HSBC Group Sustainable Investments Definition

HSBC classifies sustainable investments as either Impact, Thematic, or ESG-enhanced

Approach	Definition	Key criteria
ESG-enhanced	**Invest in companies based on relative ESG performance:** This covers a spectrum of approaches such as ESG tilting or positive screening, to intentionally invest in companies based on relative ESG performance or momentum.	• The product has a **stronger or improving ESG performance**, with a **description of the performance metrics** evaluated (e.g. ESG score); • The **objective of the strategy** (e.g., a 20% uplift in ESG score compared to the benchmark); and An **explanation of the methodology** used to measure those metrics (e.g. ESG scores as measured by MSCI/HSBC/FTSE/etc.). • There is a clear **explanation and description of the investment universe or benchmark** being used, including how and why it is appropriate for this strategy to ensure that the performance metrics or targets are relevant to it.
Thematic	**Focus on themes and sectors dedicated to resolving climate and sustainability challenges:** This covers strategies that focus on ESG related growth areas and trends, by seeking out companies or sectors that align with specific sustainable outcomes.	• The product **defines the theme clearly** (e.g. one of the UN SDGs) and the **criteria** that provide boundaries or objectives for how investments would align to or meet the theme. • **Output-focused themes** (e.g. SDG 6 Clean Water and Sanitation) require **70% of the AUM** of the product to be invested in companies where at least **20% of the revenues come from products or services of the theme**. • **Non-output themes** (e.g. SDG 1 No poverty) require a clear **objective and metric** related to the theme (e.g. at least 80% of workers are paid above the minimum wage at or above the living wage), and a minimum threshold of **70% of the AUM** • **Performance driven themes** (e.g. lower carbon footprint or water efficiency), must define a **clear objective** for the theme, the **criteria** and **at least one metric** to show how the objective has been achieved and how the underlying portfolio aligns to the theme. It should cover both backward-looking criteria (e.g. quantitative water withdrawn metric for a water efficiency theme) AND forward-looking criteria (e.g. Scope 3 emission reduction plans for a lower carbon theme)
Impact	**Focus on a direct, positive and measurable impact on society and/or the environment:** This covers strategies that aim to deliver intentional, direct and positive environmental and or social impact. Such investment opportunities deliver both financial returns alongside environmental and social returns	• There is **proof of intent** from the product and its target investments (e.g. use of proceeds for a green bond), as well as an **action plan** if the impact is not achieved (e.g. engagement and divestment). • The **positive impact** intent of the investment is identified (e.g. green bonds define the use of proceeds) and the metric(s) must be clearly linked to a **sustainability-focused outcome** (e.g. number of living wage jobs created). • The impact is **measurable** on society and/or environment and it links products invested directly to impact achieved using specific and defined metrics (e.g. IRIS). • The impact must be **forward looking** from the investment based on a previously-determined starting point/base case (e.g. clean energy generated since 2020); and have clearly defined **milestones on impact measurement.**

Source HSBC Group SI definitions, May 2022

Important Information about sustainable investing : "Sustainable investments" include investment approaches or instruments which consider environmental, social, governance and/or other sustainability factors (collectively, "sustainability") to varying degrees. Certain instruments we include within this category may be in the process of changing to deliver sustainability outcomes. There is no guarantee that sustainable investments will produce returns similar to those which don't consider these factors. Sustainable investments may diverge from traditional market benchmarks. In addition, there is no standard definition of, or measurement criteria for sustainable investments, or the impact of sustainable investments ("sustainability impact"). Sustainable investment and sustainability impact measurement criteria are (a) highly subjective and (b) may vary significantly across and within sectors. HSBC may rely on measurement criteria devised and/or reported by third party providers or issuers. HSBC does not always conduct its own specific due diligence in relation to measurement criteria. There is no guarantee: (a) that the nature of the sustainability impact or measurement criteria of an investment will be aligned with any particular investor's sustainability goals; or (b) that the stated level or target level of sustainability impact will be achieved.
Sustainable investing is an evolving area and new regulations may come into effect which may affect how an investment is categorised or labelled. An investment which is considered to fulfil sustainable criteria today may not meet those criteria at some point in the future.