

HSBC Global Asset Management Hong Kong

Principles of Responsible Ownership

2020



HSBC
Global Asset
Management

This statement sets out how HSBC Global Asset Management applies the principles of the Hong Kong Principles of Responsible Ownership issued by the Securities and Futures Commission.

1 Investors should establish and report to their stakeholders their policies for discharging their ownership responsibilities.

We regard responsible ownership as integral to our long-term approach to investment. For actively-managed portfolios, our fund managers exercise close oversight of companies held, meeting them regularly to monitor performance as well as undertaking voting. Assessment of environmental, social & governance (ESG) issues is a full part of our investment process, with portfolio managers and analysts primarily responsible. For passive portfolios, where investment is determined by weighting in an index or other factor, we assess and engage on ESG issues, including voting in nearly all markets.

Our actively-managed portfolios are quite concentrated, with relatively few companies held. Companies are often held for a number of years. This ensures that fund managers and analysts have a detailed knowledge of the companies in which they invest on behalf of stakeholders, and also have time to monitor them closely. They hold regular meetings with companies' managements. Companies are also reviewed in regular investment team meetings, with the investment case and any concerns re-assessed continually.

Many companies are held only in passive portfolios. As many of these track major indices, we hold shares in companies in many markets. Although our proportionate holding in these companies is often small, our sister companies managing these passive portfolios maintain active oversight. They receive external ESG research on all companies, investigating and, where necessary, engaging regarding issues of concern. We also vote on all passive holdings other than in markets with significant barriers to voting.

Our global voting guidelines reflect widely accepted principles of good governance. The prevalence of issues highlighted by our voting depends upon the nature of different markets. Independent board representation and remuneration concerns are widespread; votes to defend shareholder rights are required more frequently in particular markets. We also support a high proportion of shareholder resolutions, seeking improved ESG disclosure. Our voting policies are available on our website, with global voting reports also available; this enables beneficiaries to follow our responsible ownership activities.

Our discharge of ownership responsibilities is integral to our service to stakeholders. For active portfolios, it is not sufficient that a company meets a financial screen or seems to have good short-term prospects. We want to understand that returns are sustainable and review ESG and other issues facing the company before investment and throughout our time as holders. This includes challenging management on their own stewardship of stakeholders' assets and escalating our engagement where necessary. For passively-managed portfolios, clients are seeking exposure to an index or other factor. We believe that our responsible ownership of these assets still has an important role in protecting clients as well as the returns of the market as a whole.

Our staff report to clients and fund directors on our exercise of ownership responsibilities.

2 Investors should monitor and engage with their investee companies

We monitor companies through our investment process. For active portfolios, this includes assessment of companies' own and market data, consideration of research from brokers and other independent research providers – including ESG & voting research, attending individual & group meetings with company management and directors, visiting production sites, talking to competitors and customers, and our own financial modelling. For companies held only in passive portfolios managed for us by our sister companies, they assess external ESG & voting research and engage with company management and / or directors to raise company specific or thematic issues of concern.

Whilst investors can never know all that is happening inside a company and cannot selectively receive price sensitive information, we believe that our investment process for active portfolios makes us acutely sensitive to variations in company performance, drivers of value and risk, strengths and weaknesses of corporate leadership and the quality of companies' reporting.

Where concerns arise, we seek meetings with the company; with management in the first instance but where the response has not been satisfactory or where management might be part of the problem, we might meet with the Chairman or other directors.

For both active and passive portfolios, we monitor and assess all investee companies' governance through external ESG and voting research, our own research and through regular and ad hoc contact with management and other board members.

We do not normally attend General Meetings of companies, although we have and will continue to do so on occasion as part of our engagement.

Our voting process scrutinises companies' governance structures and practices and may result in votes against management when these are inadequate.

3 Investors should consider and establish clear policies on when they will escalate their engagement activities

As set out above & below, our investment, voting & engagement processes include contact at many different levels of an investee company. Our inclination is to support management in good standing. In the first instance, any engagement is to understand its approach, with the expectation that this will enhance confidence.

Where concerns arise because we feel that regular communication has not demonstrated that an issue is being adequately addressed, we might adopt any of the escalations set out in the guidance accompanying this principle in order to protect stakeholder interest, subject to the likelihood of a particular approach actually being successful. At each stage, we are seeking confidence that our concern is either misplaced, or is acknowledged and being addressed appropriately. If that confidence is lacking, we consider escalation in our engagement.

Our approach related to specific issues is as follows:

Where we have concerns about performance, strategy or risk management, we would normally contact management in the first instance.

Concerns about management themselves or following an unsatisfactory response from management might be raised with the Chairman, or with an independent Director if the Chairman was unavailable / conflicted.

For governance issues, including remuneration, we might contact the company secretary in the first instance. We expect the company secretary to communicate our concerns to the board. Subsequent engagement can be with the company secretary, other officers, directors and / or the Chairman.

Where other ESG issues arise, these will normally form part of regular engagement for active portfolios in the first instance. For passive portfolios, our external research and / or own monitoring could raise issues of concern. Concerns

might include the company's response to climate change issues, or handling of a social issue related to customers or its supply chain. We raise these first with relevant company officers, sometimes through investor relations. In some cases, we ask a company to explain / develop an action plan for addressing an issue so that investors can monitor its progress in doing so. We are always keen to see director involvement with these issues and will seek meetings with them if initial responses do not address our concerns / a more strategic approach is required.

We might discuss our concerns with the company's advisers at different stages but would only ask them to communicate these formally if we had had an inadequate response from management and / or directors.

Our approach to collective engagement is set out below.

We have publicly indicated our support for certain shareholder resolutions in advance of General Meetings and would also consider doing so in other circumstances / on other issues.

We have added our name to joint investor statements made at General Meetings and would also consider doing so in other circumstances / on other issues.

We have co-filed shareholder resolutions, although not recently in Hong Kong, and are open to doing so in future where the issue / circumstances merits such an approach.

We have not requisitioned a General Meeting in Hong Kong, though might consider doing so jointly with other investors as a last resort.

4 Investors should have clear policies on voting guidance

We aim to vote all equities for which clients have given us voting authority, except for practical reasons such as share blocking or overly burdensome power of attorney requirements.

We have clear and detailed voting guidelines which provide the framework for our voting decisions, although these are applied according to the particular circumstances of the company. These guidelines are based upon widely-accepted international governance standards. We aim to make clear our support for these standards whilst accepting that companies may have good reasons for departing from them.

We receive custom vote recommendations based upon these guidelines from Institutional Shareholder Services (ISS) and use their platform for vote instruction. Our own analysis may result in a different view from the custom recommendations. Globally, our Hong Kong investment teams voted on some 42,211 resolutions at more than 3,900 company meetings in 2019, voting against management on 4,213 resolutions.

We offer clients reports on our voting activity. We publish voting records quarterly in arrears for every resolution at every meeting around the world:

<https://www.assetmanagement.hsbc.com.hk/en/institutional-investor/about-us/responsible-investing/stewardship>

5 Institutional investors should be willing to act collectively with other investors where appropriate

Our investment dialogue with companies is usually conducted alone. Any consequent engagement will normally also be conducted on a direct one-to-one basis.

For governance, performance strategy & leadership issues, we would normally only consider collective engagement with other shareholders where our initial engagement with a company has failed to bring the confidence that we sought. This might be due to the quality of the company's response or because the small scale of our (in this case usually passive) holding meant that the company had not given our concerns sufficient attention. In this case, we might approach other shareholders directly to see if our concerns were shared / there was an appetite for joint action.

We are active in other investor networks and have participated in joint engagement through a number of them, including the Climate Action 100+ initiative, Global Institutional Governance Network, and the Asian Corporate Governance Association.

ESG issues are also often appropriate for joint discussions with companies, enabling investors to leverage their influence / share coverage. We participate in thematic joint engagement on climate change and supply chain issues organised by the Principles for Responsible Investment Clearing House. We also participate in joint engagement with companies on climate change initiated by the Institutional Investors Group on Climate Change. We identify ESG issues for engagement through our own monitoring and research and consider whether to engage jointly or collectively according to the opportunity and likely impact on a case by case basis.

We also work with other institutions on certain policy issues impacting shareholder rights more generally.

6 Investors should report to their stakeholders on how they have discharged their ownership responsibilities

We are committed to accountability to our stakeholders on responsible ownership.

Our clients can receive portfolio-specific quarterly voting reports. Our voting guidelines, disclosures and engagement policy are available at: <https://www.assetmanagement.hsbc.com.hk/en/institutional-investor/about-us/responsible-investing/stewardship>

Our 2020 Responsible Investment Review, which provides details and examples of our approach to integration, voting & engagement is also available at:

<https://www.assetmanagement.hsbc.com.hk/-/media/files/attachments/common/resource-documents/responsible-investment-review-2020.pdf>

7 When investing on behalf of clients, Investors should have policies on managing conflicts of interest

Our primary responsibility as an investment management firm is to try to add value over the long term. Potential conflicts of interest we may face are addressed by the over-riding principle that client interests are put first.

Our voting guidelines are intended to identify the best interest of all clients as investors in a particular company. Basing our voting decisions upon these guidelines helps us to manage conflicts of interest.

As with all our holdings, votes in situations where there may be a perceived conflict of interest, for example at our parent company and related entities, are considered in the context of our voting guidelines. Whilst our process allows for departure from vote recommendations based upon our guidelines, special review procedures and compliance oversight would be required should this arise in a situation where we were aware of a conflict of interest.

HSBC Global Asset Management is functionally and operationally independent from, and maintains arm's length commercial relationships with, other HSBC Group companies.

As set out above, we have a procedure for conflicted situations where we believe that investor interest is not reflected in the initial vote recommendation. This would apply if clients' interests diverged or a client relationship raised a potential conflict. If a conflict arises through holdings in both sides of a transaction, the shares in each company are voted in the interest of clients as investors in that company.

We have found that the best protection when undertaking engagement in a potentially conflicted situation is to maintain the high standards of research, communication & documentation that we would hope to bring to any engagement.

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