ESG bulletin 2024

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

HSBC | futurefocus

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

Introduction

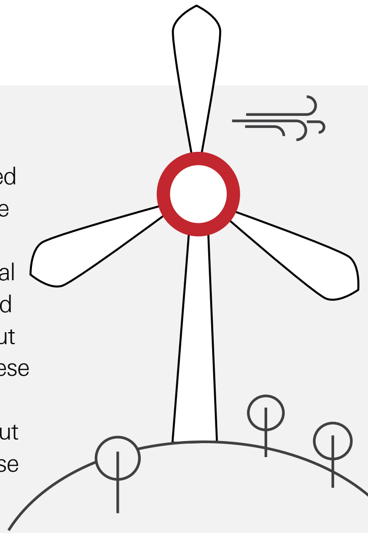
Welcome to our second annual update from the Scheme Trustee about our work managing Environmental, Social and Governance (ESG) risks and opportunities across the Scheme's assets. In this bulletin we provide an update on progress being made towards our net-zero greenhouse gas (GHG) emissions goal and tell you more about our ESG priorities.

The Trustee is responsible for the long-term management of the Scheme's assets. The ESG risks we focus on are large, system-wide risks that are likely to have a material financial impact.

The Scheme is a large, long-term asset owner and one of the largest in the UK. The value of the Scheme's Defined Benefit (DB) assets is £19.4 billion[1] and the Defined Contribution (DC) assets is £6.7 billion[1]. As a large investor in companies and governments around the world, the Scheme owns more or less a representative 'slice' of the global economy. This means that the Scheme can't avoid exposure to some significant risks that impact large parts of the global economy. These are commonly called system-wide risks. The Trustee recognises that global systems, such as the planet, its climate, its people and societies have a material impact on the whole of the economic system, today and over the longer term. Mindful of the best long-term financial interests of our members, we work to manage and mitigate ESG risks as best we can. The future investment income and growth of the Scheme's assets are essential to enhance the value of members' DC pension pots over the long-term, and to ensure members with DB pensions are paid in full as they fall due now, and over future decades.

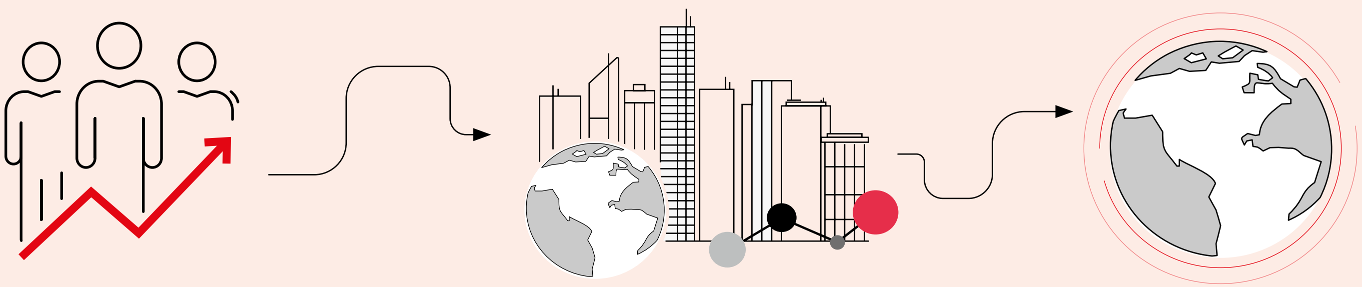
Our ESG priorities

In last year's bulletin, we introduced the Trustee's ESG priorities: climate change, biodiversity and nature-related risks, including antimicrobial resistance, and diversity, equity and inclusion. In this bulletin, we set out more detail on the relevance of these ESG risks to members, giving an update on what we are doing about them and the engagement on these issues (pages 4 to 7).



The Scheme will be making benefit payments for many more decades. That's why we plan for the long-term growth and protection of the Scheme's assets.

The majority of our members will still be alive in 2050, and some of our current members, and certainly many of our future members, will be here to welcome in the year 2100!



The Scheme has over 178 thousand members members aged from under 18 to over 100 years old[1].

Members' retirement outcomes are linked to a robust global economy in which the Scheme has £26.1 billion[1] invested.

The global economy relies on the long-term resilience of our planet, its people and societies.

[1]Scheme data as at 30 September 2023

Starting with the basics

Climate change

Climate change means the long-term shifts in temperatures and weather patterns. These can be natural, however since the 1800s, human activities have been the main reasons for climate change, primarily through burning fossil fuels like coal, oil and gas[1].

Burning fossil fuels generates greenhouse gas (GHG) emissions that act like a blanket wrapped around the Earth, trapping the sun's heat and raising temperatures[1].

The main GHGs in the atmosphere are carbon dioxide, methane and nitrous oxide.

Find out why this is important to the Scheme on page 4.

Biodiversity and nature

Biodiversity is short for biological diversity and means the variety of life on Earth. It includes the different species of plants, animals, micro-organisms and the ecosystems they form. Biodiversity is crucial for maintaining the balance of ecosystems to provide essential ecosystem services.

Ecosystem services are the benefits that people obtain such as air, food and water as well as water purification services, pollination and disease control.

Nature refers to everything that's not man-made, including plants, animals, landscapes, and naturally occurring materials, as well as natural processes like weather and the water cycle.

Find out why this is important to the Scheme on page 5.

Antimicrobial resistance

The misuse and overuse of antimicrobials (e.g. antibiotics) in humans, animals and plants are the main reasons for the development of antimicrobial resistance (AMR) pathogens[2].

For decades, antibiotics have been a literal life saver. However, AMR makes infections harder to treat and operations higher risk. It's estimated that bacterial AMR was directly responsible for the death of 1.27 million people global in 2019.

Find out why this is important to the Scheme on page 6.

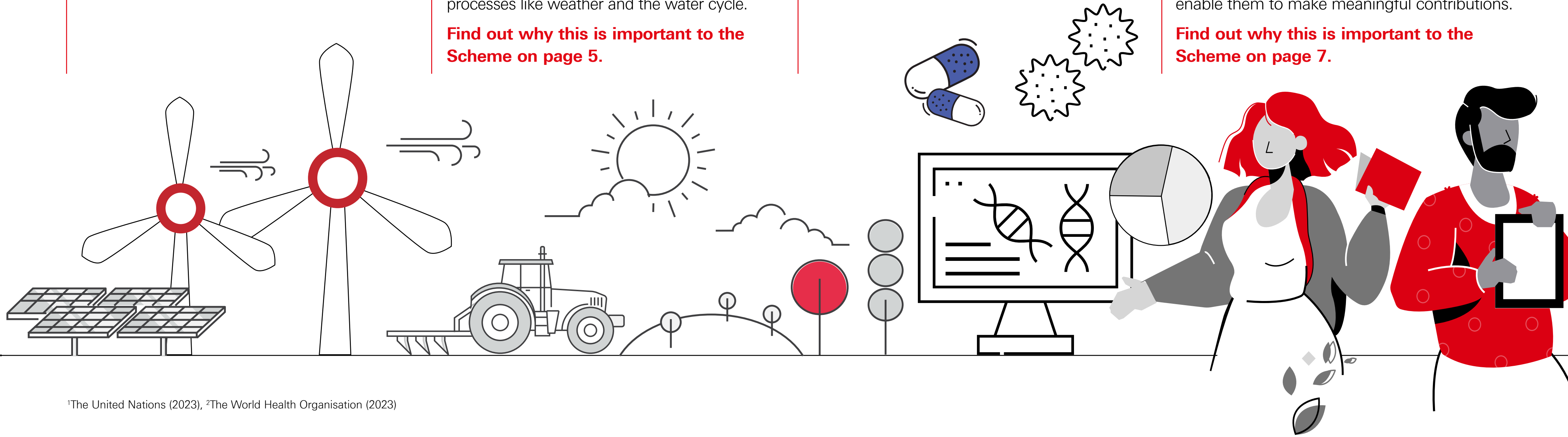
Diversity, equity & inclusion

Diversity, equity and inclusion policies in the workplace aim to create working environments and cultures where employees do not experience any disadvantage because of who they are or what they believe and where all employees are given the same opportunities as others according to their needs.

Diversity refers to who is represented at all levels in an organisation. It can include, for example, gender diversity, age diversity, ethnic diversity and physical ability and neurodiversity.

Equity means the fair treatment for all employees. Inclusion refers to how organizations embrace all employees and enable them to make meaningful contributions.

Find out why this is important to the Scheme on page 7.



[1]The United Nations (2023), [2]The World Health Organisation (2023)

Our ESG priorities - Climate change

Why is climate change important to the Scheme?

Climate change will affect the whole of the investment world through its impacts on the economy, society, and the planet. This means that climate change is an important system-wide risk and if it is not carefully managed, the Scheme's assets could miss out on new opportunities to add value or lead to reductions in value.

The impact of climate change on the global economy could be significant. One estimate is that limiting global warming to below 1.5°C by 2100 requires current spending to be US$ 2.4 trillion per year[1] on the energy sector alone.

The Trustee's commitments

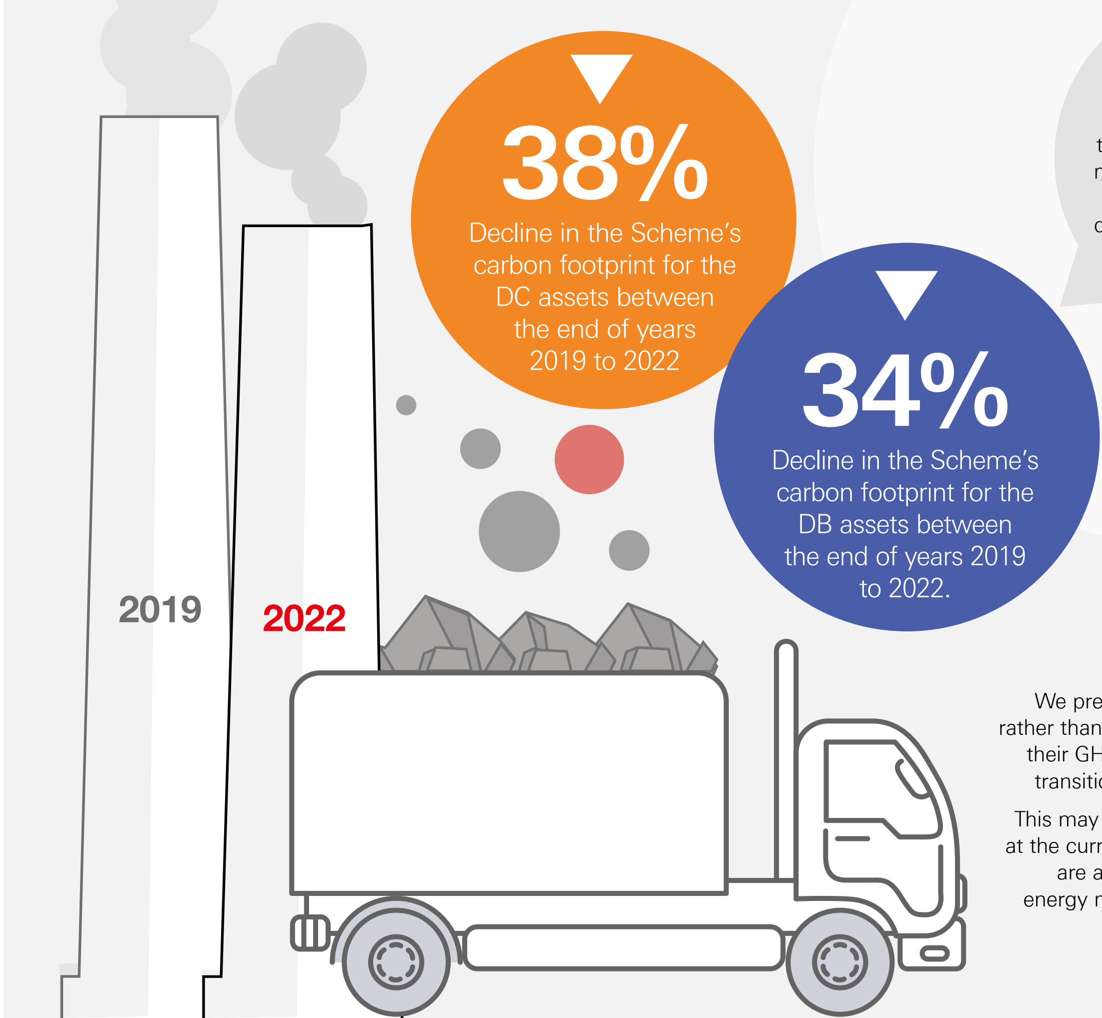
The Trustee is committed to playing its part to minimise the impact that climate change may have, and which may impact the Scheme's assets. It has adopted a set of climate targets:

- Achieving net-zero GHG emissions across the Scheme's DB and DC assets by 2050 or sooner.
- Targeting a real economy GHG emissions reduction interim target of 50% by 2030 or sooner[1] for the Scheme's equity and corporate bond investments.
- Enhancing the Trustee's engagement and stewardship efforts with the management of companies in which the Scheme's DB and DC assets are invested. We will do this by continuing to work closely with the Scheme's fund managers, to ensure they are engaging with company management, voting at company shareholder meetings and encouraging management to run their businesses sustainably.

[1]Intergovernmental Panel on Climate Change report 2018

Update on the Scheme's journey

Positive progress is being made towards our climate targets:



We have communicated our climate change target to all of the Scheme's fund managers and expect them to align their investment decision-making with these goals (see left).

We prefer to engage with companies, rather than exclude companies, to reduce their GHG emissions and speed up the transition to a lower carbon economy.

This may include oil and gas companies at the current time, recognising that they are an important part of the current energy mix and should be transitioning to a net-zero position.

Keep up-to-date

Read more detail about the Trustee's approach to climate change and recent progress in the Scheme's Task Force on Climate-related Financial Disclosures (TCFD) Report 2022. You will find the report and lots more information on futurefocus at: https://futurefocus.staff.hsbc.co.uk, choose 'The Scheme' drop-down menu at the top of the landing page and then click 'Managing ESG risks'.

Our ESG priorities - Biodiversity and nature

Why is biodiversity and nature important to the Scheme?

More than half of the world's economy is dependent on natural capital, which are the renewable and non-renewable resources that deliver the ecosystem services on which people and businesses depend[1].

The World Economic Forum's 2020 Global Risks Report ranks biodiversity loss as one of the top five threats in the next ten years[2] and estimates have been made that, if changes are not made, biodiversity decline could result in financial losses of US$ 10 trillion between 2011 and 2050.

The food and water sectors are dependent upon and impact climate and nature. It's estimated that around US$ 30 trillion of investment will be needed by 2050 to sustainably provide food and water to a global population of 10 billion[3].

Companies with products and services that address these issues will be in demand with the potential to provide additional long-term growth for the Scheme's assets.

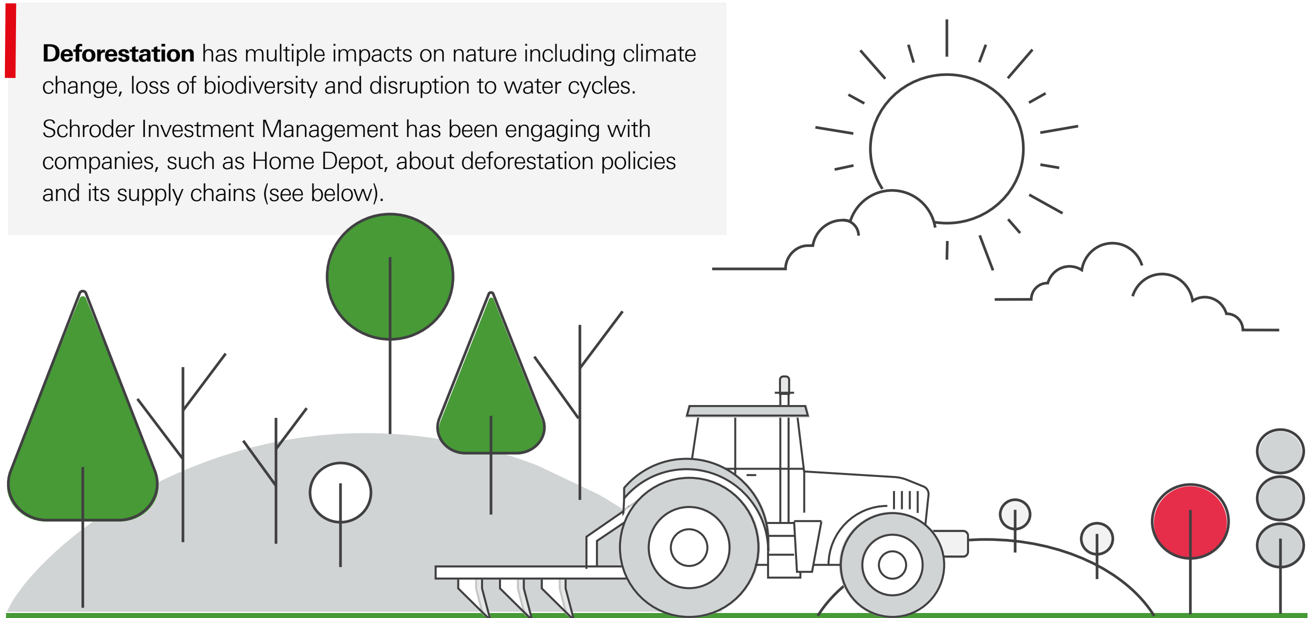
The Trustee's focus

We are currently working on the following three areas:

- Assessments of the Scheme's assets to identify and understand the biodiversity and nature-related risks and opportunities, so that these can be monitored and efforts made to reduce risks and benefit from investment opportunities.
- Engagement through the Scheme's fund managers, with the companies in which the Scheme invests, to reduce their impact on nature, and minimize the resulting risks to the Scheme's assets.
- Engagement with policy makers and the wider industry to promote a system that addresses nature-related issues and puts nature on the path to recovery.

Deforestation has multiple impacts on nature including climate change, loss of biodiversity and disruption to water cycles.

Schroder Investment Management has been engaging with companies, such as Home Depot, about deforestation policies and its supply chains (see below).



Case study Deforestation policy (Home Depot)

Engagement steps taken by Schroder Investment Management[4]

Identify

Home Depot is a very large multinational home improvement retailer. and a major purchaser of wood products

By 2022, their wood sourcing policy lagged peers with slow progress to improve the traceability of timber. This represented biodiversity, reputational, regulatory and business risks.

Engage

Greater transparency of Home Depot's supply chains would identify potential vulnerabilities to the availability of timber supply and lumber price volatility including due to climate change and deforestation.

Change

A shareholder resolution in 2022, supported by Schroders Investment Management, was passed for Home Depot to publish a report assessing if and how it could increase the scale, pace, and rigour of its efforts to eliminate deforestation and the degradation of primary forests in its supply chains

[1]The Dasgupta Review (2021) The Economics of Biodiversity, [2]The World Economic Forum (2020), [3]The United Nations (2021), [4]Schroder Investment Mangement manages the Scheme's £918 million (as at 30 September 2023) Diversified Assets - active fund (DC asset) and a Global Credit mandate (DB asset)

Our ESG priorities - Antimicrobial resistance (AMR)

Why is AMR important to the Scheme?

AMR has significant economic costs and risks impacting numerous sectors from healthcare and pharmaceuticals, to travel and leisure.

With the growing awareness of the emergence and spread of AMR, many countries have introduced policies to restrict the use of antibiotics to reduce AMR in human healthcare. Some have also phased out the use of antimicrobials for animal growth promotion to focus on optimising the use of antimicrobials in preventing and treating animal diseases.

The impact of AMR on the Scheme's assets could be very important. The World Bank has estimated that global economic output could be reduced by between 1.0% and 3.2% by 2030 as a result of the negative impact of AMR[1].

The Trustee's focus

We are currently working on the following three areas:

- Deepening our understanding of AMR, including how it has come about, its impact on human, animal and environmental health, its potential impact on the Scheme, and the most effective ways to mitigate the potential risks for the Scheme. Sectors for specific focus include the pharmaceutical, healthcare, food and agriculture and the water sector.
- The Trustee has been engaging with the Scheme's fund managers to ensure AMR risk is being appropriately considered and integrated into their investment decision making, and promoting greater engagement with companies that are contributing to this issue.
- The Trustee has been engaging alongside other investors to advance solutions to reduce the risk of continued negative impacts from AMR, and to promote the responsible management of this issue across the wider industry and with policy makers.

Antibiotics are medicines which kill or prevent the growth of harmful bacteria. We use antibiotics to treat a growing list of infections but also to promote animal growth. Some bacteria, however, have become resistant to the effects of an antibiotic. This is called antimicrobial resistance (AMR). Resistance to antibiotics is rising to dangerously high levels, in the USA 70% of bacteria causing infections in people[2] have now developed resistance to antibiotics.

The misuse and overuse of antimicrobials in humans, animals and plants are the main drivers[3] in the global development of AMR.

Legal & General Investment Management[4] (LGIM) had been engaging with McDonald's for more than two years about the use of medically important antimicrobials in their supply chains. Following a lack of progress, they decided to escalate their concerns and co-filed a shareholder resolution (see below).

Case study AMR (McDonald's Corporation)

Three steps taken by Legal & General Investment Management

Identify

The World Health Organization (WHO) has developed guidelines to help preserve the effectiveness of medically important antimicrobials, particularly those judged to be critically important to human medicine.

LGIM wanted McDonald's to apply the WHO guidelines throughout their full supply chain, including beef, chicken and pork.

Engage

LGIM co-filed a shareholder resolution that asked McDonald's to comply with World Health Organization (WHO) guidelines on the use of medically important antimicrobials in food-producing animals throughout its supply chain.

Outcome

McDonald's states that it aligns with WHO guidelines, indicating that their antibiotic use policies do not permit the routine use of medically important antibiotics for the purpose of growth promotion or the habitual use of antibiotics for disease prevention. However, these policies do not currently apply to its pork supply. While LGIM recognises the steps that McDonald's has taken so far, it still believes that the company should go further and will continue to engage with management.

[1]The World Bank (2016), [2]Centers for Disease Control and Prevention (2021), [3]The World Health Organisation (2023), [4]LGIM manage the Scheme's £4.3 billion (as at 30 September 2023) Global Equities - passive fund (DC asset)

Our ESG priorities - Diversity, equity and inclusion (DEI)

Why is DEI important to the Scheme?

Diverse and inclusive companies that embrace a range of outlooks and opinions, can benefit from higher quality work, better decision-making and problem-solving, and greater team satisfaction[1]. In addition, companies with widely established DEI policies have been linked to a wide-range of positive financial performance measures[2]. This creates opportunities to add value to the Scheme's assets.

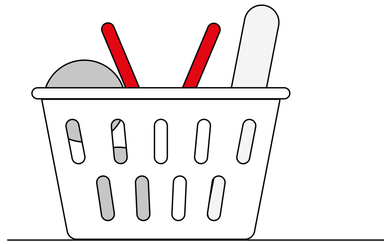
The Trustee's focus

We are currently working on the following three areas:

- To ensure DEI considerations are embedded into our culture and operations. For example, this may include how we select our trustee directors and in-house pensions team, how we communicate with members, and how we conduct our daily business.
- To ensure DEI considerations are taken into account in how the Scheme's investments are managed. For example, we expect all the Scheme's fund managers to integrate DEI considerations into their company analysis and investment decision making. Similarly we also expect them to engage with the companies in which the Scheme invests where they see slow progress which may be inhibiting their long-term performance. Each year we assess the Scheme's fund managers against a wide range of DEI metrics as part of our ongoing performance assessments and actively engage with those fund managers where we see slow progress.
- To promote best practice DEI throughout the wider investment industry. In 2022, alongside a number of other UK asset owners, we became a signatory to the Asset Owner Diversity Charter and have been implementing the associated commitments to the Charter throughout 2023.

Legal & General Investment Management (LGIM) engagement activity[3]

Update on income inequality in the food retail sector



In last year's ESG bulletin, we told you about LGIM joining with ShareAction to file a shareholder resolution asking Sainsbury's to become a living wage accredited employer.

Now LGIM has extended their campaign to address income inequality across the food retail sector. During 2023 they targeted 15 large supermarkets, including Sainsbury's, based on the companies' size and influence in the retail sector. LGIM believes that paying a living wage to workers presents businesses with opportunities to improve morale, productivity, increase retention rates and improve mental and physical health. They have set out their expectations and the time frame in which these should be met. If these companies have failed to meet their minimum expectations by 2025, LGIM will use voting sanctions.

LGIM's voting and engagement policy on company board representation

Each year LGIM reviews these policies and strengthened some for 2023. They are tailored for different countries:

In Japan, the largest companies should have at least 15% women on the boards

In the USA, from 2023, all company boards should be made up of at least one-third women

In the UK, voting sanctions are applied to FTSE 350 companies that do not have at least one-third women on their boards

[1]Harvard Business Review (2020), [2]Edmans, Flammer and Glossner (2023) ECGI, [3]LGIM manages the Scheme's £4.3 billion (as at 30 September 2023) Global Equities - passive fund (DC asset)

Keep up to date on ESG

If you have a general question about the content of this bulletin, visit the Scheme website, futurefocus (https://futurefocus.staff.hsbc.co.uk). There's lots of information available including:

- Managing ESG risks[1]
- ESG Jargon Buster[1]
- Why is ESG important to your pension video[1]
- Summary of the TCFD Report 2022[2]
- Full TCFD Report 2022[1]
- Climate Action Plan[2]
- Statement of Investment Principles[1]

On the futurefocus landing page, go to:

[1]top of the landing page and choose 'The Scheme' drop-down menu and then click 'Managing ESG risks'.

[2]bottom of the landing page and choose 'Information centre' and then click 'Other information tab'.

Get in contact if you have a benefits query

If you are a **DC member,** contact the HSBC Administration Team at WTW. You can phone 01737 227575 or, email HSBCpension@willistowerswatson.com or, write to HSBC Administration Team, WTW, PO Box 652, Redhill, Surrey RH1 9AL

If you are a **hybrid member,** contact the HSBC Administration Team at Equiniti. You can phone 0371 384 2631 or, email HSBCHybridPensions@equiniti.com or, write to HSBC Bank (UK) Pension Scheme, PO Box 5227, Lancing BN99 9FN.

If you are a **DB member,** contact the HSBC Administration Team at Equiniti. You can phone 0371 384 2620 or, email HSBCDBPensions@equiniti.com or, write to HSBC Bank (UK) Pension Scheme, PO Box 5227, Lancing BN99 9FN.

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One last fact

We continue to invest in green revenues through renewable energy infrastructure assets. The DB assets now include £285 million[3] invested in UK wind and solar energy generating 124 megawatts[4] of renewable energy. That's enough to power over 38,000 homes, which avoids releasing of 45,000 tonnes of carbon dioxide, a greenhouse gas, into the atmosphere[4].

Legal Note

This bulletin is based on the Trustee's understanding of applicable law and regulations and does not confer any right to benefits. Members' benefits are governed by the trust deed and rules of the Scheme, as amended from time to time. In the event of any conflict between this bulletin and the trust deed and rules, the trust deed and rules will always override.

Issued by HSBC Bank Pension Trust (UK) Limited 2024

[3]Schroders Greencoat manages an Illiquid Matching Assets (renewables) portfolio (DB asset), Scheme data as at 30 September 2023, [4]Over 12 months.