Asset Management

User Guide on Principal Adverse Indicators (PAIs)

June 2023

Version 1.0 (For professional investors only)

HSBC | Opening up a world of opportunity

Contents

1. What are PAIs?

A Principal Adverse Impact ("PAI") is any impact of investment decisions or advice that results in a negative effect on sustainability factors, such as environmental, social and employee concerns, respect for human rights, anti-corruption, and anti-bribery matters. For financial market participants and financial advisers, providing the required PAI information is one of obligations under the Sustainable Finance Disclosure Regulation ("SFDR").

Under the SFDR requirements, European financial market participants must report on a predefined list of PAI indicators, which consists of 18 mandatory indicators (14 applicable to corporate issuers, 2 are specific to sovereign and supranational, and 2 to real estate) and over 40 optional indicators covering additional environmental and social factors.

HSBC Asset Management has selected the following two optional PAIs to include in our PAI reporting:

- Optional Environmental PAI 4 – Investments in companies without carbon emission reduction initiatives
- Optional Social PAI 9 – Lack of a human rights policy

Under SFDR, PAIs are required to be disclosed in the following ways:

1. **Disclosure at the product level (Article 7 SFDR) -** For all products in scope of SFDR, the investment manager discloses in the prospectus whether and how PAIs are considered in the investment approach. The periodic reports are produced on an annual basis based on the fiscal year end of the fund.

2. **Disclosure at the entity level (Article 4(1) to (5) of SFDR) -** Financial market participants must publish a Principal Adverse Sustainability Impacts statement (PASI statement) on their website on an annual basis. For those who consider PAIs on sustainability factors in their investment decisions, the statement should include a report describing how they have taken PAI into account covering:

    a. Information on policies for the identification of PAIs, actions taken and planned to mitigate them (for instance, reduction of carbon emissions by means of engagement or other policies), references to internationally recognised standards for due diligence and reporting, as well as a historical comparison

    b. Reporting on mandatory PAI indicators and additional optional indicators identified

Note that the report must follow the template in Annex I of the RTS and must be published on 30th of June each year with the previous calendar year as a reference period.

Disclosure of PAIs in the European ESG Template ("EET") report

Though it is not a regulatory obligation, the EET provides as a new, standardized, machine-readable template for ESG data and is intended to facilitate the exchange of ESG data between product manufacturers and distributors and intermediaries for the purpose of fulfilling ESG-related regulatory requirements contained in the SFDR, the Taxonomy Regulation, MiFID II and the IDD for insurers.

The EET is to be produced for all products distributed in the EU at a share class level, and for all sustainable and non-sustainable products in scope of SFDR (article 6, 8 & 9 funds).

The quantitative PAI values in the EET are not linked to PAI consideration at product level nor product classification. Instead, they are provided for all products under scope of SFDR entity reporting. As a general principle, it should be noted that PAI values in the EET template:

- Is to fulfill the regulatory requirement of the SFDR PAI reporting at entity level. They are therefore **deemed to be** used by financial market participants who invested in financial products and who are subject to SFDR's reporting at their entity level;

- They are **not deemed to be** used for investment decisions or product comparison at this stage as there are discrepancies in term of approaches in the industry which leads to results which are not fully comparable.

Calculation methodology for PAIs in the EET vs. PAIs in the entity report

The same methodology is used to calculate the PAI values in the EET and in the entity report, except that in the entity report the PAI values are aggregated at entity level, and in the EET the PAI values are aggregated at fund level.

PAI values are calculated on an annual calendar basis, to be in alignment with the SFDR Entity report.

2. PAI Calculation assumptions/approaches:

1. **"Current value of investment" vs. "all investments"**

"Current value of investment" is calculated based on eligible covered assets* by taken average of 4 quarter ends snapshot of previous calendar year. (For further details please refer to **"Data reference period and refresh frequency" for PAI** in below.)

**'Eligible' means which holdings are the relevant type for the Principle Adverse Impact indicators in question and 'covered' means those holdings for which the relevant underlying data has been obtained or estimated.*

"All investments" are based on the total market value. It should be noted that for Futures, Contract for Difference and Credit Default Swap the notional value is used.

Currency adjustments are made using Reuters' conversion rate at 4pm London time to convert PAI values into Euros.

2. **"Investee company's enterprise values"**

"Investee company's enterprise values" i.e., EVIC is first sourced from the asset's immediate issuer, if not available then from ultimate parent excluding majority ownership, then ultimate parent including ownership. For the reference period, we use the EVIC as of latest reported company's fiscal year end.

3. **"Data reference period and refresh frequency" for PAI**

Average quarter ends of the previous calendar year were taken for the portfolio/fund holdings. ESG data is taken as of previous calendar year end.

4. **"Variation from RTS for units used for PAI 3 & 15"**

For the above two PAIs, we used the same units (million Euros) in the numerator and denominator.

5. **Data coverage/ quality limitations**

Due to the lack of data coverage, PAIs could not be calculated for:

- Portfolio/funds in the Alternatives investment sector (i.e., private equity, private debt, real estate & infrastructure).
- Derivatives.
- In some cases, for second level and beyond fund of funds look-throughs.

PAI specific ESG data limitation / coverage are detailed in the PAI explanation table below.

6. ESG data source, published vs estimated

HSBC uses ESG data issued by 7 third-party data providers (Bloomberg, MSCI, Sustainalytics, Iceberg, IMF, ISS, S&P Trucost). These data providers use a mix of published values and estimated data estimates based on their own methodologies.

7. SFDR controversial weapon definition Vs. HSBC banned weapon policy

SFDR's controversial weapon definition covered within the HSBC Banned Weapon policy which is available on our website: https://www.assetmanagement.hsbc.com/about-us/responsible-investing/policies

8. Eligibility methodology

Assets were classified based on the Solvency II Complementary Identification Code (CIC) methodology*. The eligibility is calculated as the weight of the portfolio/fund assets which match the CIC category classification that applies to the PAI concerned (Corporate, Sovereign, Real Estate, Others).

*Link to Solvency II Complementary Identification Code (CIC) methodology can be found in here: https://register.eiopa.europa.eu/Publications/Consultations/EIOPA-14-052-Annex_IV_V_-_CIC_table.xls

9. Coverage methodology

The coverage shows the weight of the portfolio/fund assets which are eligible for the respective PAI and for which the related ESG third-party provider has data coverage.

10. Fund of Funds Look-through

HSBC AM is performing a look-through on fund of funds to calculate PAIs scores of the underlying fund's assets where feasible.

3. PAI Explanation (From Annex 1 Template principal adverse sustainability impacts statement)

#	PAI	Metric	Explanation
Table 1 Statement on principal adverse impacts of investment decisions on sustainability factors			
1	GHG emissions	Scope 1 GHG emissions - Metric tons CO2 equivalents	Data Vendor: S&P Trucost GHG Emissions are commonly referred to as 'financed emissions'. For example, if a portfolio owns 10% of a given company, it would be financing 10% of its emissions. To get the total, we sum up the GHG absolute emissions - Scope 1 divided by enterprise value, multiplied by investment for all investee companies. Scope 1 emissions are those from sources owned or controlled by the company, typically direct combustion of fuel as in a furnace or vehicle. Enterprise Value, including cash (EVIC) in million Euro are sourced from FactSet. Data limitation: GHG Emissions - Scope 1 data are primarily based on company disclosures, or estimated by S&P Trucost in the absence of company reports. There is not 100% coverage for these metrics. While our data provider, S&P Trucost, endeavours to provide full coverage for the entire universe of possible holdings, there are sometimes gaps due to companies not reporting emissions, and it is not appropriate to estimate non-reported emissions for niche asset classes or sub-industries. There is a further potential gap when our holding is at the subsidiary level, and emissions are only reported at the level of the parent company and not distributable to the subsidiary. These datapoints are measured in tonnes of CO2 equivalents per million of euros of revenue. They cover the full spectrum of GHG emissions and not only carbon. Hence, we consider them as an Exact Fit of the PAI definition. It is important to note that we zero down the carbon emission for internally approved green bonds - i.e., green bonds for which "greenness" has been ascertained and approved by a the relevant HSBC AM committee. This option has been set in the absence of a more accurate and systematic assessment which would consist in applying to the concerned bond a reduced GHG emissions based on the financed projects / use of proceeds. The same abatement ("zeroing") will apply similarly to portfolio position and corresponding benchmark components.

		Scope 2 GHG emissions - Metric tons CO2 equivalents	Data Vendor = S&P Trucost Scope 2 comprises company's indirect GHG emissions (in tons of CO2 equivalent) from purchased or acquired electricity, steam, heat and cooling necessary to manufacture the product. Within the framework of SFDR, GHG Emissions refer to 'financed emissions'. For example, if a portfolio owns 10% of a given company, it would be financing 10% of its emissions. To get the total, we sum up the GHG absolute emissions - Scope 1 divided by enterprise value, multiplied by investment for all investee companies. Enterprise Value, including cash (EVIC) in million Euro are sourced from Factset. Data limitation: GHG Emissions - Scope 2 data are primarily based on company disclosures or estimated by S&P Trucost in the absence of company reports. There is not 100% coverage for these metrics. While our data provider S&P Trucost endeavors to provide full coverage for the entire universe of possible holdings, there are sometimes gaps due to companies not reporting emissions and it is not appropriate to estimate on reported emissions for niche asset classes or sub-industries. There is a further potential gap when our holding is at the subsidiary level and emissions are only reported at the level of the parent company and not distributable to the subsidiary. This PAI is measured in tonnes of CO2 equivalents and cover the full spectrum of GHG emissions and not only CO2. Hence, we consider it as an Exact Fit of the PAI definition. It is important to note that we decided to zero down the carbon emission for internally approved green bonds - i.e. green bonds for which "greenness" has been ascertained and approved by a fully-fledged HSBC AM committee. This option has been set in the absence of a more accurate and systematic assessment which would consist in applying to the concerned bond a reduced GHG emissions based on the financed projects / use of proceeds. The same abatement ("zeroing") will apply similarly to portfolio position and corresponding benchmark components.
		Scope 3 GHG emissions - Metric tons CO2 equivalents	Data Vendor: S&P Trucost GHG emissions - Scope 3, defined as all other indirect emissions (not included in scope 1 and 2) that are generated throughout a company's value chain, can often be the largest source of emissions for companies. Scope 3 emissions are divided into two main categories: upstream (supply chain, i.e. purchased or acquired goods & services) and downstream (products value chain: use of sold goods and services) activities of a company. S&P Trucost considers all upstream and downstream GHG emissions - scope 3 categories as outlined by the GHG Protocol Corporate Value Chain Accounting and Reporting Standard.

			Within the framework of SFDR, GHG Emissions refer to 'financed emissions'. For example, if a portfolio owns 10% of a given company, it would be financing 10% of its emissions. To get the total, we sum up the GHG absolute emissions - Scope 3 divided by enterprise value including cash (EVIC), multiplied by investment for all investee companies. Enterprise Value, including cash (EVIC) in million Euro are sourced from FactSet. Data limitation: Scope 1 and 2 carbon are more directly under the control of the individual companies we invest in, whereas scope 3 estimates are more an estimation of a company's interaction and the resulting GHG emissions of downstream & upstream stakeholders. Due to a lack of reported information, it is a great challenge to estimate and quantify company scope 3 emissions. It is important to note that we decided to zero down the carbon emission for internally approved green bonds - i.e. green bonds for which "greenness" has been ascertained and approved by a fully-fledged HSBC AM committee. This option has been set in the absence of a more accurate and systematic assessment which would consist in applying to the concerned bond a reduced GHG emissions based on the financed projects / use of proceeds. The same abatement ("zeroing") will apply similarly to portfolio position and corresponding benchmark components.
		Total GHG emissions - Metric tons CO2 equivalents	Data Vendor: S&P Trucost Total GHG Emissions (Scope 1, 2 & 3) are commonly referred to as 'financed emissions'. For example, if a portfolio owns 10% of a given company, it would be financing 10% of its GHG emissions. It is the sum of the GHG absolute emissions (Scope 1,2 & 3) divided by enterprise value, multiplied by investment. GHG emissions are primarily based on company disclosures or estimated by S&P Trucost in the absence of company reports. Enterprise Value, including cash (EVIC) in million Euro are sourced from FactSet. Data limitation: Lack of coverage of GHG emissions - Scope 3 and some niche asset classes (such as Small Caps, High Yield, Frontier or Emerging Markets issuers). These gaps are due to companies not reporting emissions, and it is not appropriate to estimate non-reported emissions for niche asset classes or sub-industries. This PAI is measured in tonnes of CO2 equivalents and cover the full spectrum of GHG emissions and not only carbon. Hence, we consider it as an Exact Fit of the PAI definition. It is important to note that we zero down the carbon emission for internally approved green bonds - i.e. green bonds for which "greenness" has been ascertained and approved by a fully-fledged HSBC AM committee. This option has been set in the absence of a more accurate and systematic assessment which would consist in applying to the concerned bond a reduced GHG emissions based on the financed projects

			/ use of proceeds. The same abatement ("zeroing") will apply similarly to portfolio position and corresponding benchmark components.
2	Carbon footprint	Carbon footprint - Metric tons of CO2 per million of euros (EV)	Data Vendor: S&P Trucost This PAI consists of ton sum of the carbon emissions (scope 1, 2 and 3) of issuer divided by enterprise value, multiplied by the weight of the investment. Enterprise Value, including cash (EVIC) in million Euro are sourced from FactSet. It is a measure of carbon emissions ownership, as it considers the proportion of emissions per investment, relative to the total size of the issuer value. However, carbon footprint can fluctuate without a change in carbon emissions as a result of changes in issuer value. Total carbon footprint is the sum of all issuer carbon footprint, divided by the value of the portfolio. This PAI is considered as an Exact Fit of the definition. Data limitation: Carbon emissions (Scope 1, 2 & 3) are primarily based on company carbon disclosures or estimated by S&P Trucost in the absence of company reports. It is worth noting that the lack of coverage of scope 3 Carbon emissions and some niche asset classes (such as Small Caps, High Yield, Frontier or Emerging Markets issuers). These gaps are due to companies not reporting emissions and it is not appropriate to estimate non-reported emissions for niche asset classes or sub-industries. It is important to note that we zero down the carbon emission for internally approved green bonds - i.e. green bonds for which "greenness" has been ascertained and approved by a fully-fledged HSBC AM committee. This option has been set in the absence of a more accurate and systematic assessment which would consist in applying to the concerned bond a reduced GHG emissions based on the financed projects / use of proceeds. The same abatement ("zeroing") will apply similarly to portfolio position and corresponding benchmark components.
3	GHG intensity of investee companies	GHG intensity of investee companies - Tons of CO2 equivalents per million of euros of revenue	Data Vendor: S&P Trucost GHG intensity measures the quantity of GHG emissions (scope 1,2 and 3) per million euro revenue of an issuer of a financial investment. It is a measure of environmental efficiency of an issuer, measuring issuer GHG emissions, relative to issuer economic output. It is useful for comparing the economic environmental position of two funds with similar sector and geographic allocation because the level of issuer GHG intensity is dependent in part on the sector, and country policies in which the issuer operates. For comparison purposes, the GHG intensity of the fund/mandate is shown against the GHG intensity of its reference benchmark. Data limitation: GHG intensity are primary based on company GHG emissions (Scope 1, 2 & 3) disclosures, or estimated by S&P Trucost in the absence of company reports. The lack of coverage of scope 3 and

			niche asset classes (Small Caps, High Yield, Frontier or Emerging Markets issuers) are due to companies not reporting emissions, and it is not appropriate to estimate non-reported emissions for niche asset classes or sub-industries. This PAI is measured in tonnes of CO2 equivalents and covers the full spectrum of GHG emissions and not only carbon. Hence, we consider it as an Exact Fit of the PAI definition. It is important to note that we zero down the carbon emission for internally approved green bonds - i.e. green bonds for which "greenness" has been ascertained and approved by a fully-fledged HSBC AM committee. This option has been set in the absence of a more accurate and systematic assessment which would consist in applying to the concerned bond a reduced GHG emissions based on the financed projects / use of proceeds. The same abatement ("zeroing") will apply similarly to portfolio position and corresponding benchmark components.
4	Exposure to companies active in the fossil fuel sector	Share of investments in companies active in the fossil fuel sector	Data Vendor: Sustainalytics For this PAI, the selection of data points provided by Sustainalytics covers the full spectrum of fossil fuel involvements of companies determined on their revenues analysis. This data is taken as reported by the company. This PAI considers only companies with significant involvement in the fossil fuel sector, meaning more than 10% revenue generated from fossil fuel. We consider these metrics to be an Exact Fit to the PAI definition. Sustainalytics do not use estimation models to cover this PAI.
5	Share of non-renewable energy consumption	Share of non-renewable energy consumption of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as a percentage of total energy sources	Data vendor: Bloomberg This PAI represents the percentage of the company's non-renewables energy production in the reporting year. This data is taken as reported by the company. Total energy production from renewables includes wind, solar, biomass, waste and all other types of renewables energy in gigawatt hours (GWh). The calculation is made based on company disclosure on total energy consumption or production and related non-renewable share. Bloomberg do not use estimation models to cover this PAI. Data limitation: Despite a larger research universe, only a fraction of companies is ng the metric but we can expect this limitation to ease in the future. It is worth noting that this data is available for the Utilities' sector only. Data limitation: Despite a larger research universe, only a fraction of companies are disclosing the metric, but we expect this limitation to ease in the future. It is worth noting that this data is available for the Utilities' sector only.

5b	Share of non-renewable energy production	Share of non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as a percentage of total energy sources	Data vendor: Bloomberg This PAI represents the percentage of the company's non-renewables energy production in the reporting year. This data is taken as reported by the company. To calculate the reported shares, the percentages as directly reported by companies are taken into account, or a calculation is made based on company disclosure on total energy consumption or production and related non-renewable share. Bloomberg do not use estimation models to cover this PAI. Data limitation: Despite a larger research universe, only a fraction of companies are disclosing the metric but we expect this limitation to ease in the future.
6	Energy consumption intensity per high impact climate sector	Energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector - GWh per million of euros of revenue	Data vendor: Bloomberg& S&P Trucost This data is taken as reported by the company. Energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sectors based on NACE* classification of activities. NACE (Nomenclature of Economic Activities) is the European statistical classification of economic activities. Data limitation: Despite a larger research universe, only a fraction of companies are disclosing the metric but we expect this limitation to ease in the future.
7	Activities negatively affecting biodiversity-sensitive areas	Share of investments in investee companies with sites/operations located in or near to biodiversity-sensitive areas where activities of those investee companies negatively affect those areas	Data Vendor : Iceberg Data Lab We use an approximation of the "Share of investments in investee companies with sites/operations located in or near to biodiversity-sensitive areas where related-activities negatively affect those areas" due to the challenge of gathering a mapping of investee companies with sites/operations located in or near to biodiversity sensitive areas. An assessment of companies' activities located in or near to biodiversity sensitive areas would require a spatial approach which is not yet disclosed by companies and available to investors. In this context, we use an approximation to assess the most material biodiversity impacts of companies. We rely on the Iceberg Data Lab methodology which estimates all the material biodiversity impacts, calculated and supported by robust scientific frameworks (damage functions, pressure factors), and translated into the Corporate Biodiversity Footprint (CBF) indicator which reflects the annual biodiversity footprint of a company, expressed in the Km².MSA unit. The « Mean Species Abundance » (MSA) is a biodiversity metric expressing the average relative abundance of native species in an ecosystem compared to their abundance in an ecosystem undisturbed. The CBF Score is derived from the CBF Indicator and reflects the relative performance of an issuer compared to its peers in a designated sector or sub-sector. This score, on a range from 1 (best or most reduced impact on Biodiversity) to 6 (worst or most important impact on Biodiversity), is used for running high-level screening for portfolio analysis and allows comparison to the peers within the same sector. For PAI 7, we use the % of investments in investee

			companies that have a CBF score equal to 6. Data limitation: There are methodological bias and limits to the Corporate Biodiversity Footprint (CBF) methodology, the most important being that the CBF covers only terrestrial biodiversity and partially marine biodiversity, which are in the scope of many inventories, reviews, and damage functions. In addition, some pressure factors such as Invasive species are not modelled yet, due to the lack of robust models but will be developed over time. It is worth noting that, as of today, only a low fraction of companies are disclosing the metric or information that is requested by the PAI 7 but we expect this limitation to ease in the future as some companies are increasingly interested in natural capital accounting to mitigate their impacts and measure their risks. Considering the approximation made and data limitation, this PAI is a Partial Fit of the definition.
8	Emissions to water	Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average - Thousands of Metric tons per million of euros invested	Data vendor: Bloomberg We consider the amount of discharges to water that influence the biophysical or chemical quality of the water, in thousands of metric tonnes. Emissions to Water is measured in tonnes of pollutants. The following pollutants are considered for the purpose of this metric: direct nitrates, direct phosphate emissions, direct pesticides emissions, direct emissions of priority substances (i.e. heavy metals, loads of organic pollutant parameters such as biochemical oxygen demand (BOD) and chemical oxygen demand (COD), nitrogen and phosphorus compounds, soluble salts, and suspended solids). This metric to be an Exact Fit to the definition as provided by the regulator given the correspondence of covered substances. Bloomberg do not use estimation models to cover this PAI. Data limitation: At least in the beginning, we expect a highly heterogeneous disclosure with most companies only including a subset of this metric in their reporting.
9	Hazardous waste and radioactive waste ratio	Tonnes of hazardous waste and radioactive waste generated by investee companies per million EUR invested, expressed as a weighted average - Thousands of Metric tons per million of euros invested	Data vendor: Bloomberg Hazardous Waste Ratio is measured in tonnes of hazardous waste generated by a company. Following the EU definition, the datapoints include both hazardous and radioactive waste as reported by companies. We consider this metrics to be an Exact Fit to the PAI definition as provided by the regulator given the correspondence of covered substances. Bloomberg do not use estimation models to cover this PAI. Data limitation: At least in the beginning, we expect a highly heterogeneous disclosure with most companies only including a subset of this metric in their reporting.

10	Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	Data Vendor : Sustainalytics We rely on Sustainalytics to assess UN Global Compact Principles and OECD Guidelines, i.e. companies in open violation of UN Global Compact Principles, get counted under this PAI. Conversely, companies flagged as Watchlist are regarded to be closely monitored but not yet in open contravention of the principles which we interpret the regulation to require. Given the scope of the principles and standards covered, we consider this datapoint as an Exact Fit to the definition. Data Limitation: In some cases, we cannot always guarantee the data accuracy, timeliness or completeness provided by the vendor. Where necessary, we investigate to verify the accuracy of the violations before a decision is made to action. In situations where we disagree with the vendor's assessments, we add our proprietary research and conclusions for the exclusionary screens committed.
11	Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance/complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	Data Vendor : MSCI PAI 11 is intended to capture evidence, or lack thereof, of companies' mechanisms and due diligence efforts to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises. PAI 11 assesses company assurance around available internal policies and guidelines, initiatives to align operations for UNGC principles, etc. We evaluate different data points: Human Right policy, UN Global Compact Signatory, Bribery and anti-corruption policy to assess whether a company has processes in place to monitor UN Global Compact Principles and OECD Guidelines for Multinational Enterprises. MSCI ESG Research provides a metric "UN Global Compact Signatory" with respect to companies' UNGC signatory status as it translates to a requirement to provide annual update on policy implementation. Data limitation: For this PAI, companies are only disclosing when they evidenced the highest level of commitments in the areas screened: Human Rights, UN Global Compact, bribery and anti-corruption processes. It is important to note that current data points used to assess this PAI are sourced from MSCI ESG Research and are dated as of March 2023. We have decided to use March 2023 instead of December 2022 data as these are annual commitments, reported by companies in their annual reports, already valid a couple months earlier.

12	Unadjusted gender pay gap	Average unadjusted gender pay gap of investee companies	Data Vendor: Bloomberg The average unadjusted gender pay gap of investee companies is the difference expressed between the average (mean or median) earnings of men and women including management across a workforce, irrespective of worker characteristics or job title. The unadjusted analysis offers a holistic view for assessing potential pay disparity as it considers the distribution of employees across all jobs. The analysis is unaffected by differences such as level and job title, which may themselves be a result of discrimination. It can reveal, for example, gaps in the representation of women in senior-level roles. We use the percentage gender pay gap for total employees including management for the company. This Percentage represents female earnings in relation to its male counterparts. We consider this PAI as an Exact Fit to this PAI definition. Data limitation: Only a small proportion of companies disclose gender pay gap data, and not all disclosures are the same, but we expect these limitations to ease in the future.
13	Board gender diversity	Average ratio of female to male board members in investee companies, expressed as a percentage of all board members	Data Vendor: Bloomberg Percentage of women on the Board of Directors, as reported by the company. Europe: Where the company has a Supervisory Board and a Management Board, this is the Percentage of Women on the Supervisory Board. This data is annualized, based on the reporting year. In Enterprise Data, this field is available via Per Security only. This PAI is an Exact Fit to this PAI definition. Bloomberg do not use estimation models to cover this PAI. Data limitation: In absence of relevant data, a sector median estimation has been considered.
14	Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons, and biological weapons)	Share of investments in investee companies involved in the manufacture or selling of controversial weapons	Data Vendor: ISS ESG We rely on ISS ESG to screen out companies with strong indications of involvement in the production or distribution of anti-personnel mines, cluster munitions, chemical weapons, and biological weapons. Based on ISS, coverage of the investment universe in this PAI assumes coverage is equivalent to eligibility. Data limitation: Involvement in some weapon categories like biological and chemical weapons, blinding lasers, not detectable fragments remain at best patchy. But there is no alternative as of now. It is worth noting that chemical and biological weapons cases are very unusual and have tended to be made by state owned or private companies. Nevertheless, we consider this PAI as an Exact Fit to this PAI definition.

15	GHG intensity	GHG intensity of investee countries - Metric in kilo tons per unit of GDP (in millions of euros)	Data Vendor: S&P Trucost This metric is measured as the level of GHG territorial emissions (measured in kilo tons, Kton) per unit of GDP (in millions of euro, M€). Data for the GDP of invested countries is obtained from the IMF (public source) while carbon emissions are sourced from S&P Trucost. Intensities are then computed as a simple ratio between emissions and GDP for the latest year available. Data limitation: This PAI is considered as a Partial Fit as we exclude "Land use, land-use change and forestry" (LULUCF) from GHG territorial emissions accounting, given the uncertainty of the numbers. LULUCF is an important category accounting for GHG emissions within the United Nations Framework Convention on Climate Change (UNFCCC). The LULUCF sector covers emissions and removals of greenhouse gases resulting from direct human induced land use, land-use change and forestry activities. Carbon is sequestered by forestry and grassland, while carbon losses occur on existing cropland and natural land (e.g. grassland) that is converted to cropland or settlement. It is important to note that we zero down the carbon emission for internally approved green bonds - i.e. green bonds for which "greenness" has been ascertained and approved by the relevant HSBC AM committee. This option has been set in the absence of a more accurate and systematic assessment which would consist in applying to the concerned bond a reduced GHG emissions based on the financed projects / use of proceeds. The same abatement ("zeroing") will apply similarly to portfolio position and corresponding benchmark components.
16	Investee countries subject to social violations	Number of investee countries subject to social violations (absolute number), as referred to in international treaties and conventions, United Nations principles and, where applicable, national law	Data Vendor: Sustainalytics We rely on Sustainalytics' country risk analysis which includes social risks such as civil or transnational conflict, state repression, violent crime, and labour rights/discrimination. Sustainalytics captures the most controversial social-related events in which a country is involved in that are interpreted to potentially affect the prosperity and economic development of a country and its ability to manage its wealth in an effective and sustainable manner. At the event level, the overall impact on stakeholders and the environment gets evaluated based on the Incidents' Severity Scores as well as the risk to a country's Human Capital. The impacts of an incident, get summarized in a Severity Score, which measures the Depth (the degree of impact), Breadth (how widespread the impact is) and Duration (what the duration is likely to be) of an Incident. We consider only the most severe events (category 5) to constitute Social Violations in the spirit of the regulation. Data points provided by Sustainalytics are considered as an exact fit to this PAI's requirements.

	Investee countries subject to social violations	Number of investee countries subject to social violations (relative number divided by all investee countries), as referred to in international treaties and conventions, United Nations principles and, where applicable, national law	See above
17	Exposure to fossil fuels through real estate assets	Share of investments in real estate assets involved in the extraction, storage, transport, or manufacture of fossil fuels	Eligibility 0%. We do not have any eligible assets for this PAI.
18	Exposure to energy-inefficient real estate assets	Share of investments in energy-inefficient real estate assets	Eligibility 0%. We do not have any eligible assets for this PAI.
Table 2 Additional climate and other environment-related indicators			
4	Investment in companies without carbon emission reduction initiatives	Share of investments in investee companies without carbon emission reduction initiatives aimed at aligning with the Paris Agreement	Data vendor: Bloomberg Emissions Reduction Initiatives indicates whether the company has implemented any initiatives to reduce its emissions, such as GHGs, SOx, NOx, or other air pollutants. A "No" indicates that the company has not explicitly disclosed any such efforts in its most recent Annual or Company Responsibility reports. Data limitation: By now, only a fraction of companies has committed to carbon emission reduction initiatives but we can expect this proportion to increase in the future. This PAI is an Exact Fit to this PAI definition. Bloomberg do not use estimation models to cover this PAI.

Table 3 Additional indicators for social and employee, respect for human rights, anti-corruption and anti-bribery matters			
9	Lack of a human rights policy	Share of investments in entities without a human rights policy	Data Vendor: Bloomberg This PAI is disclosing the investments in companies which lack a certain Human Rights policy or programme. Data limitation: By now, only a fraction of companies publish a human right policy but we can expect this proportion to increase in the future. This PAI is an Exact Fit to this PAI definition. Bloomberg do not use estimation models to cover this PAI.

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