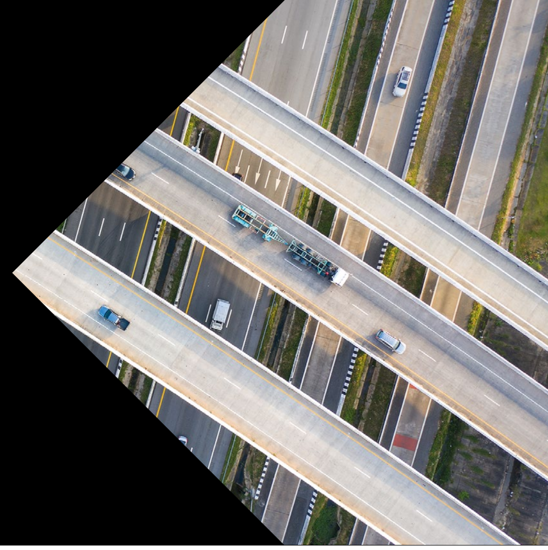
HSBC Asset Management

Engagement in Asia: challenges, opportunities and investor implications



Asia at the centre stage of sustainable transition and growth

The Asia Pacific region, projected to account for 45.8% of the world's GDP in 2024[1], is a central player in global economics and sustainability. This region is attractive for global investors not only in terms of potential financial growth but also for driving the sustainability aspect of their investments.

Despite increases in corporate sustainability reporting, carbon reduction targets and adoption of SDGs[2] , as well as ESG regulations across the region, key challenges such as data availability and quality, corporate behaviour, and access to boards and management persist.

With the critical role that Asia plays in the global supply chain and its significant greenhouse gases emissions, the magnitude of any positive change through responsible investment and active stewardship should not be underestimated.

How stewardship adds value

Driving Company Enhancements

Getting more in-depth insights into risks and opportunities that a company faces is a key driver behind engagement efforts, especially in the Asian market which traditionally lacks transparency. This greater insight allows investors to provide feedback to companies on their strategies that capitalise on market opportunities and mitigate risks, such as enhancing operational efficiencies, adopting better technologies or developing more effective business processes. This in turn can help companies gain a competitive edge over its peers, thus improving value for investors.

Enhanced Risk Management

Assessing and addressing ESG risks are increasingly recognised as crucial to a company's financial health. One example is a meta-study conducted by NYU Stern, which finds a positive relationship between ESG and corporate financial performance[3]. By engaging with companies and sharing industry best practices, these organisations are better equipped to anticipate, adapt to, and manage current and emerging ESG risks effectively. Consequently, they are well-positioned to protect investor value and avoid potential losses and liabilities, such as costs from regulatory penalties, reputational damage, and operational disruptions.

Long-term Value Creation

Our engagement aims to promote sustainable practices and improve transparency and disclosure amongst investee companies, which are increasingly seen as drivers of long-term value creation. With more responsible business practices, they are more likely to improve resilience, build trust with stakeholders and safeguard their license to operate. Companies seen as sustainable may also be rewarded with lower borrowing costs and higher valuation[4]

1. IMF data as of October 2024 : https://www.imf.org/external/datamapper/profile/APQ
2. KPMG Survey of Sustainability Reporting 2024: https://assets.kpmg.com/content/dam/kpmg/sg/pdf/2024/11/the-move-to-mandatory-reporting-report.pdf
3. ESG and Financial Performance: https://www.stern.nyu.edu/sites/default/files/assets/documents/NYU-RAM_ESG-Paper_2021%20Rev_0.pdf
4. Does a company's ESG score have a measurable impact on its market value? | Deloitte Switzerland

Accountability

Stewardship allows investors to hold company boards accountable for delivering long-term sustainable growth for shareholders, as it provides a channel for investors to share insights, recommendations and expectations. The two-way dialogue is particularly helpful in markets where standards for environmental protection, social security and shareholder rights are often lower than global norms and investor expectations.

Our integrated approach to engagement and voting activities, which are carried out by the stewardship team in collaboration with the investment teams, ensures that insights and learnings contribute to investment teams' fundamental views and sentiment of a company, supporting their investment decisions. By setting SMART (specific, measurable, achievable, relevant and time-bound) objectives and tracking their milestones systematically, we have been better equipped at measuring the progress and impact of our company engagements.

On-the-ground insights from Asia

Our strong heritage in Asia and locally-based investment and engagement specialists work closely with our global teams. This global-local blend offers us a unique lens to understand the cultural nuances in this diverse market and adapt our engagement approach accordingly.

In general, we carry out our stewardship activities at three levels – firmwide, fund-driven and system-level – each complementing one another. The common objective behind these stewardship efforts is to deliver long-term value to our investors through promoting resilient growth and improving transparency and disclosure amongst investee companies.

Firmwide stewardship — Corporate engagement and proxy voting across our client portfolios.

Fund-driven stewardship — Supports sustainability objectives for selected client portfolios in our sustainable strategies.

System stewardship — Aims to address market-wide and system-level ESG risks and opportunities that may not be addressed by company-level stewardship activities, and to inspire wider system change by engaging with regulators, policymakers, ESG data providers, standard setters and so on.

Case Study: The Importance of System-Level Engagement

Engaging at the market or system level is important as we observe that regulations, listing rules and ESG ratings often being the key drivers for corporate behaviour and disclosures. Asia is no exception. System-level interventions can therefore help to address challenges such as the compliance mindset, or companies taking advantage of environmental externalities or lax social safeguards. Regulatory regimes that are more supportive of responsible investing will provide motivation on top of clearer guidance to corporates to embark on the journey of transition.

In a recent engagement with an Asian oil and gas major, they explained their readiness to adopt scope 3 disclosures but cited the lack of regulatory guidelines or industry standards as a challenge. This provides further testament to our ongoing efforts to engage with regulators and standard setters over the past years, either directly or in collaboration with industry associations, to encourage the adoption and implementation of ISSB standards - IFRS S1 and S2 - as a priority.

Investment implications

Beyond merely raising the bar for sustainability disclosure standards, our system-level engagement also targets challenges that significantly affect our clients' investments. These include transition planning, corporate governance codes, and the enhancement of human rights data and assessments. Through these engagement efforts, we aim to foster a more sustainable investment environment and reduce investment risk in the local market.

Case Study: The importance of building and maintaining a constructive relationship

Access to key company individuals is often pivotal for achieving engagement goals and securing positive outcomes for investors. However, gaining management access in many Asian corporates can be challenging. It typically requires time to build sufficient trust to effect change in corporate behaviour, underscoring our view of engagement as a multi-year process. Having investment and Responsible Investment specialists working on-the-ground is key to relationship building with local stakeholders, which has helped us maintain a close relationship with the investees over the years.

As an example, we initially had little traction with a state-owned enterprise (SOE), a segment of the market that has historically been challenging to engage with given their need to be closely aligned to national policy. We invested time to build relationship with the local company contact, first meeting them through conferences and industry events, then taking the opportunity to meet with company leadership during their non-deal roadshow. In time, these efforts led to more in-depth one-on-one engagement where we were able to share the investor perspective and expectations candidly.

Investment implications

The insights acquired through engagement painted a much richer picture of the company’s net-zero journey, contributing to our proprietary net-zero assessment and enhancing our confidence in the company’s strategic direction.

Success can sometimes be measured beyond immediate engagement objectives, when an investee company sees the investor as a trusted knowledge partner and proactively seek our recommendations. As examples, we were heartened to be invited to explain our expectations on the ethics and governance of artificial intelligence at an internal staff webinar for a Chinese technology company, as well as being asked to share industry best practices on human rights grievance handling to another tech hardware company. These are positive signals of the companies’ commitments to managing the material issues and are highlighted in our engagement trend assessments.

Conclusions

Asia's rapid economic growth coupled with pressing sustainability concerns create unique challenges and opportunities for investment stewardship. We believe that global generational issues such as climate change and just transition will continue to take centre stage in Asia's sustainability agenda, while there will be increasing attention on social issues such as human rights and responsible technology. Asset owners and managers will need to navigate these to protect and enhance the value of their long-term investments. Investors have the opportunity to play an amplified role given the diverse socioeconomic and cultural contexts across the region, and the absence of regulatory guidance in many of the jurisdictions. With our strong heritage and local presence in Asia, HSBC Asset Management is well positioned to help investors navigate this market on their journey to net-zero.

For further details of our engagement and voting approach, please visit Stewardship - Institutional Investor and UK Stewardship Code Signatories.

Important Information

For Professional Clients and intermediaries within countries and territories set out below; and for Institutional Investors and Financial Advisors in the US. This document should not be distributed to or relied upon by Retail clients/investors.

The value of investments and the income from them can go down as well as up and investors may not get back the amount originally invested. The performance figures contained in this document relate to past performance, which should not be seen as an indication of future returns. Future returns will depend, inter alia, on market conditions, investment manager’s skill, risk level and fees. Where overseas investments are held the rate of currency exchange may cause the value of such investments to go down as well as up. Investments in emerging markets are by their nature higher risk and potentially more volatile than those inherent in some established markets. Economies in Emerging Markets generally are heavily dependent upon international trade and, accordingly, have been and may continue to be affected adversely by trade barriers, exchange controls, managed adjustments in relative currency values and other protectionist measures imposed or negotiated by the countries and territories with which they trade. These economies also have been and may continue to be affected adversely by economic conditions in the countries and territories in which they trade.

The contents of this document may not be reproduced or further distributed to any person or entity, whether in whole or in part, for any purpose. All non-authorised reproduction or use of this document will be the responsibility of the user and may lead to legal proceedings. The material contained in this document is for general information purposes only and does not constitute advice or a recommendation to buy or sell investments. Some of the statements contained in this document may be considered forward looking statements which provide current expectations or forecasts of future events. Such forward looking statements are not guarantees of future performance or events and involve risks and uncertainties. Actual results may differ materially from those described in such forward-looking statements as a result of various factors. We do not undertake any obligation to update the forward-looking statements contained herein, or to update the reasons why actual results could differ from those projected in the forward-looking statements. This document has no contractual value and is not by any means intended as a solicitation, nor a recommendation for the purchase or sale of any financial instrument in any jurisdiction in which such an offer is not lawful. The views and opinions expressed herein are those of HSBC Asset Management at the time of preparation and are subject to change at any time. These views may not necessarily indicate current portfolios' composition. Individual portfolios managed by HSBC Asset Management primarily reflect individual clients' objectives, risk preferences, time horizon, and market liquidity. Foreign and emerging markets. Investments in foreign markets involve risks such as currency rate fluctuations, potential differences in accounting and taxation policies, as well as possible political, economic, and market risks. These risks are heightened for investments in emerging markets which are also subject to greater illiquidity and volatility than developed foreign markets. This commentary is for information purposes only. This document provides a high-level overview of the recent economic environment. It is a marketing communication and does not constitute investment advice or a recommendation to any reader of this content to buy or sell investments nor should it be regarded as investment research. It has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of its dissemination. This document is not contractually binding nor are we required to provide this to you by any legislative provision. You must not, therefore, rely on the content of this document when making any investment decisions.

All data from HSBC Asset Management unless otherwise specified. Any third party information has been obtained from sources we believe to be reliable, but which we have not independently verified.

HSBC Asset Management is the brand name for the asset management business of HSBC Group, which includes the investment activities that may be provided through our local regulated entities. HSBC Asset Management is a group of companies in many countries and territories throughout the world that are engaged in investment advisory and fund management activities, which are ultimately owned by HSBC Holdings Plc. (HSBC Group). The above communication is distributed by the following entities:

- In Australia, this document is issued by HSBC Bank Australia Limited ABN 48 006 434 162, AFSL 232595, for HSBC Global Asset Management (Hong Kong) Limited ARBN 132 834 149 and HSBC Global Asset Management (UK) Limited ARBN 633 929 718. This document is for institutional investors only, and is not available for distribution to retail clients (as defined under the Corporations Act). HSBC Global Asset Management (Hong Kong) Limited and HSBC Global Asset Management (UK) Limited are exempt from the requirement to hold an Australian financial services license under the Corporations Act in respect of the financial services they provide. HSBC Global Asset Management (Hong Kong) Limited is regulated by the Securities and Futures Commission of Hong Kong under the Hong Kong laws, which differ from Australian laws. HSBC Global Asset Management (UK) Limited is regulated by the Financial Conduct Authority of the United Kingdom and, for the avoidance of doubt, includes the Financial Services Authority of the United Kingdom as it was previously known before 1 April 2013, under the laws of the United Kingdom, which differ from Australian laws;
- in Bermuda by HSBC Global Asset Management (Bermuda) Limited, of 37 Front Street, Hamilton, Bermuda which is licensed to conduct investment business by the Bermuda Monetary Authority;
- in Chile: Operations by HSBC's headquarters or other offices of this bank located abroad are not subject to Chilean inspections or regulations and are not covered by warranty of the Chilean state. Further information may be obtained about the state guarantee to deposits at your bank or on www.sbif.cl;
- in Colombia: HSBC Bank USA NA has an authorized representative by the Superintendencia Financiera de Colombia (SFC) whereby its activities conform to the General Legal Financial System. SFC has not reviewed the information provided to the investor. This document is for the exclusive use of institutional investors in Colombia and is not for public distribution;
- in Finland, Norway, Denmark and Sweden by HSBC Global Asset Management (France), a Portfolio Management Company authorised by the French regulatory authority AMF (no. GP99026) and through the Stockholm branch of HSBC Global Asset Management (France), regulated by the Swedish Financial Supervisory Authority (Finansinspektionen);

- in France, Belgium, Netherlands, Luxembourg, Portugal, Greece by HSBC Global Asset Management (France), a Portfolio Management Company authorised by the French regulatory authority AMF (no. GP99026);
- in Germany by HSBC Global Asset Management (Deutschland) GmbH which is regulated by BaFin (German clients) respective by the Austrian Financial Market Supervision FMA (Austrian clients);
- in Hong Kong by HSBC Global Asset Management (Hong Kong) Limited, which is regulated by the Securities and Futures Commission. This video/content has not be reviewed by the Securities and Futures Commission;
- in India by HSBC Asset Management (India) Pvt Ltd. which is regulated by the Securities and Exchange Board of India;
- in Italy and Spain by HSBC Global Asset Management (France), a Portfolio Management Company authorised by the French regulatory authority AMF (no. GP99026) and through the Italian and Spanish branches of HSBC Global Asset Management (France), regulated respectively by Banca d'Italia and Commissione Nazionale per le Società e la Borsa (Consob) in Italy, and the Comisión Nacional del Mercado de Valores (CNMV) in Spain;
- in Malta by HSBC Global Asset Management (Malta) Limited which is regulated and licensed to conduct Investment Services by the Malta Financial Services Authority under the Investment Services Act;
- in Mexico by HSBC Global Asset Management (Mexico), SA de CV, Sociedad Operadora de Fondos de Inversión, Grupo Financiero HSBC which is regulated by Comisión Nacional Bancaria y de Valores;
- in the United Arab Emirates, Qatar, Bahrain & Kuwait by HSBC Global Asset Management MENA, a unit within HSBC Bank Middle East Limited, U.A.E Branch, PO Box 66 Dubai, UAE, regulated by the Central Bank of the U.A.E. and the Securities and Commodities Authority in the UAE under SCA license number 602004 for the purpose of this promotion and lead regulated by the Dubai Financial Services Authority. HSBC Bank Middle East Limited is a member of the HSBC Group and HSBC Global Asset Management MENA are marketing the relevant product only in a sub-distributing capacity on a principal-to-principal basis. HSBC Global Asset Management MENA may not be licensed under the laws of the recipient's country of residence and therefore may not be subject to supervision of the local regulator in the recipient's country of residence. One of more of the products and services of the manufacturer may not have been approved by or registered with the local regulator and the assets may be booked outside of the recipient's country of residence.
- in Peru: HSBC Bank USA NA has an authorized representative by the Superintendencia de Banca y Seguros in Perú whereby its activities conform to the General Legal Financial System - Law No. 26702. Funds have not been registered before the Superintendencia del Mercado de Valores (SMV) and are being placed by means of a private offer. SMV has not reviewed the information provided to the investor. This document is for the exclusive use of institutional investors in Perú and is not for public distribution;
- in Singapore by HSBC Global Asset Management (Singapore) Limited, which is regulated by the Monetary Authority of Singapore. The content in the document/video has not been reviewed by the Monetary Authority of Singapore;
- in Switzerland by HSBC Global Asset Management (Switzerland) AG. This document is intended for professional investor use only. For opting in and opting out according to FinSA, please refer to our website; if you wish to change your client categorization, please inform us. HSBC Global Asset Management (Switzerland) AG having its registered office at Gartenstrasse 26, PO Box, CH-8002 Zurich has a licence as an asset manager of collective investment schemes and as a representative of foreign collective investment schemes. Disputes regarding legal claims between the Client and HSBC Global Asset Management (Switzerland) AG can be settled by an ombudsman in mediation proceedings. HSBC Global Asset Management (Switzerland) AG is affiliated to the ombudsman FINOS having its registered address at Talstrasse 20, 8001 Zurich. There are general risks associated with financial instruments, please refer to the Swiss Banking Association ("SBA") Brochure "Risks Involved in Trading in Financial Instruments";
- in Taiwan by HSBC Global Asset Management (Taiwan) Limited which is regulated by the Financial Supervisory Commission R.O.C. (Taiwan);
- in Turkiye by HSBC Asset Management A.S. Turkiye (AMTU) which is regulated by Capital Markets Board of Turkiye. Any information here is not intended to distribute in any jurisdiction where AMTU does not have a right to. Any views here should not be perceived as investment advice, product/service offer and/or promise of income. Information given here might not be suitable for all investors and investors should be giving their own independent decisions. The investment information, comments and advice given herein are not part of investment advice activity. Investment advice services are provided by authorized institutions to persons and entities privately by considering their risk and return preferences, whereas the comments and advice included herein are of a general nature. Therefore, they may not fit your financial situation and risk and return preferences. For this reason, making an investment decision only by relying on the information given herein may not give rise to results that fit your expectations.
- in the UK by HSBC Global Asset Management (UK) Limited, which is authorised and regulated by the Financial Conduct Authority;
- and in the US by HSBC Global Asset Management (USA) Inc. which is an investment adviser registered with the US Securities and Exchange Commission.
- In Uruguay, operations by HSBC's headquarters or other offices of this bank located abroad are not subject to Uruguayan inspections or regulations and are not covered by warranty of the Uruguayan state. Further information may be obtained about the state guarantee to deposits at your bank or on www.bcu.gub.uy.

Content ID: D039206 Expiry date 31.12.2025