, to work towards these.

<p>Working conditions</p>	<ul style="list-style-type: none"> <li>◆ Set robust targets and take steps to protect the health and safety of workers.</li> <li>◆ Develop employee training programs and opportunities for career progression, and measure outcomes of these initiatives.</li> <li>◆ Provide formal platforms for workers to give feedback to management, and strong, safe mechanisms for staff to raise ethical concerns.</li> <li>◆ Disclose, via public reporting, high-quality information and narratives on working conditions, career development, and worker voice, allowing investors to understand how companies develop and manage talent.</li> </ul>
<p>Fair reward</p>	<ul style="list-style-type: none"> <li>◆ Provide living wages to staff,<sup>30</sup> visibility and flexibility in working hours, and other meaningful benefits such as broad-based share ownership schemes.</li> <li>◆ Disclose and reduce pay gaps in accordance with applicable legal and regulatory requirements.</li> <li>◆ Ensure executive team pay is reasonable within the company and societal context.</li> </ul>
<p>Inclusion and belonging</p>	<ul style="list-style-type: none"> <li>◆ Improve diversity, including of backgrounds, skills, experiences, and viewpoints, at all levels, including the board, senior management, and the wider workforce, through appropriate hiring, training and promotion processes.</li> <li>◆ Collect, publish, and monitor granular diversity data, disaggregated by seniority and regions/countries of operation.<sup>31</sup></li> <li>◆ Set time-bound targets for improvement on diversity metrics where permitted under applicable law.</li> <li>◆ Take steps to ensure that everyone feels included and respected. These steps should cover different stages of employment, including hiring, training, promotion, and daily work arrangements.</li> <li>◆ Periodically measure and report on the progress of inclusion initiatives.</li> </ul>
<p>Access and affordability</p>	<ul style="list-style-type: none"> <li>◆ Explore value-creating opportunities to provide essential products and services, such as banking, insurance, education and healthcare, to underserved populations.</li> </ul>

30. Defined by the Global Living Wage Coalition as: 'The remuneration received for a standard workweek by a worker in a particular place sufficient to afford a decent standard of living for the worker and her or his family.' Please refer to the following link for further information: <https://www.globallivingwage.org/about/what-is-a-living-wage/>.

31. We are aware of certain market-specific circumstances that make data collection challenging, and we tailor our engagements to reflect this.

## Trusted Technology and Data

### Why we engage

Digital connectivity can support international collaboration, economic growth, and sustainable development. However, rapid changes in technology can be disruptive to both society and businesses, creating significant risks and opportunities for investors.

Governments and regulators, including those in the UK, EU, and US, have introduced or proposed new rules to address risks from digital technologies, including from artificial intelligence (AI) and digital assets.<sup>32</sup> This follows earlier regulations on privacy and data protection, such as the EU’s General Data Protection Regulation (GDPR). Regulations increase compliance costs and the risk of large penalties for breaches. They may also lag behind innovations, meaning some risks may not be addressed at the company or system level. At the same time, major technology firms are intensifying lobbying efforts to shape regulations in ways that align with their business interests.

Cybersecurity threats continue to grow in scale and sophistication, with attacks posing significant financial, operational and reputational risks to companies and their stakeholders. Protecting companies from cybersecurity threats, particularly those that provide critical infrastructure, is an increasing focus area of governments.<sup>33</sup>

Misinformation and disinformation on digital platforms can distort public perceptions and erode trust in institutions. This can pose risks to companies and financial markets, for example, by damaging corporate reputations, amplifying market volatility, or undermining investor confidence. Digital platforms are also subject to shutdowns and censorship by state actors, with implications for human rights as well as business continuity.

Growing demand for digital products, especially AI, is increasing demand for energy and raw materials. The IEA predicts that electricity consumption from data centres could double by 2030.<sup>34</sup> Meanwhile, economic shocks (such as COVID-19) and geopolitical competition for key materials and components (such as semiconductors), can impact production costs and output volumes for some sectors.

### Issues relating to this theme include:

Data Security & Privacy	Product/Service Governance & Responsibility	Product/Service Quality & Safety
-------------------------	---------------------------------------------	----------------------------------

32. For example, Digital Markets, Competition and Consumers Act 2024 (UK) (<https://www.legislation.gov.uk/ukpga/2024/13/contents>), Digital Markets Act (EU) ([https://eur-lex.europa.eu/legal-content/EN/TXT/?toc=OJ%3A2022%3A265%3ATOC&uri=uriserv%3A0J.L\\_.2022.265.01.0001.01.ENG](https://eur-lex.europa.eu/legal-content/EN/TXT/?toc=OJ%3A2022%3A265%3ATOC&uri=uriserv%3A0J.L_.2022.265.01.0001.01.ENG)), and Financial Innovation and Technology for the 21st Century Act (US) (<https://www.congress.gov/bills/118th-congress/house-bill/4763>).

33. For example, UK Government’s Cyber Governance Code of Practice (<https://www.gov.uk/government/publications/cyber-governance-code-of-practice>).

34. International Energy Agency. (2025). Global Methane Tracker 2025: Understanding methane emissions. <https://www.iea.org/reports/global-methane-tracker-2025/understanding-methane-emissions>.



## Trusted Technology and Data

### Engagement approach

We highlight good practices below and encourage priority companies, where trusted technology and data are relevant issues, to work towards these.

<p>Technology and data risks</p>	<ul style="list-style-type: none"> <li>◆ Identify and report on how the company is managing sustainability and financial risks that may arise from their provision of, or use of, technology and data (including bias and misinformation).</li> <li>◆ Provide transparency regarding the use and impact of AI from an operational and product/service perspective.</li> <li>◆ Adopt international standards regarding AI e.g., ISO/IEC 42001.</li> </ul>
<p>Security and protection</p>	<ul style="list-style-type: none"> <li>◆ Take steps to protect cybersecurity, including within cyber supply chains.</li> <li>◆ Integrate effective protection, security, and prevention strategies into technology and data-related policies.</li> <li>◆ Carry out an independent review and verification of technology and data-related policies.</li> <li>◆ Adopt international standards regarding information security, cybersecurity, and privacy protection e.g., ISO/IEC 27001.</li> </ul>
<p>Privacy and digital rights</p>	<ul style="list-style-type: none"> <li>◆ Educate employees and users regarding data collection, storage, processing, and dissemination.</li> <li>◆ Safeguard data and user rights to privacy, and carry out due diligence on any business model or operations carrying a risk of rights infringement.</li> <li>◆ Take steps to uphold, protect, and respect human rights within a digital environment e.g., by implementing an independent and expert-driven committee to protect digital human rights in both real and digital environments.</li> </ul>
<p>Technology and data solutions</p>	<ul style="list-style-type: none"> <li>◆ Identify opportunities for technology and data solutions that address environmental and social practices.</li> </ul>
<p>Technology and data governance</p>	<ul style="list-style-type: none"> <li>◆ Ensure the board has clear responsibility for overseeing material technology risks, including cyber, AI, data governance and operational resilience.</li> <li>◆ Ensure the board has the necessary literacy and expertise to understand emerging technology threats and opportunities, in order to effectively oversee and challenge technology-related decisions.</li> </ul>



### Trusted Technology and Data

#### Spotlight: Data Centres

Sustainability issues that are material to a company's value and prospects are often interconnected with each other, creating dependencies and feedback loops. Sometimes an industry can evolve and advance quicker than regulations and societal expectations, presenting material risks and opportunities to investors that may change or crystallise quickly. These impacts may also send ripple effects across the economy to other industries. One example that we have observed is in the rapid growth of data centres.

Each of the issues on the next page link to the themes outlined earlier in our Stewardship Plan, where we have set out our engagement approach and good practices for companies. In addition to these, where material to a data centre owner or operator, we also encourage specific disclosures such as site-level social and environmental impact assessments, as well as key metrics such as power usage effectiveness, water usage effectiveness, water sourcing, incidents metrics and any remedial actions.



## Trusted Technology and Data

### Demands and Impacts

Key: **CG** Corporate Governance    **HR** Human Rights    **BNC** Bioeconomy and Natural Capital  
**CC** Climate Change    **SO** Social Opportunities    **TTD** Trusted Technology and Data

<p>Rising energy demand due to significant electricity consumption, estimated to double by 2030<sup>35</sup></p> <p><b>CC</b> <b>BNC</b> <b>HR</b> <b>TTD</b></p>	<ul style="list-style-type: none"> <li>◆ Growing investment in renewables, but also natural gas and nuclear energy, locking in more greenhouse gas emissions and nuclear waste.<sup>36</sup></li> <li>◆ Increased strain on the grid and energy costs for local residents, for example when capital expenditure for power generation expansion is passed to consumers.<sup>37</sup></li> <li>◆ Higher demand for renewable energy certificates, carbon removal and carbon offset credits can drive growth in innovation and nature-based solutions. However, there are concerns about the integrity, transparency and additionality of these certificates and credits, including concerns about potential double counting.</li> <li>◆ Potential avoided emissions from AI's efficiency gains but challenging to quantify with no standard methodology yet.</li> <li>◆ Uninterruptable backup power supply is typically fulfilled by diesel generators. Air pollution and noise from these can negatively impact local community health, leading to community opposition and diminished social licence to operate.</li> </ul>
<p>Data centres generate a significant amount of heat which require cooling</p> <p><b>CC</b> <b>BNC</b> <b>HR</b></p>	<ul style="list-style-type: none"> <li>◆ Traditional air cooling tends to be more energy-intensive, and there are examples of nearby residents complaining about noise and air pollution from cooling fans.<sup>38</sup></li> <li>◆ Liquid evaporative cooling consumes less energy but more water, which increases operational, regulatory and reputational risks in water-stressed locations. Initiatives and innovation to recover and reuse waste heat to heat homes and even cities can help to mitigate these risks.<sup>39</sup></li> </ul>
<p>Replacement of supporting hardware – chips and processors</p> <p><b>CC</b> <b>BNC</b> <b>HR</b> <b>SO</b></p>	<ul style="list-style-type: none"> <li>◆ Shorter asset replacement cycles generate more electronic waste, driving higher demand for minerals and raw materials. This in turn increases socio-environmental risks in the supply chain.</li> <li>◆ Circular economy models could help to mitigate cost and risks.</li> </ul>
<p>Talent attraction and socio-economic opportunities</p> <p><b>SO</b></p>	<ul style="list-style-type: none"> <li>◆ Construction-related positions are typically temporary, while the skilled and technical roles to operate a data centre are both limited in number and typically imported rather than hired from the local community.</li> </ul>
<p>Robust cybersecurity, physical security, business continuity and incident management are critical</p> <p><b>CG</b> <b>TTD</b></p>	<ul style="list-style-type: none"> <li>◆ Requires robust governance and oversight from the board and senior management to functional teams throughout an organisation, with ongoing monitoring through the enterprise risk management framework.</li> </ul>

35. International Energy Agency. (2025). Global Methane Tracker 2025: Understanding methane emissions. <https://www.iea.org/reports/global-methane-tracker-2025/understanding-methane-emissions>.

36. Krall, L. M., Macfarlane, A. M., & Ewing, R. C. (2022). Nuclear waste from small modular reactors. <https://doi.org/10.1073/pnas.2111833119>.

37. Please refer to the following links for examples: <https://www.bloomberg.com/graphics/2025-ai-data-centers-electricity-prices-and> <https://apnews.com/article/meta-data-center-louisiana-power-costs-4ce76b73c102727d71edbbb56abe1388>.

38. Please refer to the following link for an example: <https://www.businessinsider.com/data-centers-northern-virginia-noise-air-pollution-cost-2025-5>.

39. For more information and an example, please see: <https://www.irena.org/Innovation-landscape-for-smart-electrification/Power-to-heat-and-cooling/31-Waste-heat-recovery-from-data-centres> and <https://www.bloomberg.com/news/features/2025-05-14/finland-s-data-centers-are-heating-cities-too>.

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 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, investment manager's skill, 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.

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 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 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.sbf.cl](http://www.sbf.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) respectively 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 Malta by HSBC Global Asset Management (Malta) Limited which is regulated and licensed to conduct Investment Services by the Malta Financial Services Authority under the Investment Services Act;
- ◆ 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 Turkiye by HSBC Asset Management A.S. Turkiye (AMTU) which is regulated by Capital Markets Board of Turkiye. Any information here is not intended to distribute in any jurisdiction where AMTU does not have a right to. Any views here should not be perceived as investment advice, product/service offer and/or promise of income. Information given here might not be suitable for all investors and investors should be giving their own independent decisions. The investment information, comments and advice given herein are not part of investment advice activity. Investment advice services are provided by authorized institutions to persons and entities privately by considering their risk and return preferences, whereas the comments and advice included herein are of a general nature. Therefore, they may not fit your financial situation and risk and return preferences. For this reason, making an investment decision only by relying on the information given herein may not give rise to results that fit your expectations.
- ◆ 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.
- ◆ In Uruguay, operations by HSBC's headquarters or other offices of this bank located abroad are not subject to Uruguayan inspections or regulations and are not covered by warranty of the Uruguayan state. Further information may be obtained about the state guarantee to deposits at your bank or on [www.bcu.gub.uy](http://www.bcu.gub.uy).