HSBC Global Asset Management

carbon 4 finance

Press release

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HSBC Global Asset Management collaborates with Carbon4 Finance to refine its analysis of the climate impact of issuers.

Today, the climate impact of companies is assessed through a static indicator: the carbon intensity, which measures, at a given moment, the company's carbon emissions. To achieve the 2 ° C target of the Paris Climate Agreement, it is also necessary to look at the reality of a company's strategic and financial commitment to a low carbon transition. The unique metric making possible to quantity this commitment today is the indicator which measures "carbon emission savings"[1] developed by Carbon4 Finance. This is the reason why HSBC Global Asset Management is starting a collaboration with Carbon4 Finance to refine its analysis of the invested companies regarding their climate trajectory.

"While measuring the carbon footprint is now quite common, measuring the real impact of companies in the medium to long term is proving difficult. However, we believe that the measurement of " avoided emissions " developed by Carbon4 Finance is an excellent way to assess the climate trajectory of companies and that is why we have chosen to integrate it. This new climate metric may over time play a significant role in our overall process of integrating ESG factors, covering all geographies and all asset classes" explains Xavier Desmadryl, Global Head of ESG Research & PRI, at HSBC Global Asset Management.

Marie-Anne Vincent, Head of Business Development at Carbon4 Finance, says: "Identifying the real actors towards a low-carbon economy is a key challenge for all investors and we are proud to have been chosen by HSBC Global Asset Management in this initiative, that we hope is illustrative of a new way to manage investments."

What are 'carbon emission savings' and why are they so important to consider?

In order to evaluate the alignment of a portfolio with the low-carbon transition, it is necessary to look beyond the carbon footprint and identify the opportunities and real actors of the climate transition: for example, by evaluating a company's capacity to reduce its emissions, by enabling its customers or suppliers to decarbonize theirs, etc.

Carbon4 Finance developed an additional indicator within its transition risk methodology, **Carbon Impact Analytics**, to calculate the **emissions savings (scopes 1, 2 and 3)** of a company to steer investments towards solutions for a decarbonized economy.

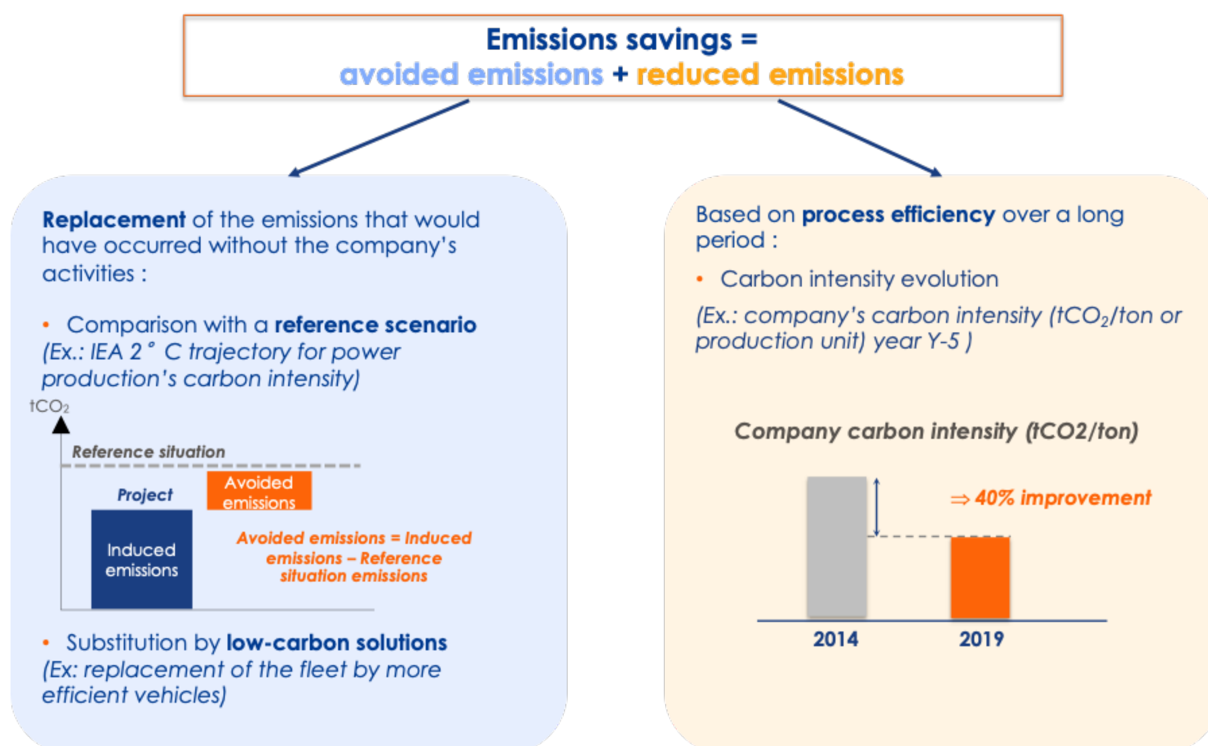
Jean-Marc Jancovici, one of Carbon4 Finance partners, says: "to appreciate to what extent a company is resilient, or even favoured by, a low carbon transition, calculating avoided emissions is unavoidable".

A company operating in a highly carbon intensive sector could contribute significantly to decreasing emissions by creating a disruptive product or process. For example, an insulation manufacturer or a bicycle manufacturer can emit a massive volume of greenhouse gas when looking only at the direct emissions, but nevertheless have a very positive contribution to the climate transition over the whole lifetime of their products.

The inclusion of **emissions savings** is crucial in order to help understand how disruptive a company is, either through more efficient processes, or through low carbon products or services.

Emissions savings are calculated by adding up the "avoided emissions" (comparing the company to the trajectory of its sector) and the "reduced emissions" of a company (comparing the company with itself over 5 years):

- **avoided emissions** are the emissions that are avoided by the company's products and services; they are calculated by comparing the emissions with a sectorial baseline scenario (i.e. an IEA scenario 2°), or with the substitution by low-carbon solutions. **A company avoids emissions if there is a positive gain between the induced emissions of the company on the one hand, and the baseline sectoral emissions scenario on the other hand.**
- **reduced emissions** are the volume of emissions lowered through a process efficiency over a period of time: an emissions reduction is a **real decrease** of the company's carbon intensity over 5 years.



The "emission savings" indicator is key to understand the real impact of a company. This indicator is a powerful tool in order to identify the companies that have already entered into the climate transition and to measure the company's action for the low carbon transition, providing figures that are much more meaningful and tangible than all the companies statements that claim carbon neutrality.

[1] **Emissions savings** are calculated by adding up the "avoided emissions" (comparing the company to the trajectory of its sector) and the "reduced emissions" of a company (comparing the company with itself over 5 years)

Media enquiries to:

Charles Clarke	+44(0) 207 991 8805	charleswclarke@hsbc.com
Sophie Ricord	+33 1 40 70 33 05	sophie.ricord@hsbc.fr
Alexia Soyeux	+33 1 76 21 10 00	Alexia.soyeux@carbone4.com

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HSBC Global Asset Management

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About Carbon4 Finance

Launched in 2016 and based in Paris, Carbon4 Finance brings to the financial sector the expertise of the consulting firm Carbone 4, which since 2007 has provided services in carbon accounting, scenario analysis and advice in all economic sectors.

Carbon4 Finance offers a complete set of climate data solutions covering both physical risk (CRIS Methodology: Climate Risk Impact Screening) and transition risk (CIA Methodology: Carbon Impact Analytics). These proprietary methodologies allow financial organisations to measure the carbon footprint of their portfolio, assess the alignment with a 2°C-compatible scenario and measure the level of risks that arise from events related to climate change.

Carbon4 Finance applies a rigorous "bottom-up" research-based approach, which means that each asset is analysed individually and in a discriminating manner. For more information, please visit www.carbon4finance.com