

Climate change considerations have long been considered in HSBC Bank Pension Trust Ltd's (HSBC) investment approach for its Defined Contribution (DC) pension scheme members. In 2016 it partnered with LGIM, FTSE Russell and Redington to develop the Future World Fund, which is a climate-tilted passively managed multi-factor global equity fund. The aim of the fund is to provide investors with exposure to a well-diversified global equity investment portfolio which uses climate tilts and four investment factors (quality, value, size and low volatility) to determine the benchmark weights of the underlying companies in which to invest. The Future World Fund also benefits from LGIM's [Climate Impact Pledge](#) which involves a programme of engagement, governed by a clear and transparent engagement framework, underpinned by divestment, where appropriate.

In 2021 HSBC sought to improve the positive climate characteristics of the Future World Fund, given that the fund's value factor investment benchmark characteristics were conflicting, at times with the fund's climate factor tilts. With support from investment advisor, LCP, HSBC began engaging directly with LGIM to understand the investment issues and to encourage the investment manager to review its processes. It also sought to improve the positive climate characteristics of the underlying benchmark index with FTSE Russell, the benchmark provider.

After considerable discussion and analysis, FTSE Russell made a number of benchmark construction changes which were incorporated in two steps in March and September 2021. The principal changes to the index which the fund tracks included modernising the existing tilting process to target more stable exposure across the desired factors, adding:

- New minimum weighted average carbon emissions intensity reductions of 30%
- A 100% increase in green revenues
- A 50% reduction in weighted carbon reserves intensity relative to the unadjusted market cap weighted benchmark index
- The introduction of a bespoke thermal coal exclusion position.

In addition, LGIM incorporated the FTSE Transition Pathway Initiative scores on both management quality and carbon performance, adding a new forward-looking dimension to security selection.

The outcome from this work has been to ensure the Future World Fund keeps pace with developing climate thinking and more effectively mitigates climate risk in the portfolio construction process.

