

Anatomy of a successful engagement

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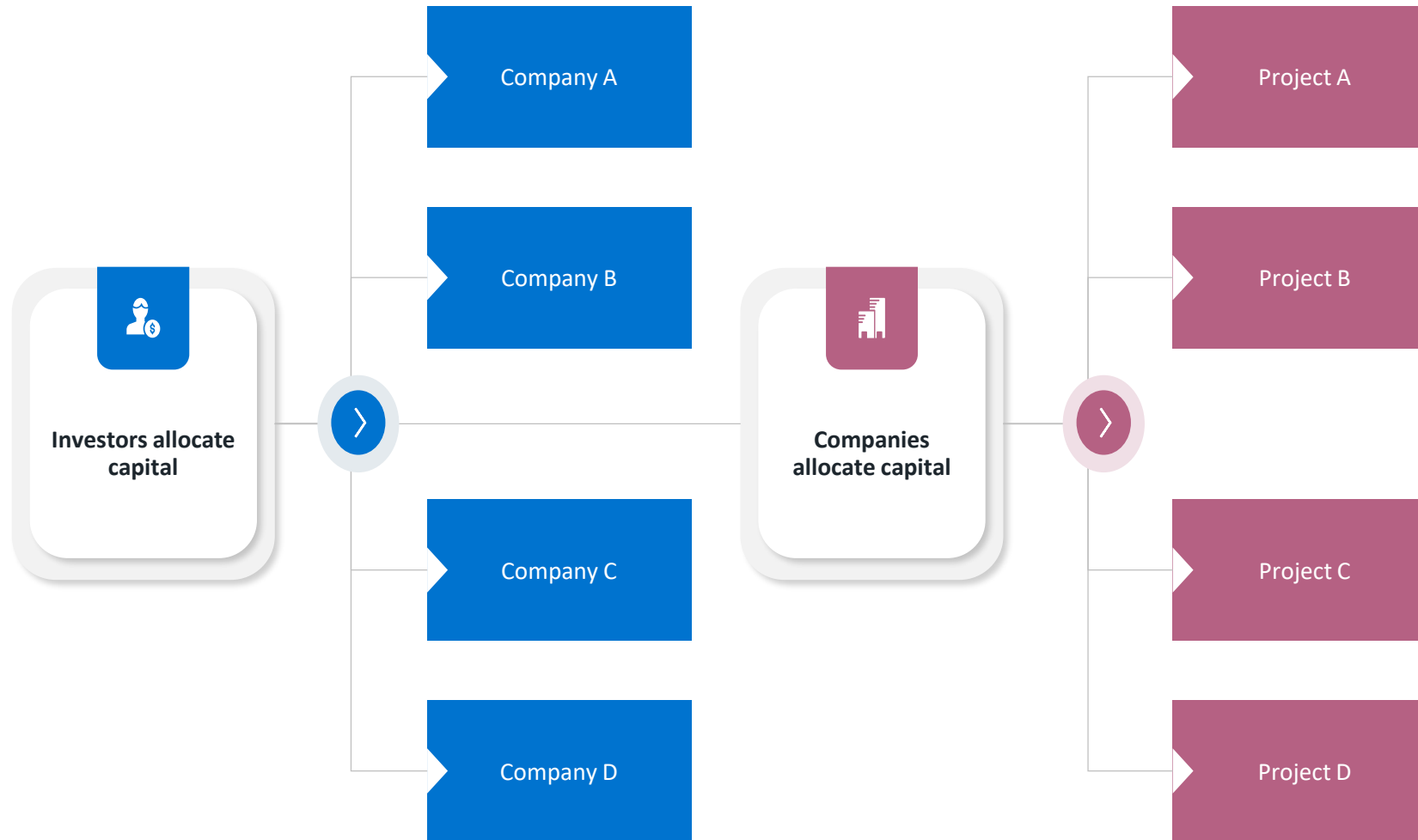
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Capital allocation is what matters to achieving Net Zero

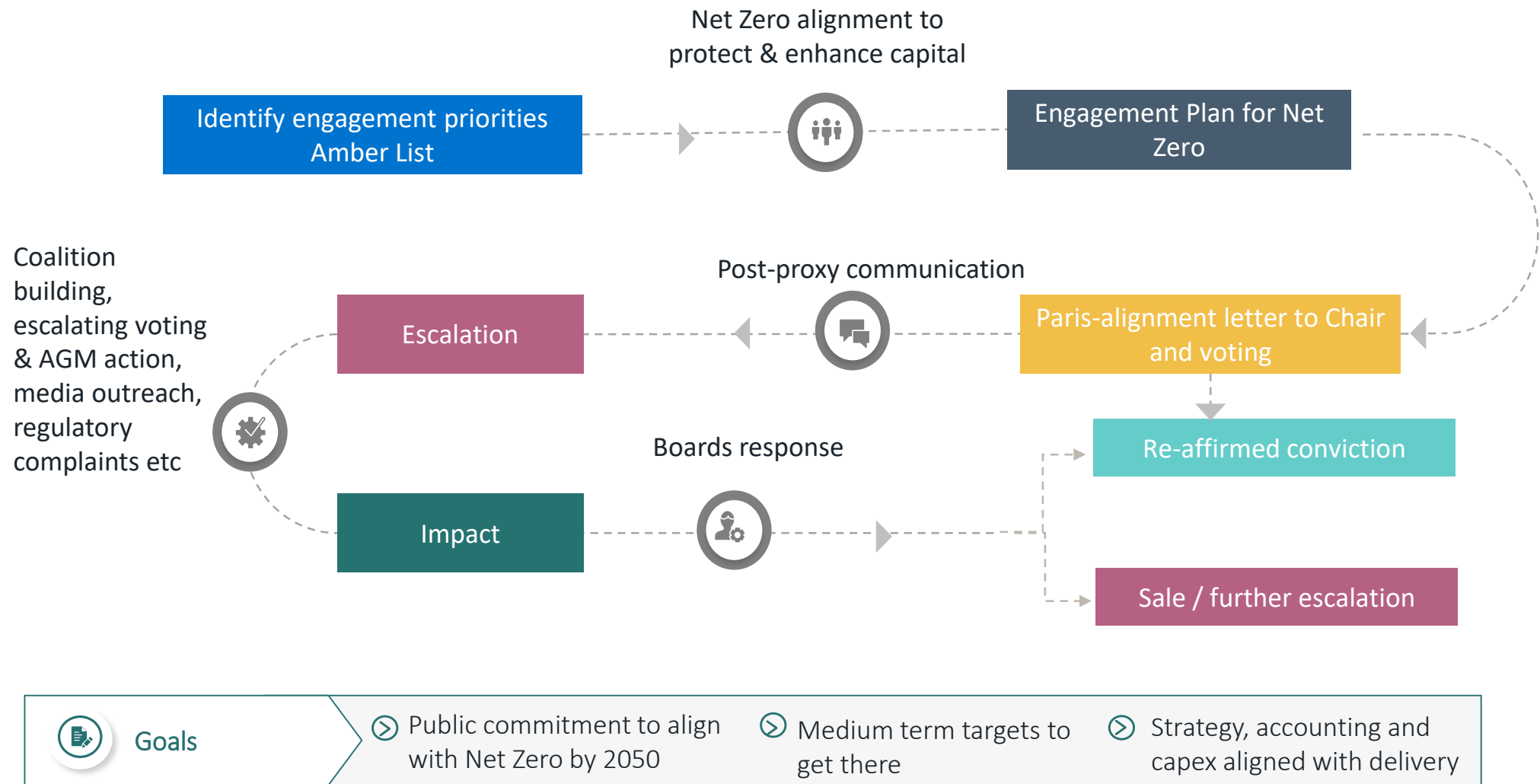
Investors must press for change



We sell to protect capital

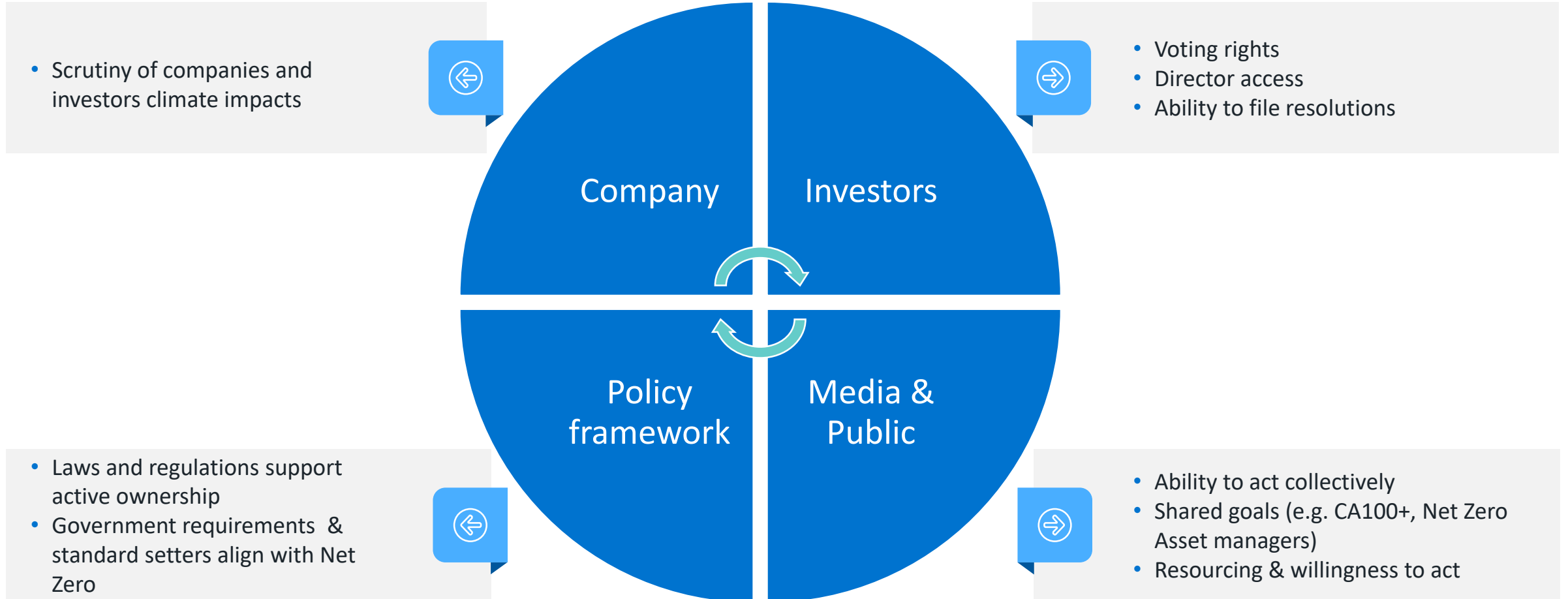
We engage to drive change

The journey from engagement to impact



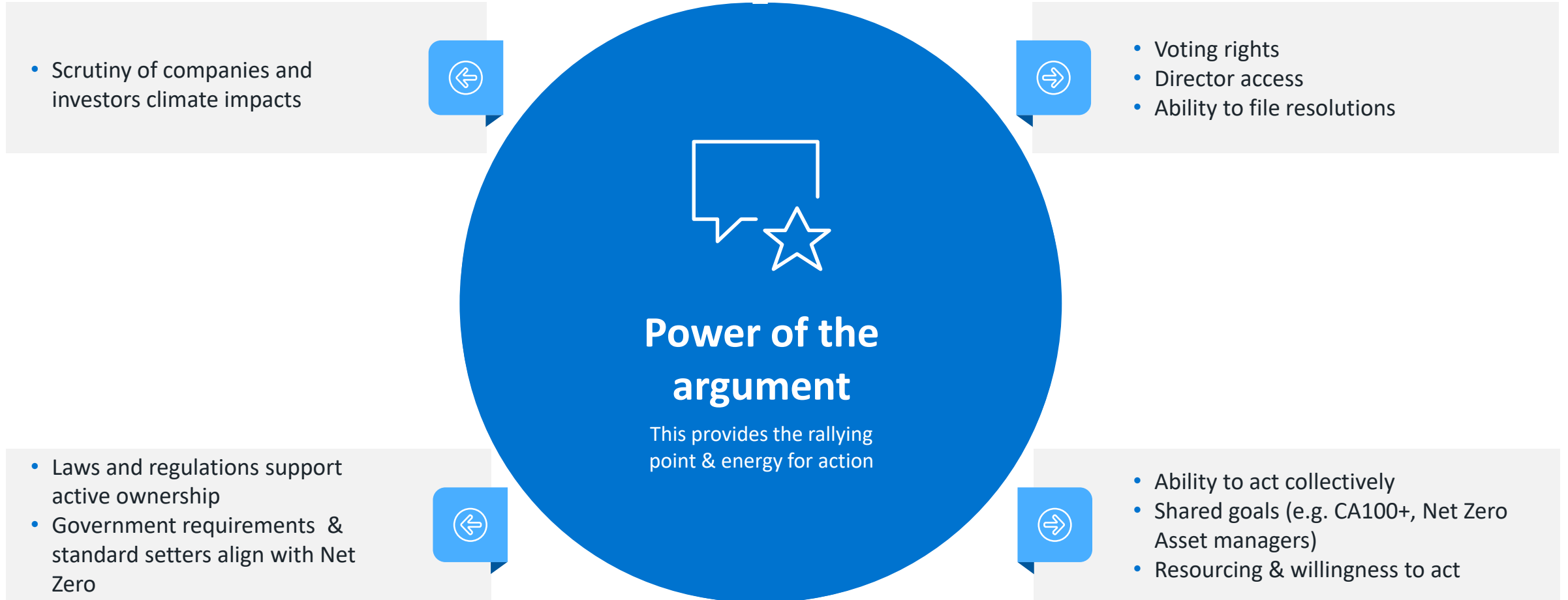
Key ingredients for a successful engagement

Need to consider broader ecosystem & pressure points to drive change



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Example of success: BP

Net Zero Accounting is the pressure point



Engaging since 2016:
Shareholder Resolution; Letters to Chair and Audit Committee



November 2019 - the catalyst
Collective letter (c\$1 tn AUM) seeking Paris-aligned accounting



2019 Annual Report:

Deloitte: climate risks as key audit matter;
Commodity price assumptions not consistent with Paris



June 2020: Press release

Lowered commodity prices due to decarbonisation
\$13-\$17.5bn impairment – almost 20% equity



Sept 2020: Strategy overhaul

- New CEO announces fossil fuel production will fall 40% by 2030
- Increasing capital deployed to renewables

Ingredients for success

- ✓ Power of argument: Accounts aligned with Net Zero drive a change in strategy: Thought-leadership in papers and press
- ✓ Change market standards: Work to ensure accounting and audit standards aligned with Paris; regulator supportive
- ✓ Market influencers: The auditor can catalyse company action
- ✓ Building investor backing: \$1 trillion to > \$100 trillion today

Powerful ripple effect

Shell, Total, Eni, Repsol,
Rio, etc

Example of success: HSBC

Net Zero 'ambition' to 'commitment'

HSBC



Co-filed Shareholder Resolution led by ShareAction Jan 2021 calling for Paris-aligned financing, starting with coal



Engagements with Chair (Mark Tucker) and team led by CEO's Chief of Staff in recent weeks

- All financing aligned with 1.5C outcome as defined by Paris Agreement
- Short and medium term targets based on science-based pathways
- Sector specific plans to be published, starting with power, utilities and oil and gas
- Coal mining and power phased out by 2030 OECD; 2040 elsewhere
- Annual report on progress
- Commitment will be added to Articles of Association is passed

Ingredients for success

- ✓ Power of argument: HSBC cannot success long-term if it finances activities that harm the planet
- ✓ Regulatory support: Pressure from Central Banks to manage climate risks, bank stress testing & capital adequacy requirements expected to shift, TCFD, China's net zero target
- ✓ Investor action: growing expectation that investors would back Shareholder Resolution, including Blackrock

Powerful ripple effect

Model for other banks to follow

Concluding remarks

- To get to net zero, everyone must act
- We sell companies where capital is at risk; and engage with those that can be successful on a net zero pathway

Impactful engagements:

- The power of the argument is mission critical – pressure points that drive system change
- Must have teeth: investors must use all the levers available to deliver change

Measuring success:

- Net Zero alignment at a company
- Net Zero alignment in the system

Important information

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