HSBC Bank (UK) Pension Scheme

Summary of the Task Force on Climate-Related Financial Disclosures Report 2024

HSBC | futurefocus

Chair's foreword

Steve Towers
Chair of the Asset and Liability Committee

"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."

To find out more, read the **Metrics & Targets** section of the full TCFD report 2024 (see page 31)

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 sets out full explanations of our approach to addressing climate change on behalf of our members including a year-on-year assessment of our portfolio's financed emissions. As the report shows our reported financed emissions have largely shown a declining trajectory, however, it is important to recognise that emissions in the real world have continued to rise[1]. This continued rise in global emissions is of great concern to the Trustee, and a stark reminder that many different groups, including companies, governments, consumers and investors need to play their part to ensure a smooth transition to a low carbon economy. This short document provides a high-level summary of the TCFD report 2024.

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:

- Aiming to achieve net zero emissions by 2050 or sooner, in line with the goals of the 2015 Paris Agreement[2].
- Targeting a real economy greenhouse gas ('GHG') emissions reduction interim target of 50% by 2030 or sooner for the Scheme's equity and corporate bond mandates, (compared to a baseline of financed emissions as at 31/12/2019[3].
- 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.
- 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.

This year, we have included more information about the Scheme's climate emission metrics. On page 3 we explain the different types of climate emission metrics, followed by an overview of the Scheme's progress so far on page 4, with further detail is provided on page 5.

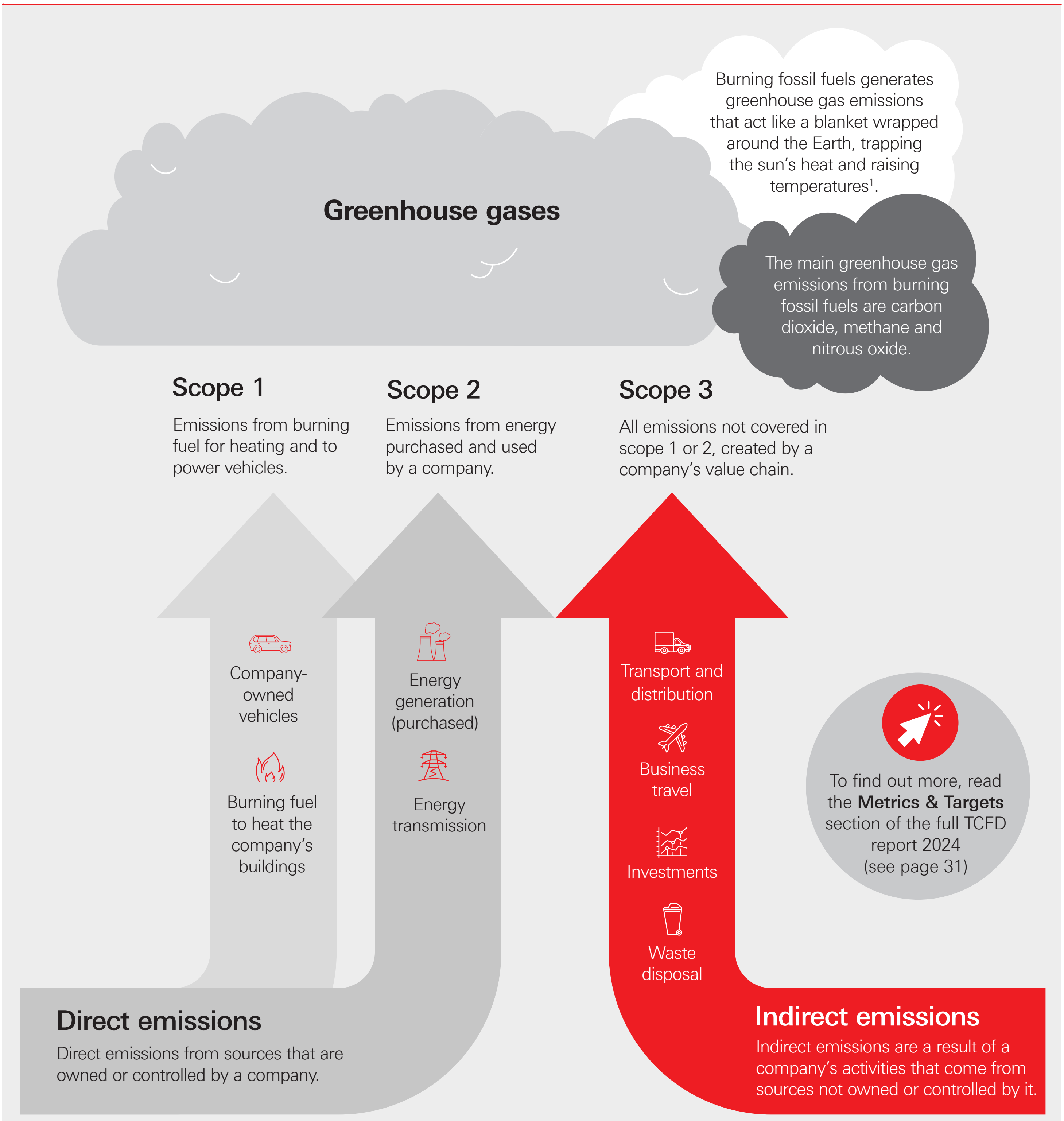
We have been active in addressing climate change issues for a number of years now, including working in collaboration with regulators, policymakers, asset managers and other asset owners, such as other pension schemes. In 2024, we chose to appoint an engagement overlay service on policy and market-level engagement to further develop this work as part of an overall risk management strategy. This, along with other key developments in relation to climate change actions, is outlined in the timeline on page 6.

We hope that you find this summary interesting. If you would like more detail, the full TCFD Report 2024 can be found on the Scheme's website, futurefocus (follow the link on page 11), along with the ESG jargon buster which helps to explain some of the terms used in this summary.

[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.
[3] We refer to this interim target as our decarbonisation target. It captures Scope 1 and 2 emissions, descriptions of which are on page 3.

Emissions explained

Scope 1, 2 and 3 emission metrics show how much greenhouse gas different companies are responsible for. They help us make consistent comparisons, not just from a company's direct emissions, but also from the energy it uses and the wider impact of its supply chain.



[1] The United Nations (2023)

The Scheme's journey so far - overview

We aim to achieve our targets by:

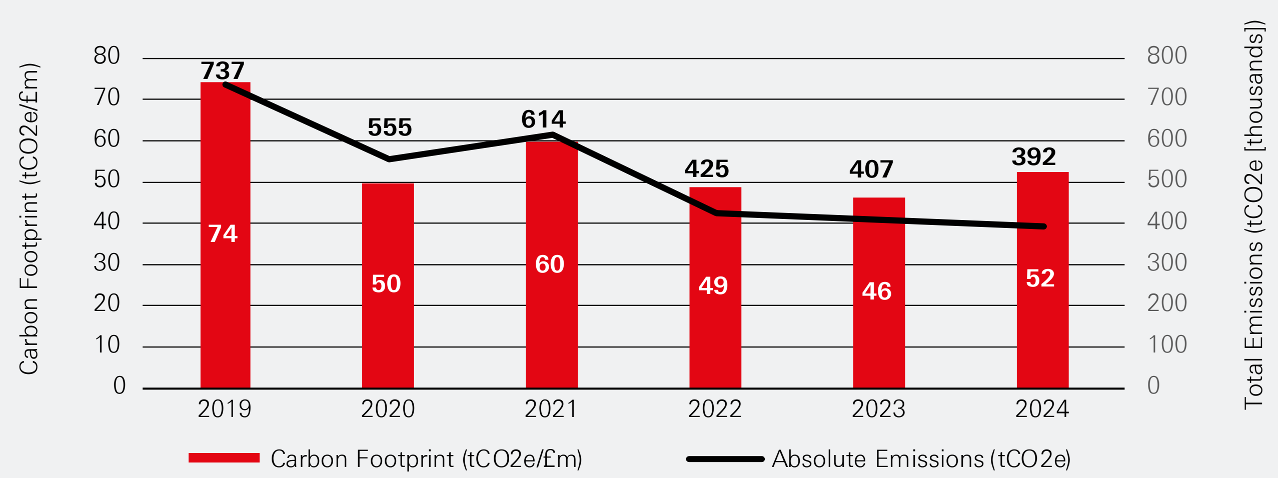
1. **Investing for a net zero future:** we have made a number of investment decisions to decrease risk to the Scheme's assets that may arise from climate change and to capture opportunities to invest in solutions that are aligned to a net zero future.
2. **Engaging for a net zero future:** we have communicated our climate ambition 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.

The charts below show there is **significant year-on-year variation** in the climate metrics, principally driven by volatility in market valuations, changes in portfolio composition and improved data coverage. The Trustee reviews the year-on-year changes and attributes these where possible. To date, the **Scheme has made positive progress** against the climate targets. The Scheme's scope 1 and 2 carbon footprint has declined, compared to the 2019 baseline, by 29% in the DB assets and 51% in the DC assets (see charts below and page 5).

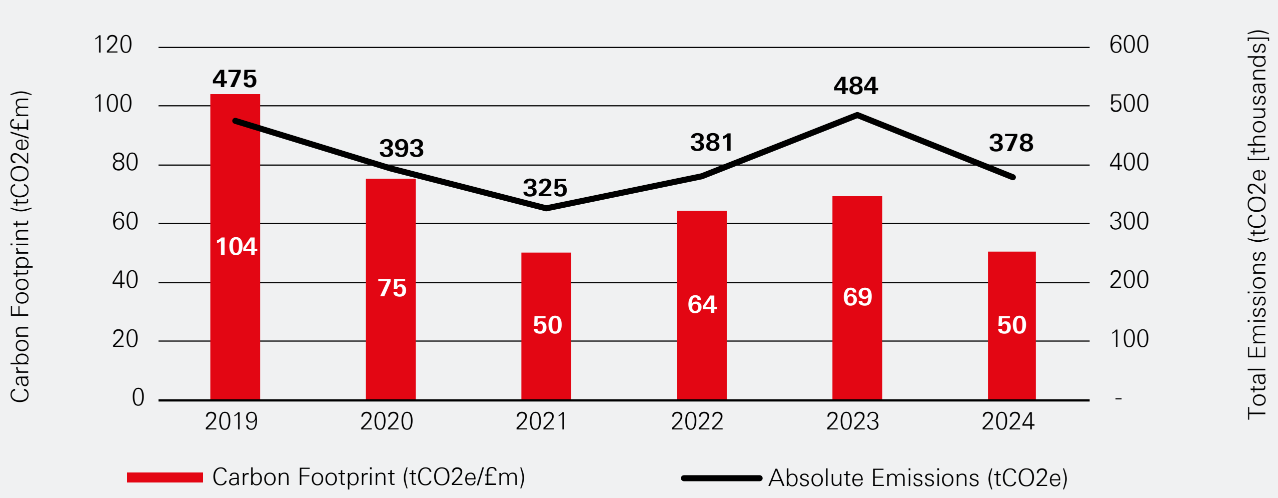
Why are the charts different for DB and DC assets?

The DB and DC portfolios comprise different assets, resulting in different emissions profiles. The DB portfolio, for example, has material exposure to global and sterling bonds whereas the DC portfolio is principally invested in public equities. Emissions coverage of the corporate bond funds held in the DB assets has improved significantly, driving a year-on-year increase in the carbon footprint. The emissions coverage of public equities has been more consistent.

DB assets - Carbon Footprint and Absolute Emissions (scope 1 and 2) from 2019 to 2024[4]



DC assets - Carbon Footprint and Absolute Emissions (scope 1 and 2) from 2019 to 2024[4]



[4] Chart uses latest available Enterprise Value including Cash ('EVIC') data at the time of reporting. EVIC figures used may not align with the reporting year end due to lagged availability.

The Scheme's journey so far - more detail

Whilst the DB portfolio's scope 1 and 2 carbon footprint has decreased compared to the 2019 baseline, it has increased by 14% since 2023. This is mainly due to better data coverage of the companies invested in the funds. This has increased the carbon footprint of some of the Trustee's corporate bond funds.

The DC portfolio's scope 1 and 2 carbon footprint is currently below the target set for 2030, due to a decrease between 2023 and 2024. This annual decrease was predominantly driven by an increase in financial values over the Scheme year (i.e. the underlying companies increased in market value and therefore in corresponding investment value), resulting in a decrease in the carbon footprint in almost all of the funds as the metric is calculated by dividing emissions by investment value.

The scope 1 and 2 absolute emissions of the DB portfolio have decreased slightly over the year whilst the scope 1 and 2 absolute emissions of the DC portfolio have decreased significantly. Almost all of the funds in the DC portfolio showed a decrease, including the fund with the largest absolute emissions.

Scope 3 emissions, on the other hand, have increased principally due to better data quality.

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.

What are absolute emissions?

The absolute emissions figures in the charts on page 4 refer to the total quantity of greenhouse gas emissions attributable to the listed investments in the DB and DC portfolios each year, measured in tonnes of carbon dioxide equivalent (tCO_2e).

What is carbon footprint and why is the denominator in tCO_2e/£m important?

Carbon footprint measures the carbon intensity of an asset or portfolio. By dividing total greenhouse gas emissions by the amount invested (£m), the metric is normalised to enable comparison of emissions figures across assets and portfolios of different sizes. A challenge when interpreting changes in the metric is the influence of the denominator. For example, if a company increases in financial value but its emissions remain static, its carbon footprint will fall despite no real-world emissions reduction.

The Scheme’s climate change milestones

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
In early 2020, we launched a project to enhance our integration of ESG matters, defining two priority areas for development within responsible investment “going deeper into climate change” and “enhanced engagement”.

2020 Climate Risk Management Framework
We built a Climate Risk Management Framework which integrated climate-related considerations into the Scheme’s overall Pension Risk Management

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

2022 Climate Action Plan
We published our Climate Action Plan, providing details about the plan to deliver our net zero ambition.

2022 Stewardship and Voting Policy
The policy sets out how we aim to practice effective stewardship as part of our fiduciary duty to act in the best financial interests of our members.

2024 Energy Position
We developed a position on the energy sector that will help us navigate our Investment, Engagement and Advocacy strategy in a manner that is better aligned with an orderly transition, consistent with fiduciary duty.

2024 Climate Transition Plan
We completed the development of an internal Climate Transition Plan to help guide our sustainable investment strategy.

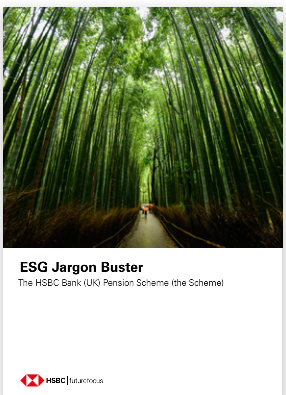
2024 Increased advocacy
Reflecting our universal asset owner mindset, we decided to hire a specialist service provider to support us with the Scheme’s public policy and market-level engagement going forward. The relationship will cover a wide range of issues, including promoting the our ESG priorities at the wider stakeholder level.

To find out more, read the **Introduction** section of the full TCFD report 2024 (see page 5)

You might find the Environmental, Social and Governance (‘ESG’) jargon buster helpful (see page 11):

ESG jargon buster

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



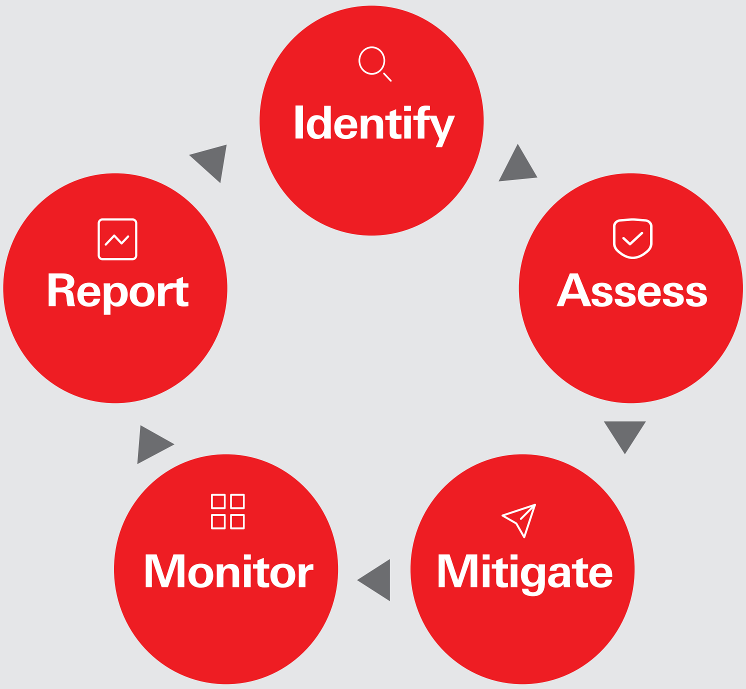
Managing climate risks

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 2024 (see page 7)

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-sensitive 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 2024 (see page 27)

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).

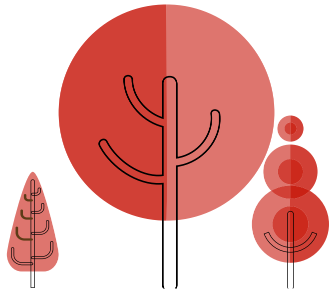
The Trustee uses tools such as climate scenario analysis to estimate how the value of the Scheme's assets could change over time as the impacts of climate change feed through to the economy. Having decided not to re-run scenario analysis in 2023 given the limitations associated with existing methods, the Trustee explored new approaches to the analysis and evaluated various methods and providers in 2024. Following this review, the Trustee decided to take a pragmatic quantitative modelling approach undertaken by the Trustee's existing advisors for the 2024 report. Given the inherent uncertainty in building scenarios, the Trustee does not use the scenarios as predictions or rely solely on these to assess risk. The Trustee will continue to keep climate scenario analysis approaches under review as they evolve.

Climate scenario analysis completed in 2024 showed that both the DB and DC assets could be adversely impacted across the range of climate scenarios that were used, with the negative impacts on assets more pronounced than in the previous analysis undertaken in 2021. This impact was greater for DC assets because of the nature of the investments and the time horizon. The analysis also yielded important insights into the types of risks facing the different generations of members. It has 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, as well as to continue to build members' understanding of the impact of climate change on pension savings.

To find out more, read the **Risk management** section of the full TCFD report 2024 (see page 27)

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 2024 (see page 31)

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.

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 2024.

Case study

Engaging with asset managers

Identify

The Trustee identified concerns over the alignment of one of the Scheme's large US asset managers with the Trustee's ESG priorities – particularly climate change efforts.

Engage

The PSE discussed its concerns with the manager and was reassured that at a mandate level, the manager has demonstrable commitment to the Trustee's ESG priorities, including to climate change. The Trustee also noted that the manager has made considerable progress this year to build capacity with regards to the Trustee's ESG priorities. The Trustee will continue its dialogue with the manager and monitor this going forwards.

Change

The developments undertaken by the asset manager should help reduce climate risk to members' investments and help the Scheme meet its climate ambitions.

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 and Liability Committee	This is a Committee of the Trustee Board. It monitors and reviews investment performance of the DB and DC assets together with changes in the liability profile of the Scheme's DB pensions.
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 and click on the tabs at the top of the page:

Click on 'The Scheme' and then 'Managing ESG risks':

Full 2024 TCFD report

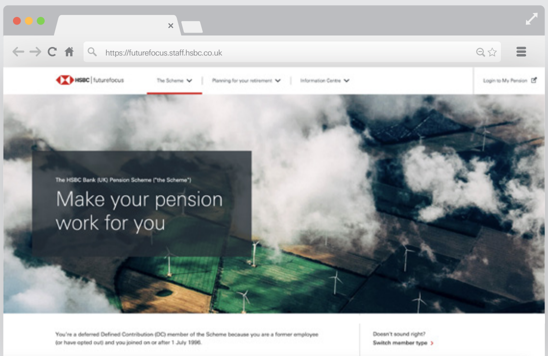
The Scheme's Task Force on Climate related Financial Disclosures (TCFD) report explains the Trustee's approach to climate change in more detail including governance, strategy, risk management, metrics and targets.

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

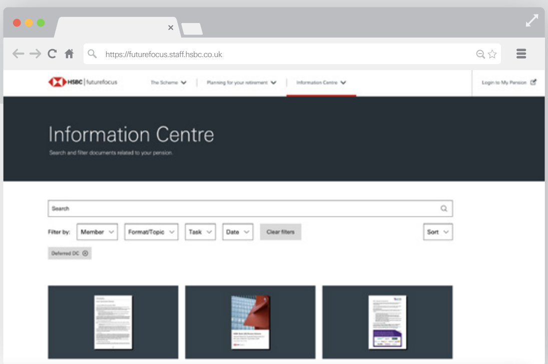
Explains many of the commonly used terms and phrases relating to ESG and investment.



Click on 'Information Centre' and then 'Information Centre' and search for:

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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