



# ESG Jargon Buster

The HSBC Bank (UK) Pension Scheme (the Scheme)



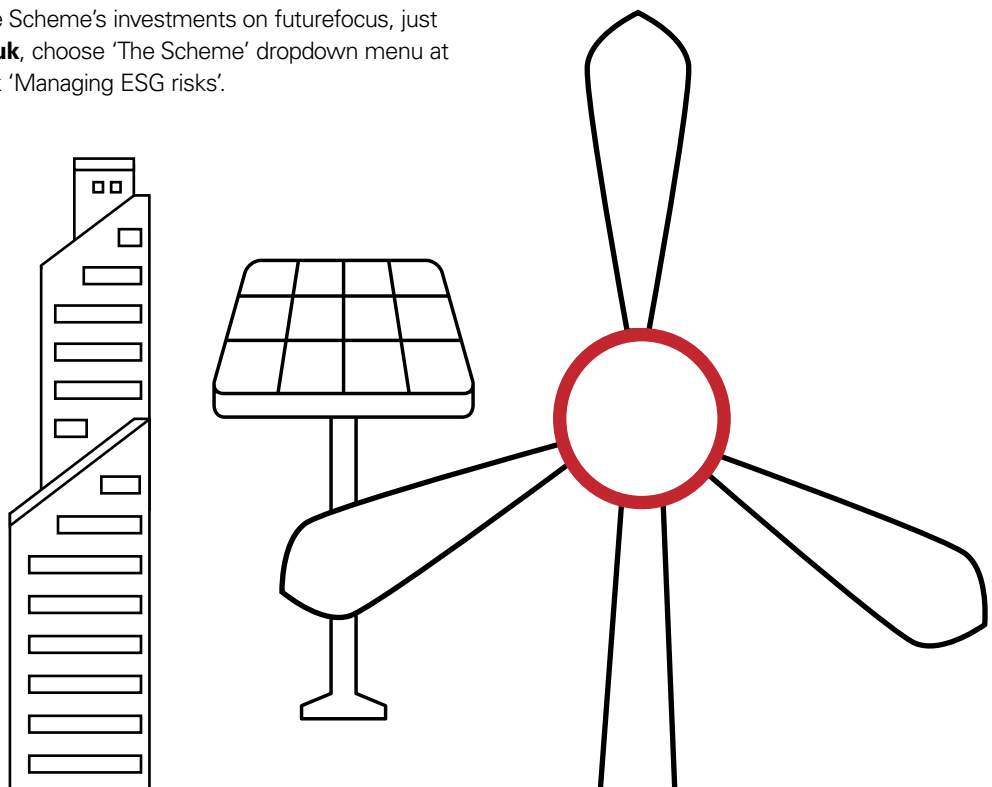
## What do we mean by ESG?

Whether you have a Defined Contribution (DC) pension pot or a Defined Benefit (DB) pension in the Scheme, or both, your savings are invested for you by the Scheme Trustee. The Scheme Trustee is responsible for setting and monitoring the Scheme's DB and DC investment strategies and the investment options made available to members with a DC pension pot. When the Trustee does this, it considers a wide range of risks and opportunities, including the way in which environmental, social and governance (ESG) issues could affect the Scheme's investments.

ESG is an umbrella term that covers risks, issues and opportunities relating to environmental, social and/or governance issues. For example, environmental considerations might include pollution prevention and greenhouse gas emissions; social factors are likely to include workplace diversity, health and safety, and the company's impact on its local community; and governance-related matters may include issues such as executive pay, board accountability and shareholder rights.

**If you are keen to understand more about ESG and investment, you might come across some terms that are new and not familiar to you. We have put together this jargon buster to help explain some of the most common ESG terms and phrases.**

You can find out more about ESG and the Scheme's investments on futurefocus, just go to <https://futurefocus.staff.hsbc.co.uk>, choose 'The Scheme' dropdown menu at the top of the landing page and then click 'Managing ESG risks'.





## General terms

| Term                         | Definition   |
|------------------------------|--|
| <b>Engagement</b>            | This is a commonly used term to describe the communication between investors and the management of the companies that they invest in. Investors aim to influence the decisions and behaviours of the companies to understand and improve their strategy and performance. For example, an investor may engage with a company's board of directors to improve that company's employment practices. Engagement can also be undertaken with policy makers and other organisations that may impact long term investment objectives. |
| <b>Escalation</b>            | This is the process through which investors apply increasing levels of pressure on companies if their initial engagement activity is not leading to improvements. Escalation actions could include, for example, the use of external collaboration with other investors to increase influence, or a vote for or against company management on a specific issue at the annual general meeting.  |
| <b>Exclusion</b>             | Exclusions prohibit certain investments from a fund or portfolio. They may be applied at the level of a sector or business activity (e.g. controversial weapons), jurisdictions (e.g. countries where international sanctions have been imposed) or poor corporate practices (where repeated fines have been imposed for egregious activities).  |
| <b>Stewardship</b>           | Stewardship is the responsible allocation, management and oversight of money and assets to create long-term value for Scheme members leading to more sustainable benefits for the economy, environmental and society. Good governance and engagement are two aspects of good stewardship.  |
| <b>Sustainability</b>        | Sustainability in its broadest sense refers to the ability to maintain or support a process continuously over time. It is often broken down into three core pillars of economic, environmental and social sustainability. In corporate terms, it refers to doing business without negatively impacting the environment, community or society as a whole.   |
| <b>Systemic risks</b>        | Some ESG risks may be specific to certain companies or assets, others can have a material impact on large parts of the global economy and are considered risks to the whole system. These are called 'systemic risks'.   |
| <b>Universal asset owner</b> | Universal asset owners are large asset owners, such as pension schemes, that own such a representative slice of the economy as to find it impossible to diversify away from large system-wide risks.   |



## Environmental terms

| Term                                      | Definition   |
|---|--|
| <b>Antimicrobial resistance</b>           | Antimicrobial resistance occurs when bacteria, viruses, fungi and parasites change over time and no longer respond to medicines. This is an issue as it has direct implications for public health as well as animal health, sustainable development and food security.   |
| <b>Biodiversity and Biodiversity Loss</b> | Biodiversity describes the variety of life on Earth, including animals, plants, fungi and microorganisms that make up our natural world. Each of these species and organisms work together in ecosystems, like an intricate web, to maintain balance and support life. It is estimated that over half of global output is 'moderately' or 'highly' dependent on biodiversity and ecosystem services. Biodiversity loss describes the decrease in the level of variety of life on Earth.  |
| <b>Carbon emissions</b>                   | <p>This is the release of carbon dioxide into the atmosphere, although it is often used to describe the release of all greenhouse gases.</p> <p>The Greenhouse Gas Protocol classifies a company's greenhouse gas emissions into three categories or 'scopes', for consistent reporting and accounting of emissions worldwide. These are called Scope 1,2 and 3 emissions:</p> <ul style="list-style-type: none"> <li>• <b>Scope 1 emissions:</b> these cover direct emissions that occur from sources that are owned or controlled by the company or organisation. Examples include emissions from combustion in owned or controlled boilers, furnaces and vehicles.</li> <li>• <b>Scope 2 emissions:</b> these cover indirect emissions from the generation of purchased electricity, steam, heating or cooling energy consumed by the company.</li> <li>• <b>Scope 3 emissions:</b> these cover all indirect emissions that occur in the supply chain of the reporting company. Scope 3 emissions are the result of activities from assets not owned by the company that are out of the company's operational control.</li> </ul> |
| <b>Carbon footprint</b>                   | In an investment context, it is the total carbon dioxide or greenhouse gas emissions generated for every million pounds invested.  |



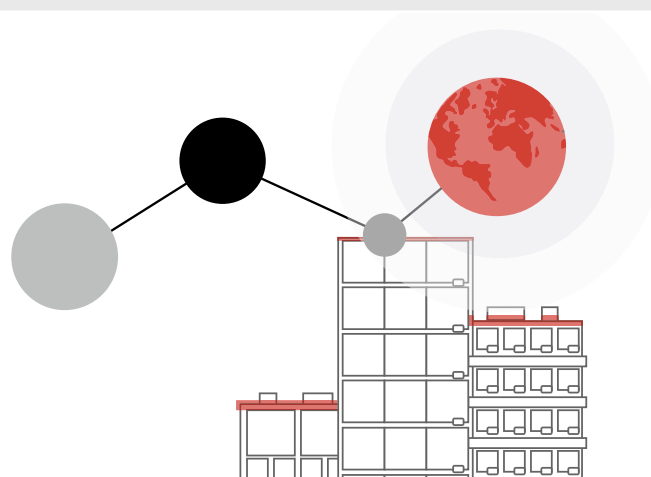
## Environmental terms

| Term                                  | Definition  |
|---------------------------------------|---|
| <b>Circular economy</b>               | An economic model where products and materials are recycled or reused rather than thrown away. The current model underpinning the global economy tends to be a 'linear economy' which consists of extracting, manufacturing, consuming and throwing away. A circular economy is considered a more sustainable option. |
| <b>Climate Action Plan</b>            | If an organisation has made a commitment to become net zero by a certain date, this report documents how it plans to do this, including reporting progress to date. You can find the Scheme's Climate Action Plan on futurefocus. Just go to the "Information Centre" and choose the "Other Information" tab.         |
| <b>Climate-tilted investment fund</b> | A fund that aims to reduce exposure to climate risks by investing less in companies with worse-than-average carbon emissions and exposure to fossil fuels, while increasing exposure to companies that seek to generate revenue from low-carbon activities and clean technologies.                                    |
| <b>Climate transition risk</b>        | The risk of financial losses that could result from significant policy, legal, technology, behavioural and market related changes that may occur as economies transition to a lower carbon future. An example of a transition risk would be increased energy costs due to a tax on greenhouse gas emissions.          |
| <b>Clean technology</b>               | A range of products, services and processes that reduce negative environmental impacts, for example, through reducing the use of natural resources, cutting or eliminating carbon emissions, or reducing waste. The manufacture of electric vehicles is one example.  |
| <b>Decarbonisation</b>                | Decarbonisation is the process of removing or reducing the carbon dioxide output of an activity or industry. It can also be applied to a company or an investment portfolio.  |
| <b>Greenhouse gases</b>               | Greenhouse gases are gases that accumulate in the atmosphere, where they trap radiation from the sun, which subsequently heats the planet's surface (giving rise to the "greenhouse effect"). Carbon dioxide and methane are two of the most important greenhouse gases.  |
| <b>Greenwashing</b>                   | Claims that mislead consumers and investors into believing that a company's products are more environmentally friendly than they actually are. This concept can also be applied to investment products.   |
| <b>Impact investing</b>               | This involves investing with the main goal of achieving specific, positive social and/or environmental benefits, with financial returns as a secondary consideration. It includes a commitment to measuring that impact.  |



## Environmental terms

| Term                                       | Definition  |
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| <b>Nature-related risk</b>                 | <p>'Nature' is a broad term covering natural capital (e.g. resources such as the land, sea and air) and ecosystem services (e.g. pollination, cleaning water/air). The global economy relies heavily on nature, but nature is in decline due to human impact. Nature-related risks may include risks such as biodiversity loss (see above), land degradation and deforestation:</p> <ul style="list-style-type: none"> <li>• <b>Land degradation:</b> This is the decline of economic and biological productivity of land due to human treatment.</li> <li>• <b>Deforestation:</b> This is the purposeful clearance of large areas of forests for human use, Deforestation is problematic for the global economy, society and planet for a number of reasons, including biodiversity loss, its contribution to climate change, and increased land degradation and the impact on the water cycle.</li> </ul> |
| <b>Net zero</b>                            | Net zero means achieving a balance between the greenhouse gases put into the atmosphere and those taken out.  |
| <b>Offsetting</b>                          | Offsetting occurs when an organisation seeks to match its carbon emissions through funding projects that provide for carbon dioxide emission avoidance, reduction or removal (e.g. tree planting and reforestation).  |
| <b>Paris Agreement</b>                     | The Paris Agreement is an international agreement, adopted by nearly 200 countries at the UN climate conference in Paris in December 2015. The agreement sets out a global framework to limit global warming to well below 2°C above pre-industrial times while pursuing efforts to limit it to 1.5°C.  |
| <b>TCFD</b>                                | The Taskforce on Climate-related Financial Disclosures (TCFD) is a framework that promotes reporting of an organisation's impact on the global climate in a consistent and comparable manner.   |
| <b>Transition Pathway Initiative (TPI)</b> | The Transition Pathway Initiative (TPI) is a global investor initiative which assesses companies' preparedness for the transition to a low carbon economy.  |





## Governance terms

| Term                                   | Definition   |
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| <b>Board diversity</b>                 | This aims to broaden a company board's perspective by ensuring there is a good balance between the skills, experience, gender, race, and tenure of board members.  |
| <b>Corporate governance</b>            | The systems and processes by which companies are controlled. Good corporate governance creates and maintains processes and controls to enable fair treatment of employees, shareholders, customers, supply chain and local communities.  |
| <b>Diversity, equity and inclusion</b> | <p>Diversity, equity and inclusion (DEI) is a term used to describe policies and programs that promote the representation and participation of different groups of individuals. These include people of different ages, races and ethnicities, abilities and disabilities, genders, religions, cultures and sexual orientations:</p> <ul style="list-style-type: none"><li>• Diversity is recognising, respecting and celebrating each other's differences. A diverse environment is one with a wide range of backgrounds and mindsets.</li><li>• Equity means fairness, ensuring individuals are not treated less favourably because of characteristics like age, race, ethnicity, disability, gender, religion, or sexual orientations and providing them with the tools they need to access the same, fair opportunities as their peers.</li><li>• Inclusion means creating an environment where everyone feels welcome and valued.</li></ul> |





## Social terms

| Term                                   | Definition   |
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| <b>Corporate social responsibility</b> | A business model that helps a company to be socially accountable to its stakeholders and the public.   |
| <b>Just transition</b>                 | A just transition seeks to ensure that the substantial benefits of a green economy transition are shared widely, while also supporting those who stand to lose economically.   |
| <b>Living wage</b>                     | A wage that is enough to meet basic needs and to provide some discretionary income. Over the last ten years many retailers and brands have made progress in getting their suppliers to pay their workers the prevailing minimum wage in addition to any other benefits they are entitled to. |
| <b>Modern slavery</b>                  | Modern forms of slavery can include debt bondage, where a person is forced to work for free to pay off a debt, child slavery, domestic servitude and forced labour, where victims are made to work through violence and intimidation.  |
| <b>Social value</b>                    | This refers to the benefits to the community that are created by the activities of an organisation. A company that works to provide social value will try to make sure that its community receives a range of positive benefits from its operations.   |
| <b>Supply chain</b>                    | A supply chain is the system of producing and delivering a product or service, from sourcing the raw materials to the final delivery of the product or service to end-users. Modern supply chains are often very complex, spanning multiple countries and involving many steps.              |

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