HSBC Bank (UK) Pension Scheme

Summary of the Task Force on Climate-Related Financial Disclosures Report 2023

August 2024

HSBC | futurefocus

Chair's foreword

Russell Picot
Chair of the Trustee Board

"Climate change is a global issue that will affect the whole of the investment world including our Scheme. That's why we report every year on our progress managing these risks."

As Trustee of the HSBC Bank (UK) Pension Scheme ('Scheme'), we believe that climate change is an important risk for the Scheme that must be actively managed. Each year we prepare the Scheme's Task Force on Climate-Related Financial Disclosures ('TCFD') report. It outlines our approach to addressing climate change on behalf of our members including an assessment of our portfolio's financed emissions against 2019, our baseline year for measurement. As the report shows there has been a declining trajectory against this baseline, however it is important to recognise that emissions in the real world have continued to rise[1]. This short document provides a high-level summary of the full TCFD report 2023 which can be found on the Scheme's website, futurefocus (see page 9). We hope that you find this summary interesting and informative.

Our commitment to climate change targets

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 systemic risk and if it is not appropriately managed, it could reduce the value of the Scheme's investments. This is why we have integrated climate considerations into our decision making, and in 2021 adopted a set of climate targets:

- Achieving net zero emissions by 2050 or sooner, in line with the goals of the 2015 Paris Agreement[2].
- Targeting an interim 50% reduction in greenhouse gas ('GHG') emissions by 2030 or sooner for the Scheme's equity and corporate bond mandates, through real economy reductions.
- Having the ambition to fully align all of the Scheme's corporate bond and equity investments to the goals of the 2015 Paris Agreement by 2030[2].
- Enhancing our engagement and stewardship efforts with the management of companies in which the Scheme's defined benefit ('DB') and defined contribution ('DC') assets are invested. We will do this by continuing to work closely with the Scheme's asset managers, to ensure they are engaging with company management, voting at company shareholder meetings, and encouraging management to run their businesses sustainably.

The Scheme's journey so far

We aim to achieve our targets by:

- Investing for a net zero future: we have made a number of investment decisions to decrease risk to the Scheme's DC assets that may arise from climate change and to capture opportunities to invest in solutions that are aligned to a net zero future.
- Engaging for a net zero future: we have communicated our decarbonisation target to all of the Scheme's asset managers and expect them to align their investment decision-making with these goals. We prefer to engage with companies, rather than exclude companies, to reduce their carbon emissions and speed up the transition to a lower-carbon economy. This may include oil and gas companies, recognising that they are an important part of the current energy mix and should be transitioning to a net zero position.

To date, the Scheme has made positive progress against our climate targets. The Scheme's carbon footprint has declined, compared to 2019, by 38% in the DB assets and 33% in the DC assets (see page 7).

Whilst we are encouraged by the fall in the DC portfolio's carbon footprint, which measures the emissions intensity of the portfolio, we note that there have been fluctuations in the journey to date. That is to say, in some years large falls have been observed, and in other years, including 2022 to 2023, a small increase has been observed. In the case of this increase, this has predominantly been driven by a small increase in the carbon footprint of the two funds which are the Scheme's largest DC allocations. When reporting the carbon metrics for the Scheme, we expect the journey to continue to be uneven.

Whilst the emissions intensity of the DC portfolio has decreased since its 2019 baseline year, its absolute emissions have increased, including over the past year. This is primarily because of an increase in the size of the portfolio. A larger portfolio owns more assets and therefore, a greater share of the financed emissions. However, while the value of the DC portfolio has increased from £4.9 billion in the baseline year 2019 to £7.2 billion in 2023, an increase of over 47%, total absolute emissions have only increased by 2% due to the reduction in carbon footprint over that period of 33%.

For the DB portfolio, both the carbon footprint and the absolute emissions have fallen. This is in part due to a fall in the size of the portfolio, but also due to the 38% fall in the emissions intensity of the portfolio.

In the calculation of carbon metrics, we recognise that there are limitations around both the availability and the quality of the data used, and that they may be influenced by non-climate factors such as market valuations. Obtaining climate-related data therefore remains a work-in-progress. As such, we accept that these data considerations may be an influencing factor in the fluctuations in the Scheme's progress towards its 2030 target and ultimately a net zero position in 2050.

We have been active in addressing climate change issues for a number of years now, including working in collaboration with regulators, policymakers, asset managers and other asset owners, such as other pension schemes. The timeline on page 2 outlines the key developments in relation to climate change actions.

[1] Based on data from Emissions Database for Global Atmospheric Research (EDGAR) https://edgar.jrc.ec.europa.eu

[2] The 2015 Paris Agreement was an international agreement adopted by nearly 200 countries to limit global warming.

The Scheme's climate change milestones

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

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

2018 **First TCFD Statement**
We published our first TCFD report, following the recommendations of the TCFD as applicable to asset owners.

2020 **Project Clarity**
We launched a project to further enhance our integration of all ESG issues, identifying climate change and engagement as priority areas.

2020 **Climate Risk Management Framework**
We built a dedicated Climate Risk Management Framework into the Scheme's approach to risk management.

2021 **Net zero target and Paris Aligned Investment Initiative signatory**
We set out our commitment to achieve net zero by 2050.

2022 **Climate Action Plan**
We published the Climate Action Plan, providing details about how we plan to deliver our net zero commitment.

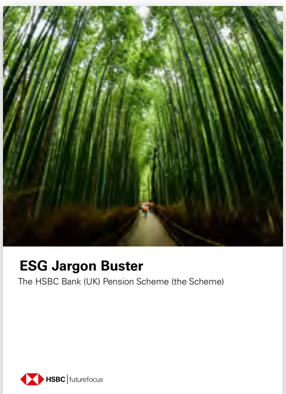
2022 **Stewardship and Voting Policy**
We published our policy setting out how we practice effective stewardship on behalf of our members.

2023 **Climate Transition Plan**
Building on our Climate Action Plan, we have been exploring the development of a more detailed Climate Transition Plan, to further outline how we plan to meet our alignment and engagement targets.

To find out more, read the **Introduction** section of the full TCFD report 2023 (see page 9)

You might find the Environmental, Social and Governance ('ESG') jargon buster helpful (see page 9):

ESG jargon buster
Explains many of the commonly used terms and phrases relating to ESG, climate and investment.



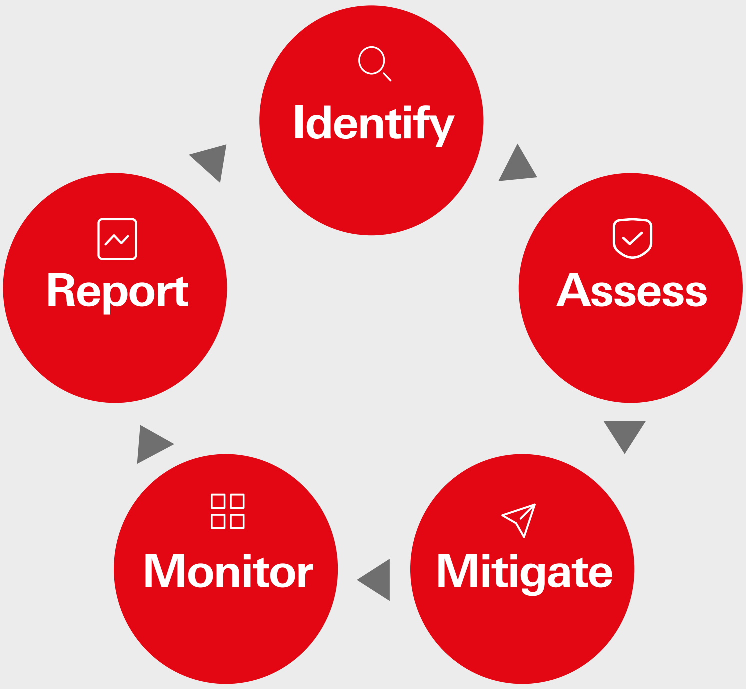
Managing climate risks

The Trustee devotes significant time and resource to managing the climate risks associated with the Scheme's investments.

The Trustee has a Climate Change Risk Policy which assigns responsibility to those working for the Scheme including the Pension Scheme Executive ('PSE'), its advisors and its asset managers to ensure climate-related risks and opportunities are appropriately considered in all investment decision making. Climate risks are also captured within the Scheme's approach to risk management.

To find out more, read the **Governance** section of the full TCFD report 2023 (see page 9)

The Trustee's Climate Risk Management Framework



Climate-related risks are identified using both "top-down and bottom-up" analysis approaches which may be informed by the latest findings from key groups such as climate scientists.

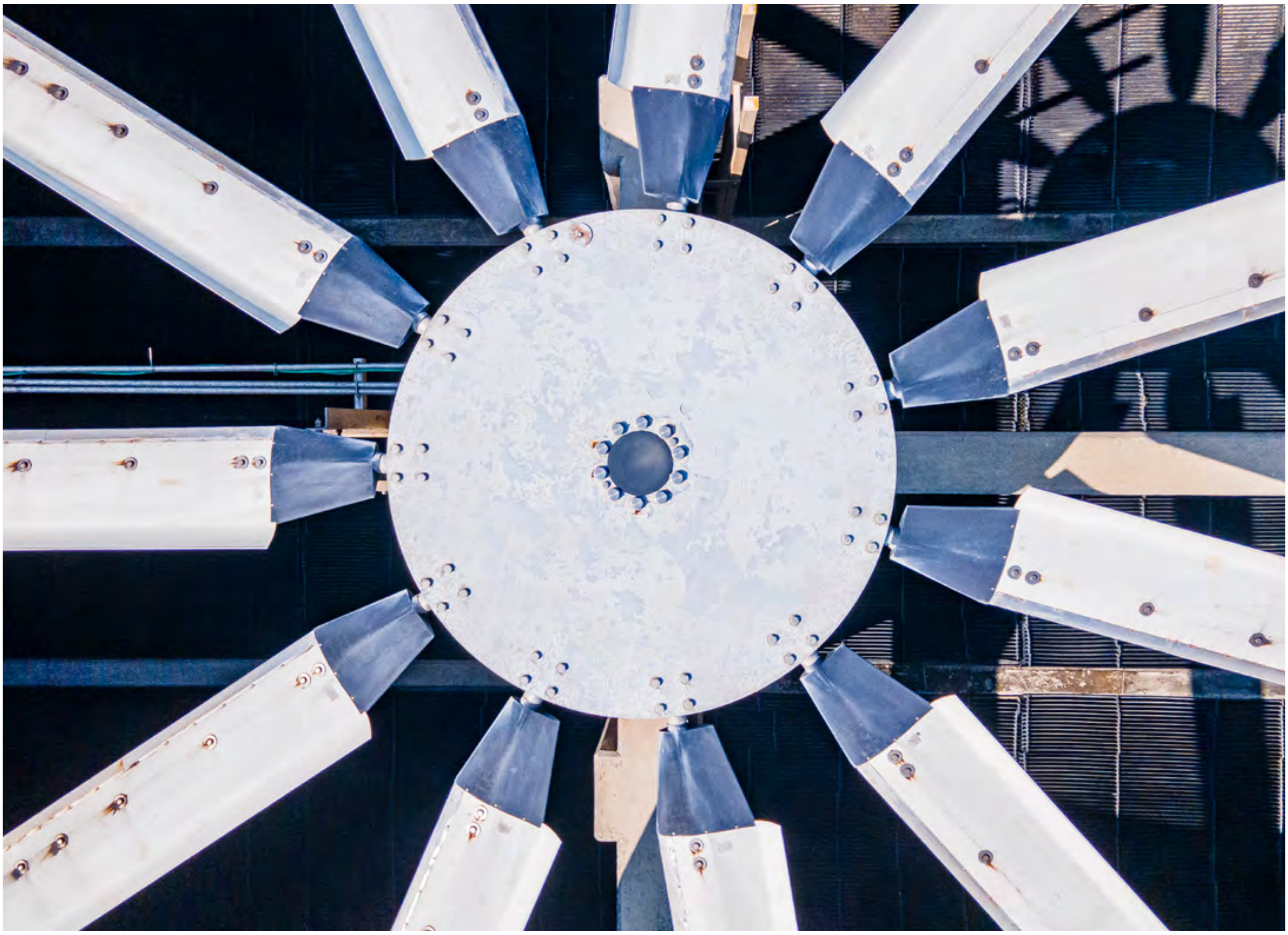
A number of tools are used to assess the potential impact of climate-related risks on the Scheme, such as climate scenario analysis and climate metrics.

Climate-related risks are mitigated through a range of channels, including engagement with asset managers, industry groups, and policymakers, as well as via an effective climate-related investment strategy.

The Trustee uses a climate dashboard to measure the Scheme's exposure to climate-related risk. This is supplemented by monitoring undertaken by the Trustee's investment advisors.

The PSE provides a summary of their monitoring activity to the Trustee, recommending mitigating actions where appropriate. This reporting is supplemented by input provided by the Trustee's investment advisors.

To find out more, read the **Risk management** section of the full TCFD report 2023 (see page 9)



Identifying and assessing climate risks through climate scenario analysis

The Scheme has a wide range of different types of asset. The diversity of the Scheme's DB and DC assets means that the Scheme is likely to be impacted by climate change in several ways over time.

As part of the Scheme's climate strategy, the Trustee assesses the impact of various forms of climate risk and considers how the impacts may evolve. Climate risk might include climate transition risk. This means how the value of investments might be impacted by future changes in regulation, technology, or consumer behaviour that may occur as economies transition to a lower-carbon future. It also includes physical climate risk, which concerns the impact of, for example, severe weather on the value of investments (such as properties being damaged by floods or fire).

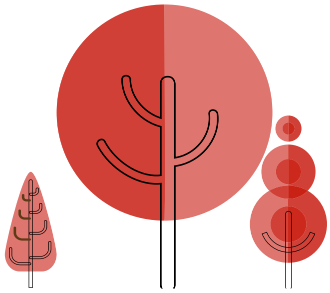
The Trustee uses tools such as climate scenario analysis to think through how the value of the Scheme's assets could change over time as the impacts of climate change feed through to the economy. Climate scenario analysis completed in 2021 showed that both the DB and DC assets could be adversely impacted across the range of climate scenarios that were used. This impact was greater for DC assets because of the nature of the investments and the time horizon. The analysis further confirmed the Trustee's belief that it is prudent and in the best interests of members to take steps to manage and reduce the climate risk exposure of the Scheme. The Trustee, however, recognises the limitations associated with existing scenario analysis and as such, reviewed its approach to this in 2023.

Following the review, the Trustee took the decision not to re-run scenario analysis in 2023 and will continue to explore its approach to this going forward, and will update its analysis for inclusion in next year's report.

To find out more, read the **Risk management** section of the full TCFD report 2023 (see page 9)

Identifying and assessing climate risks through metrics

To identify and assess the Scheme's exposure to current and future climate-related risks, the Trustee uses a set of climate metrics. The metrics form part of the Trustee's climate dashboard which is used as a monitoring tool to track the Scheme's progress versus the Trustee's climate-related objectives.



The Trustee's climate metrics

Metric	Description
Total Carbon Emissions	Measures the greenhouse gas emissions attributable to the investments within a portfolio.
Carbon Footprint	Measures the total greenhouse gas emissions generated for every million pounds invested in an asset.
Weighted Average Carbon Intensity	Measures an investment portfolio's exposure to high-emitting assets.
TPI Management Quality Score	Measures companies' management and governance of greenhouse gas emissions and the risks associated with the low-carbon transition.
Partnership for Carbon Accounting Financials Data Quality Score	Measures the quality of disclosed financed emissions data.
TPI Carbon Performance Score	Measures alignment of companies' greenhouse gas emissions pathways against the 2015 Paris Agreement goals.

To find out more, read the **Metrics & Targets** section of the full TCFD report 2023 (see page 9)

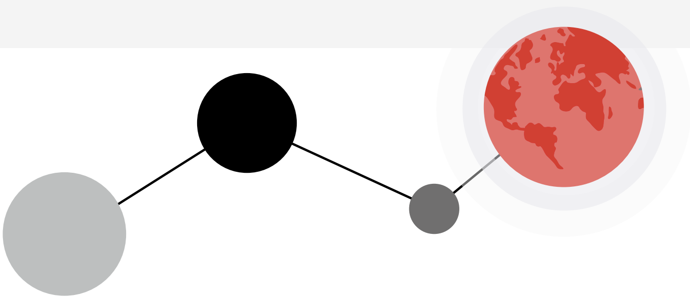
Examples of how the Trustee uses two of the climate metrics

Carbon Footprint

This metric lets the Trustee understand the amount of greenhouse gas emissions generated by the Scheme's investments. It is adjusted to take account of the size of the investment made – this is also known as emissions intensity. This allows the Trustee to identify hotspots across the Scheme's DB and DC assets that may be more exposed to climate risk, enabling the Trustee to consider how best to address these risks.

TPI Management Quality Score

The Transition Pathway Initiative is a global investor initiative which assesses companies' preparedness for the transition to a lower-carbon economy. The Trustee uses the Management Quality Score to identify individual companies in the Scheme's DB and DC assets that are considered to be poorly prepared for the low-carbon transition. The Trustee then engages with the Scheme's asset managers to understand how they are managing and mitigating the Scheme's climate risk exposure coming from the highlighted companies.

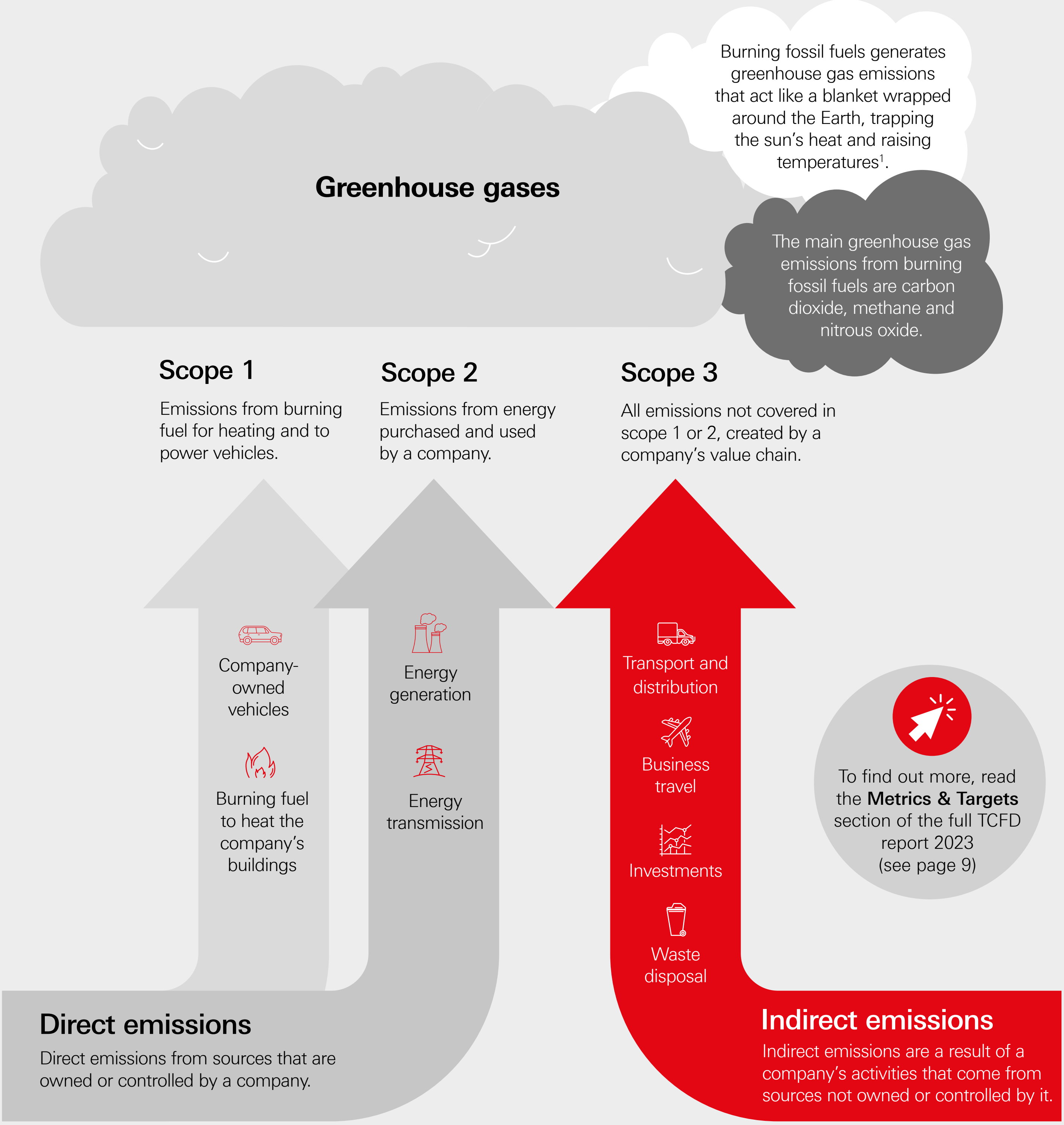


The Scheme's journey towards a net zero future

Update on progress against our target to reduce the Scheme's carbon footprint which is its emissions intensity - measured as the total scope 1 and 2 (see below) greenhouse gas emissions generated for every million pounds invested in companies by the Scheme.

▼38% Decline in the Scheme's annual carbon footprint for the DB assets between the end of years 2019 to 2023

▼33% Decline in the Scheme's annual carbon footprint for the DC assets between the end of years 2019 to 2023.



[1] The United Nations (2023)

Managing climate risks through engagement

A key aspect of the Trustee’s climate risk management framework is the use of engagement. The case study below is an example of proactive engagement completed by the Trustee during 2023.

Case study

Engaging with asset managers

Identify

The Trustee identified concerns over the alignment of one of the Scheme’s asset managers with the Trustee’s Environmental,Social and Governance (‘ESG’) priorities, and notably its management of climate risk, as well as the manager’s pace of improvement relative to peers.

Engage

We set expectations for the asset manager to make progress on its climate commitment and develop its net zero strategy. Despite some improvements over 2023, the Trustee remained concerned that the asset manager’s progress lagged behind its peers for the relevant asset class. Given this, along with a number of other factors, the Trustee made the decision to replace the asset manager.

Change

Help ensure there is a high quality set of asset managers investing the Scheme’s assets, and help reduce climate risk to members’ investments and help the Scheme meet its climate commitments.

Explaining engagement

When we select asset managers, we assess how well they incorporate ESG factors, including climate risk, into their investment approach and their alignment with the Trustee investment beliefs.

The conversations we have with the asset managers and the subsequent dialogue between the asset managers and the management of the companies in which the Scheme invests are commonly known as ‘engagement’.

We expect the asset managers to actively engage in a constructive dialogues with the management of the companies in which the Scheme invests. This is because engaging with companies and using voting rights can be effective ways to reduce financially-material risks, and can help to achieve both our net-zero target and more broadly, responsible consideration of ESG issues.

Who runs the Scheme?

Trustee	The Trustee is responsible for making sure the Scheme is run well and in accordance with the Scheme's Rules and legislation. There are 11 Trustee Directors on the Trustee Board. The Trustee responsibilities are wide ranging, from the collection of contributions to the investment of assets, the administration of membership records and the payment of benefits. In broad terms, the Trustee's role is to act in the best interests of the Scheme's members.
Asset managers	The Scheme's asset managers are responsible for the day-to-day investment of the Scheme's DB and DC assets in line with the investment strategies and policies set by the Trustee. The asset managers have an important role to incorporate climate change considerations into their investment decisions and, once invested, to engage with the management of the companies in which the Scheme invests to manage the risks posed by climate change and achieve the Trustee's climate targets for the Scheme.
Pension Scheme Executive ('PSE')	The PSE is a team of experienced pension professionals who are employed by the Bank to assist the Trustee to meet its responsibilities, including supporting the development and implementation of the Scheme's investment strategy and with the day-to-day oversight of the Scheme. The PSE is fully accountable to the Trustee.
Scheme advisors	The Trustee appoints the Scheme's advisors including the actuarial, legal and investment advisors as well as the auditor. The Trustee has full access to their expertise and for certain activities and decisions, is required by law to obtain their advice.

Where can you get more information?

If you want to read more, you can find the following Scheme documents on the Scheme's website, futurefocus. Go to https://futurefocus.staff.hsbc.co.uk.

At the top of the page, click on The Scheme and then Managing ESG risks:

Full 2023 TCFD report

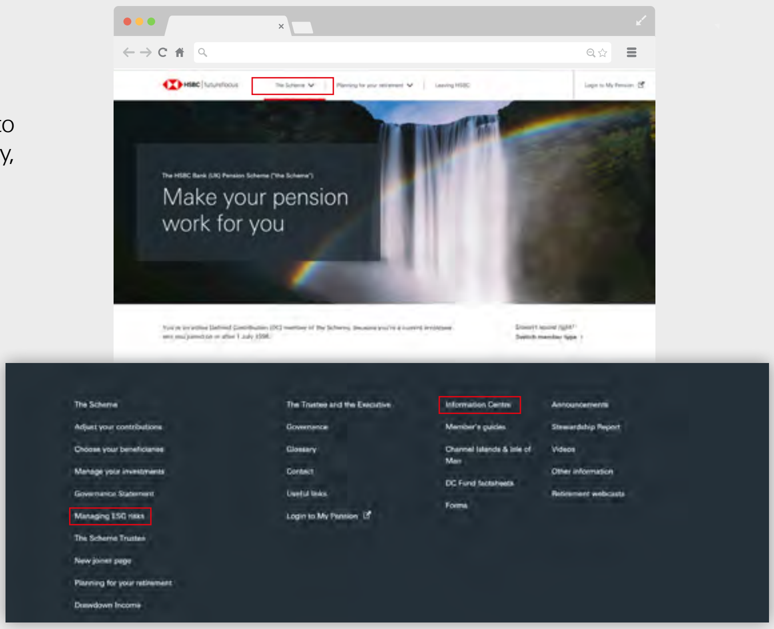
The Scheme's Task Force on Climate-Related Financial Disclosures ('TCFD') report explains the Trustee's approach to climate change in more detail including governance, strategy, risk management, metrics and targets.

ESG bulletin

Explains the Trustee's work managing Environmental, Social and Governance (ESG) risks and opportunities across the Scheme's DB and DC assets.

ESG jargon buster

Explains many of the commonly used terms and phrases relating to ESG and investment.



At the bottom of the page, click on Information Centre:

Climate Action Plan

Sets out the Trustee's net zero commitment, interim targets and the actions being taken.

Legal Note

This summary 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.

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