



DEEP DIVE: FIRST STEPS TO SETTING A MEANINGFUL GHG EMISSIONS TARGET

HSBC BANK PENSION TRUST (UK) LTD.

In 2021, HSBC Bank Pension Trust (UK) Ltd. (HSBC) set out to define an appropriate emissions target for the UK Pension Scheme in line with its investment and climate objectives, and the goals of the Paris Agreement. In recognition of the consideration and resource required, HSBC set up the Climate Risk Working Group (CRWG), to recommend a suitable objective to the Board.

The CRWG consisted of four Trustee Directors, three representatives from the Pension Scheme Executive and two advisors, with input from the Scheme's legal advisor, investment managers and other subject matter experts. The CRWG met monthly and was governed by a set of principles and Terms of Reference, approved by the Trustee and its work was overseen by the Asset and Liability Committee and the Trustee Board.

Financial outcomes for members and the legal basis for putting a net zero target in place were key starting points, along with a wide range of inputs on net zero and climate risk. Questions discussed ranged from high level to detailed, with key questions debated including:

- Should the objective be to drive real economy emissions reduction or achieve a net zero portfolio decarbonisation?
- What is the relationship between climate risk and net zero targets?
- What is in scope for the climate target in terms of asset classes and scopes of emissions?
- Should the targets be absolute or intensity based? What are the different timeframes for the targets?
- What mandate changes would the Trustee be prepared to make?

- How is the approach different for the DB and DC schemes, noting their different asset class exposures and time horizons?
- What are the views of the Sponsor and how can we consider that in our decision making?
- What might the emissions reduction journey plan look like?
- How do carbon footprinting, risk mitigation and alignment interact?
- Should the Trustee follow the PAII Net Zero Investment Framework to set and implement its objective?

After six months, the CRWG made the following recommendation to the Trustee Board: commit to achieving net zero GHG emissions across the Scheme's DB and DC assets by 2050 or sooner, along with a set of interim targets. The Board approved this recommendation and delegated the responsibility to implement the recommendations of the CRWG to the Asset and Liability Committee.

