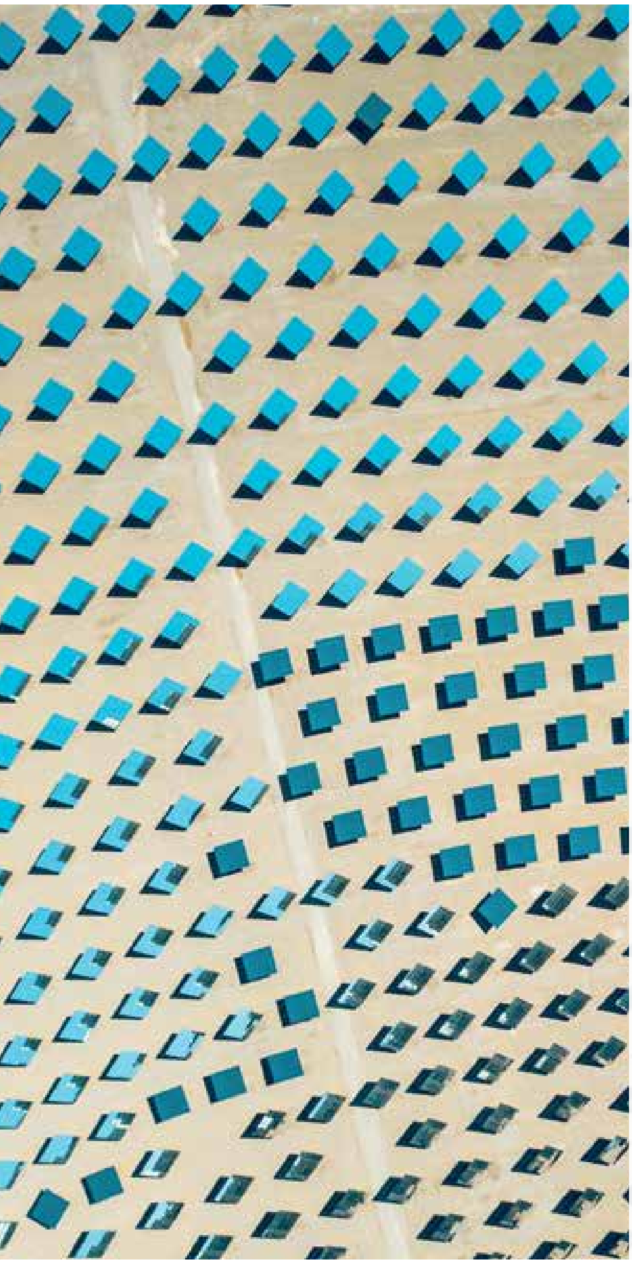
HSBC Global Asset Management
Green Impact Investment Guidelines

HSBC
Global Asset
Management

HSBC is committed to mobilising capital into projects that deliver on Sustainable Development Goals by collaborating with institutional investors, development finance institutions and policy-makers to deliver tangible investment flows into the real economy.



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1.0 Mobilising sustainable capital

We recognise the role we can play in contributing to the United Nations' Sustainable Development Goals (SDGs) and the global transition to a low-carbon economy. The SDGs and Paris Agreement set a long-term transformational framework with the objective of ending poverty, fighting inequalities and tackling climate change.

Mobilising private capital to deliver on these goals is critical. We are committed to finding innovative and impactful investment solutions to enable our clients to participate in this transition.

The UN Commission on Trade and Development (UNCTAD) has estimated that at a global level annual investment of USD5 to USD7 trillion is required to meet the SDGs over the implementation period 2015 to 2030. Total annual investment requirements in developing countries in key SDG sectors are estimated at USD3.3 to USD4.5 trillion. Based on current investment levels, we face an annual investment gap of between USD1.9 and USD3.1 trillion.

2.0 Introduction

This document sets out guidelines for our green impact strategies[1]. We consider it important to outline what we consider to be eligible activities within these strategies and our expectations for impact reporting and issuer or sponsor sustainability considerations.

While these guidelines predominantly apply to specific investment solutions in our bond (including green bonds, sustainability bonds and 'Pure Play' general corporate purpose bonds from issuers where at least 90% of corporate revenues are associated with Green Projects) and infrastructure asset classes, we seek to align these as appropriate across all impact strategies. This Framework is intended to focus on the 'green' outcomes of these bonds. However, we include guidance on the social outcomes where we are investing in sustainability bonds.

The list and definitions of eligible green activities will be reviewed to reflect evolving technologies, taxonomies and standards as they develop. The associated SDG goal and target is provided for reference.

These guidelines will be reviewed on an annual basis, and updated where appropriate.

1 The HSBC Global Asset Management Green Impact Investment Guidelines is informed by but independent from the HSBC Green Bond and HSBC SDG Bond Frameworks.

3.0 Eligible Green Activities

3.1 Green and sustainability bonds

The foundation of all Green and Sustainability Bonds is the Use of Proceeds of the bond. As investors, we expect these to be described appropriately and in sufficient detail in the legal documentation for the security. We will not invest in bonds where the use of proceeds are not clearly defined. We support the International Capital Market Association (ICMA) Green Bond Principles (last updated June 2018) and ICMA Sustainability Bond Guidelines (last updated 2018) and seek to invest in bonds that align with these principles. This includes the four core principles and external review to confirm alignment with these principles:

- Use of proceeds
- Process for Project Evaluation and Selection
- Management of Proceeds
- Reporting

Sustainability Bonds are bonds where the use of proceeds are applied to finance or re-finance a combination of both Green and Social Projects. These guidelines are intended to focus on the 'green' outcomes of green or sustainability bonds. However, we include guidance on the reporting of social outcomes where we are investing in sustainability bonds in line with the Social Bond Principles.

3.1.1 Refinancing

We will consider bonds that are used to finance or re-finance in part or in full new and/or existing Green Projects. Where a proportion of the proceeds are or may be used for refinancing, we expect issuers to provide an estimate of the share of financing vs. re-financing, the types of projects that may be refinanced for a maximum look-back period of 18 months for refinanced Green Projects.

3.1.2 Eligible activities

The Green Bond Principles recognise several broad categories of eligible Green Projects. This Framework specifies those projects considered eligible within these categories. Those bonds that do not meet the eligibility criteria set out below for at least 90% of use of proceeds are not considered eligible for investment. The remaining 10% should not be on the list of Excluded Activities.

3.2 Sustainable infrastructure

Sustainable Development Goal 9 focuses on building resilient infrastructure to promote inclusive and sustainable industrialisation and foster innovation. This is in recognition of the fact that sustainable and resilient infrastructure can contribute to economic development, human wellbeing and achieving sustainability and addressing the global climate challenge.

In line with the UN Environment Programme (UNEP) definition, we consider sustainable and resilient infrastructure to integrate sustainability considerations into a project's planning, building and operating phases while ensuring resilience in the face of climate change and other environmental, social or economic 'shocks'.

As investors, we expect sustainability impacts and risks to be described appropriately and in sufficient detail in the legal documentation for us to fully take these into account. We will not invest in infrastructure equity or debt instruments where the use of proceeds is not clearly defined. We will consider debt instruments that are used to finance or re-finance in part or in full new and/or existing projects.

In May 2020, HSBC launched the FAST-Infra ("Finance to Accelerate the Sustainable Transition – Infrastructure") initiative together with the IFC/World Bank and OECD. FAST-Infra is an industry-led, private-public partnership aiming to scale up private investment in sustainable infrastructure in the developing world. It will (i) develop a labelling system that will help create a new asset class for sustainable infra, and (ii) help create pipelines of bankable projects and attract the finance needed to fill the investment gap. We believe it could provide the right framework to mobilise governments, development banks and private finance around an ambitious financing target for sustainable infrastructure. It will help fund the recovery, optimising the use of constrained public resources by leveraging larger amounts of private finance. We will further define our guidelines as this work develops.

3.3 Eligible Green Activities

We welcome the final EU Technical Expert Group (TEG) on Sustainable Finance's Taxonomy Technical Report released in March 2020. We note the definitions of specific activities in the taxonomy and are mindful of these where relevant to the eligible activities outlined below. We will report those activities that align to the taxonomy in our reporting and will review closer alignment as disclosure improves.

ICMA GBP Green Project Category	Sub-category/description of eligible activities	Sustainable Development Goal (SDG)	SDG Target
Renewable energy	• Renewable electricity generation and trade of wind, solar, geothermal, bioenergy (biomass/biogas), marine power (wave, tidal) • Manufacture of components of renewable energy technology or storage e.g. solar panels and battery storage • Construction/maintenance/expansion of associated distribution and transmission networks	• SDG 7: Affordable and Clean Energy	• 7.2: Increase substantially the share of renewable energy in the global energy mix
Energy efficiency	• Development of products or technology and their implementation that reduces energy consumption of underlying asset, technology, product or system(s) such as improved chillers, improved lighting technology, and reduced power usage in manufacturing operations Improved efficiency in the delivery of bulk energy services. For example district heating/cooling systems, smart grids, energy recovery technology, and the storage, transmission and distribution of energy that results in reduced energy losses. We target a minimum energy efficiency improvement of 20% (where a baseline is available) or a minimum saving of 25,000 tonnes CO_2e/year or 50 Gwh electricity/year • Manufacture of components to enable energy efficiency described above like LED lights, fuel cells, smart grid meters	• SDG 7: Affordable and Clean Energy	• 7.3: Double the global rate of improvement in energy efficiency
Clean transportation	• Low energy or emission transportation assets, systems, components and services including electric, hybrid, public, rail, non-motorised, multi-modal transportation, infrastructure for clean energy vehicles and reduction of harmful emissions • Upgrading of public/commercial transport fleets can be considered dependent on 1) energy/fuel efficiency improvement (target at least 20% improvement to baseline) or carbon savings 2) air pollution improvement exceeding regulatory requirements (e.g. Euro 6 emissions standards) and/or 3) evidence of disposal of replaced fleet	• SDG 11: Sustainable Cities and Communities	• 11.2: provide access to safe, affordable, accessible and sustainable transport systems • 11.6: Reduce the adverse per capita environmental impact of cities
Green buildings	• New construction building developments or renovation of existing buildings (including public service, commercial, residential and recreational) which meet recognised environmental standards such as LEED – gold, BREEAM – good/very good, HQE – very good/excellent, CASBEE – A (very good)/S (excellent), IFC EDGE or equivalent • Buildings which have reduced life cycle consumption of energy levels of at least 20% less that statute/city baseline consumption levels, where this can be easily and transparently be demonstrated	• SDG 11: Sustainable Cities and Communities	• 11.6: Reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management
Sustainable water and wastewater management	• Water collection, treatment, recycling, re-use, technologies and related infrastructure (such as sustainable urban drainage) • We target a minimum water efficiency improvement of 20% compared to the baseline (where available)	• SDG 6: Clean Water and Sanitation	• 6.4: increase water-use efficiency and reduce the number of people suffering from water scarcity

3.3 Eligible Green Activities continued

ICMA GBP Green Project Category	Sub-category/description of eligible activities	Sustainable Development Goal (SDG)	SDG Target
Climate change adaptation	• Flood defences systems and related infrastructure Information support systems, such as climate observation and early warning systems	• SDG 13: Climate Action	• 13.1: Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries
Pollution prevention and control	• Reduction of air emissions (NOx, SOx, particulates etc.) • ¡¡Sustainable waste management – Waste minimisation, collection, management, recycling, re-use, processing, disposal (such as methane capture) products, technologies and solutions • We target pollution prevention and control measures that exceed regulatory requirements and achieve 20% or more pollution/ waste reduction compared to the baseline (where available)	• SDG 11: Sustainable Cities and Communities • SDG 12: Responsible Consumption and Production	• 11.6: Reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management • 12.5: reduce waste generation through prevention, reduction, recycling and reuse
Environmentally sustainable management of living natural resources and land use	• Schemes for allocation and protection of environment, local community, biodiversity or equivalent including environmentally sustainable agriculture; environmentally sustainable animal husbandry; 'climate smart agriculture' e.g. biological crop protection, soil and water management; environmentally sustainable fishery and aquaculture; environmentally sustainable forestry, including afforestation or reforestation, and preservation or restoration of natural landscapes	• SDG 15: Life On Land	• 15.2: Promote the implementation of sustainable management of all types of forests, halt deforestation, restore degraded forests and substantially increase afforestation and reforestation globally
Terrestrial and aquatic biodiversity conservation	• Schemes for allocation and protection of environment, local community, biodiversity or equivalent including the protection of coastal, marine and watershed environments	• SDG 14: Life Below Water	• 14.2: Sustainably manage and protect marine and coastal ecosystems to avoid significant adverse impacts, including by strengthening their resilience, and take action for their restoration in order to achieve healthy and productive oceans
Eco-efficient and/or circular economy adapted products, production technologies and processes	• Resource-efficient packaging and distribution • We target projects leading to 20% reduction of waste/ pollution, or 20% increase in recycled materials in content – over the lifecycle of the product • Industrial (non-power sector) carbon capture and storage (subject to the carbon savings above)	• SDG 12: Responsible Consumption and Production	• 12.5: By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse

3.4 Excluded activities

Bonds or infrastructure projects where the use of proceeds may be used for the following activities are not considered eligible. See Section 4.2 for issuer or sponsor level exclusions and restrictions.

3.4.1 Energy

Fossil fuel extraction and refining

Oil and gas exploration and production (including thermal coal mining).

Power generation from fossil fuels

Coal (including "clean coal projects"), oil and gas. Gas may be considered in limited cases where there are no feasible alternatives. Projects will be considered only in Least Developed Countries, which are under 300 MW capacity, using Best Available Technology, and in line with the country's Nationally Determined Contributions.

Transmission of fossil fuels

Wholesale transmission of oil or gas by pipeline or electricity from fossil fuel generating plant to substation.

Thermal coal related projects

Including mining, transportation or coal-fired power plants, as well as infrastructure services exclusively dedicated to support any of these activities.

First generation liquid biofuel production

Plus Hydrotreated Vegetable Oil (HVO) from palm oil.

Nuclear power generation

Including activities in the nuclear fuel production cycle (uranium mining, production, enrichment, storage or transport of nuclear fuels).

New large dams

Defined as exceeding 15m in height or exceed both 5m in height and 3 million cubic metres in reservoir volume – for hydro-electric projects inconsistent with the World Commission on Dams Framework.

3.4.2 Pollution

Hazardous chemicals

Persistent organic pollutants prohibited by Annex A of Stockholm Convention, hazardous pesticides inconsistent with Annex III of Rotterdam Convention, unbonded asbestos, and coal as feedstock for chemical manufacture.

Disposal of tailings

Disposal of tailings in rivers or shallow sea-water (i.e. water where light still penetrates) in or since 2007.

Transboundary trade in wastes

Except for those accepted by the Basel Convention and its underlying regulations.

3.4.3 Unsustainable and controversial products

Production or trade in products subject to international phase outs or bans

Including: (i) products containing PCBs; (ii) banned pharmaceuticals, pesticides/herbicides; (iii) ozone depleting substances; (iv) wildlife or wildlife products regulated under CITES.

Unsustainable agroforestry or palm oil

Deforestation of forests with high conservation value, high carbon stock, primary tropical forests or land clearance by burning and unsustainably managed forestry.

Unsustainable fishing activities

For example, blast fishing and drift net fishing in the marine environment using nets in excess of 2.5 km in length.

Unsustainable diamonds

Exploitation of diamond mines, and commercialisation of diamonds, when the host country has not adhered to the Kimberley Process, or other similar international agreements.

Protected areas

Projects which threaten UNESCO World Heritage Sites or Ramsar Wetlands or depend on Mountaintop Removal in the Central Appalachian Mountains of the United States of America.

Defence

Manufacture of in weapons or weapons systems.

Tobacco

Manufacture of or trade in (defined as significant sales revenues from) tobacco products.

Discriminatory materials

Production and distribution of racist, anti-democratic or with the intent to discriminate part of the population.

Alcohol

Manufacture of or trade in (defined as significant sales revenues from) alcoholic beverages.

Gambling

Significant sales revenues from ownership and/ or operation of gambling establishments such as casinos, racetracks, online gambling, bingo parlours or bookmaking.

Adult entertainment

Production of adult entertainment and/or significant sales revenues from ownership/ operation of adult entertainment establishments.

Cannabis

Manufacture of or trade in (defined as significant sales revenues from) cannabis or cannabis-related products.

3.5 Reporting

We recognise that current levels of impact reporting are limited. We will report on the proportion of any fund invested in eligible activities and the aggregated in each of the categories of eligible activities outlined in Section 3.3. We will engage with bond issuers, sponsor or other relevant parties on our reporting expectations and have a preference for investments where impact metrics are clearly and transparently reported. Where data is not readily reported we will consider estimation techniques if these are sufficiently robust. Where possible we will also seek to collect and aggregate the indicative impact indicators presented in Table 1 and Table 2 below.

Table 1: Indicative 'green' impact reporting metrics

ICMA GBP Green Project Category	Indicative Reporting Criteria	Sustainable Development Goal (SDG)
Sustainable water and wastewater management	• Cubic metres water saved or treated	• SDG 6: Clean Water and Sanitation
Renewable energy	• Kwh of renewable energy generated or Kwh of power installed • Tonnes of CO2 avoided • Number of household or people with clean energy access	• SDG 7: Affordable and Clean Energy
Energy efficiency	• Tonnes of CO2 avoided or Kwh saved	• SDG 7: Affordable and Clean Energy
Clean transportation	• Tonnes of CO2 avoided (compared to existing transportation) • Number of passengers per year per km (for type of transport)	• SDG 11: Sustainable Cities and Communities
Pollution prevention and control	• Tonnes waste recycled/reduced • Number of projects where pollution prevention and control measures exceed regulatory requirements and achieve 20% or more pollution/ waste reduction compared to the baseline (where available)	• SDG 12: Responsible Consumption and Production

3.6 Sustainability Bond Considerations

Sustainability Bonds are bonds where the use of proceeds are applied to finance or re-finance a combination of both Green and Social Projects. This Framework is intended to focus on the 'green' outcomes of these bonds. However, we include guidance on the social outcomes where we are investing in sustainability bonds in line with the Social Bond Principles. We recognise that reporting on social use of proceeds and impact is at an early stage. Where possible we will also seek to report on the indicators as presented in Table 2.

Table 2: Indicative 'social' impact reporting metrics

ICMA SBP Social Project Category	Indicative Reporting Criteria	Sustainable Development Goal (SDG)
Affordable basic infrastructure/ Access to essential services	• Number of people reached with improved access to energy/ water/health/education services	• SDG 3: Good Health and Well Being • SDG 4: Quality Education • SDG 6: Clean Water and Sanitation • SDG 7: Affordable and Clean Energy
Affordable housing	• Number of affordable housing units built	• SDG 11: Sustainable Cities and Communities
Socioeconomic advancement and empowerment	• Number of women owned businesses supported	• SDG5: Gender equality

4.0 Issuer or sponsor level sustainability considerations

The impacts associated with the eligible activities outlined in Section 3.3 may benefit the environment and society in important ways but also degrade it in others. We consider international sustainability risk management frameworks (e.g. IFC Performance Standards) in identifying material sustainability (environmental, social and governance) factors at the issuer or sponsor level and incorporate these into our investment analysis and decision making process.

4.1 Sustainability assessment

The sustainability assessment, performed as part of the investment analysis is designed to ensure we invest where companies have an Environmental and Social Management System (ESMS) appropriate to the nature and scale of its activities, including (i) sustainability policy(ies) (ii) identification of risks and impacts; (iii) management programs (iv) organisational capacity and competency (v) emergency preparedness and response (vi) stakeholder engagement and (vii) monitoring and review. We support voluntary and, where appropriate, regulatory frameworks to enhance disclosure of relevant sustainability factors. We therefore encourage disclosure on the key areas below representing international good practice. Our preference is for the following to be publicly available.

4.1.1 Environment

- Disclosure of greenhouse gas emissions (scope 1 and 2, tonnes CO_2 equivalent). We encourage disclosure of material scope 3 emissions and broader disclosure in line with the Taskforce on Climate-related Financial Disclosures (TCFD) recommendations
- Policy on responsible water use, including impacts on the community (where relevant)
- Commitment not to undertake projects in, immediately adjacent to or potentially impacting protected areas, parks and reserves including UNESCO World Heritage Sites (natural or cultural) or Ramsar Wetlands (where relevant) as well as endangered, vulnerable or rare species

4.1.2 Social

- Policy prohibiting the use of forced, compulsory, trafficked or child labour in direct operations or the primary supply chain
- Policy and formal management systems addressing health and safety of employees (and the public where involved in infrastructure projects)
- Policy on the use of security forces in line with the Voluntary Principles on Security and Human Rights (where relevant)
- Policy and processes addressing responsible land acquisition and commitment to avoid involuntary resettlement where possible and forced evictions; and minimise its impact on displaced communities, including indigenous communities and impact on cultural heritage
- Policy and processes for engagement with affected communities

4.1.3 Governance/anti-corruption

- Clear code of ethics/code of business conduct
- Clear disclosure of ultimate beneficial ownership and related-party transactions

4.2 Issuer or sponsor level restrictions

We will avoid investing in bonds or with sponsors involved in business activity with the potential to cause or result in a) significant involuntary resettlement, b) risk of adverse impacts on Indigenous Peoples, c) significant risks to or impacts on the environment, community health and safety, biodiversity, cultural heritage or d) significant Occupational Health and Safety risks.

4.2.1 UN Global Compact

We will not invest in the bonds of issuers or sponsors where there are credible allegations of serious breaches of UN Global Compact principles – with respect to the ten principles relating to human rights, labour standards, environment and anti-corruption.

4.2.2 Compliance with local law

We will not invest in companies involved in production or sale of any illegal product or unlawful activity under the laws of the host country.

4.2.3 Excluded sectors

We will not invest where we are aware that the issuer or sponsor derives significant revenue (over 5%) from the following activities:

- Adult entertainment production
- Alcohol manufacture
- Defence/weapons manufacture
- Gambling establishments
- Tobacco manufacture

4.2.4 Restricted sectors

We will restrict investment associated with issuers or sponsors in nuclear and fossil fuel exposed sectors, such as those involved in extraction, refining or power generation, where we do not consider the issuer or sponsor to be committed to meaningful decarbonisation and is appropriately managing associated transition risks.

We will therefore consider investing in bonds issued by issuers deriving revenue from fossil fuel or nuclear related activities, providing the 'use of proceeds' meet the eligible activities outlined in Section 3.3. We will not invest in bonds where the use of proceeds are directly used for ineligible activities outlined in Section 3.3.

This assessment, performed as part of the investment analysis, will take the following into account:

- Current renewable energy generation mix, scale of proposed investment and public targets to increased generation from renewable energy
- Impact of any renewable energy infrastructure or technology in facilitating the transition to a renewable energy generation
- Evaluation of disclosure in line with the TCFD recommendations

Appendix 1: HSBC sustainability risk policies

HSBC has developed specific Sustainability Risk Policies for sectors where there is potentially high adverse impacts on people and the environment.

These include:

- Agriculture Commodities
- Chemicals Industry
- Defence Equipment
- Energy Sector
- Equator Principles (Project Finance)
- Forestry
- Mining and Metals
- World Heritage Sites and Ramsar Wetlands

More information can be found on the public website at: **hsbc.com/citizenship/sustainability/finance**

These policies, in addition to the Equator Principles, are incorporated into our issuer and issue level sustainability considerations. For more information regarding HSBC's application of the Equator Principles, please visit the following public website: **hsbc.com/citizenship/sustainability/finance/equator-principles**

In addition, all of the bank's activities are subject to the HSBC's statement on Human Rights, which sets out the bank's commitment to the UN Guiding Principles on Business and Human Rights, and the fundamental rights set out on the UN Declaration of Human Rights and the International Labour Organisation's (ILO) Declaration Fundamental Principles and Rights at Work. For more information, please see the public website at: **hsbc.com/our-approach/our-values**