Responsible investment in alternatives

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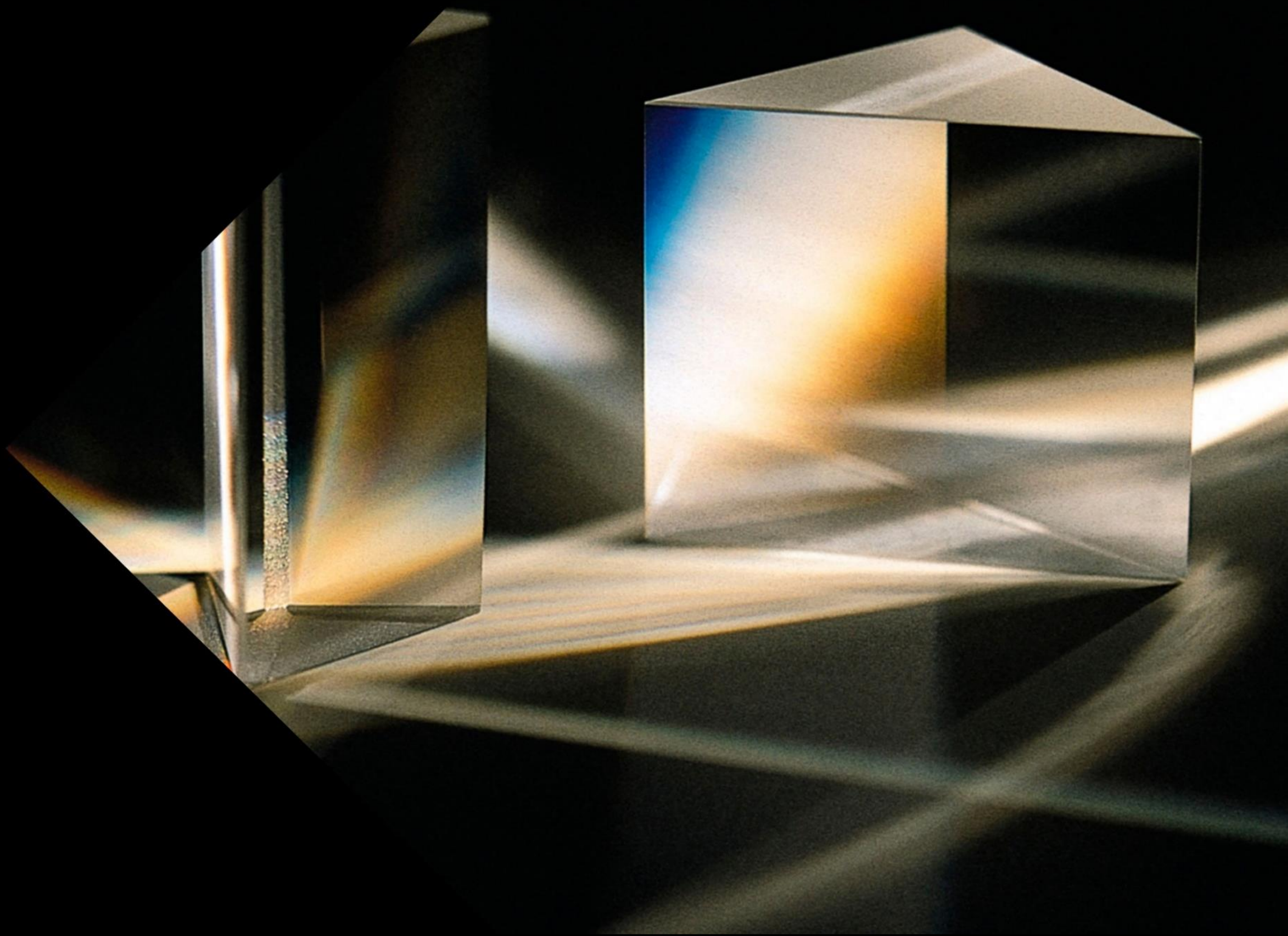

Alternative investments are instrumental in enabling investors to contribute to the energy transition and create a more sustainable future, while focused on delivering financial returns for investors. We are able to provide access to these long-term investments via HSBC Alternatives, alongside our traditional asset classes.

The transition from fossil-fuels to renewable sources of energy – the energy transition – requires significant flexible, long-term financing and investment solutions. Global investment in the energy transition reached $1.8 trillion in 2023, up 17% from the previous year[1]. However, current funding falls short of the scale needed to achieve the Paris Agreement goals, particularly as global energy demand and carbon emissions continue to rise.

While government support may kick-start the development of some energy transition infrastructure, the shortfall in investment coupled with governments facing higher debts, means that private investment across the capital spectrum is crucial. Consequently, we believe alternative investments will play an important role in driving a more sustainable future, providing investors with the opportunity to influence the energy transition through investing in real assets such as infrastructure (with real assets accounting for over 60% of GHG emissions in the OECD[2]), and other emerging avenues such as venture capital climate technology.

Note:
1. BloombergNEF,2024
2. IEA, 2021

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Enhancing our sustainable investment approach and standards

In 2023, we developed a Sustainable Investment Framework for Alternatives to assist some of our specialist investment teams in discerning whether a potential investment can be formally designated as sustainable. Under the framework, a 'sustainable' investment opportunity is one where the business activity is believed to operate within the bounds of ecological and social limits. The framework draws on multiple resources, including relevant academic research, the Global Impact Investor Networks' (GIIN) IRIS+ system, Sustainable Development Goals of the UN and Technical Screening Criteria within the EU Taxonomy. We will continually evolve the detailed criteria for our teams to integrate ESG considerations into their investment processes, from sourcing to exit, given the long-term investment horizon and often illiquid nature of these assets, in addition to the evolving regulatory guidance. Our framework is currently being implemented, with certain asset classes having been put through the framework starting in 2023.

Developing energy transition infrastructure

We believe energy transition investments may be at the beginning of a decade-long investment cycle, offering significant opportunities for investment growth and wealth creation. This opportunity is particularly evident in Asia, where there is immense potential for growth and innovation in the region's renewable energy sector. Asia's economic ascent, driven in large part by its strong manufacturing industry, has long been propelled by a reliance on fossil fuels. China and India alone accounted for 67.2% of global coal consumption in 2022. And Asia is still broadly increasing coal output, accounting for 80% of global coal use and 90% of young (<20 years) coal-fired power plants globally[1].

The energy transition in Asia becomes increasingly important as energy demand rises and the region begins to experience the acute impacts of the climate crisis. Susceptibility to extreme weather and high rates of poverty all render Asia particularly vulnerable to the climate crisis[2]. In 2022, temperatures in the region increased twice as rapidly as the worldwide average[3].

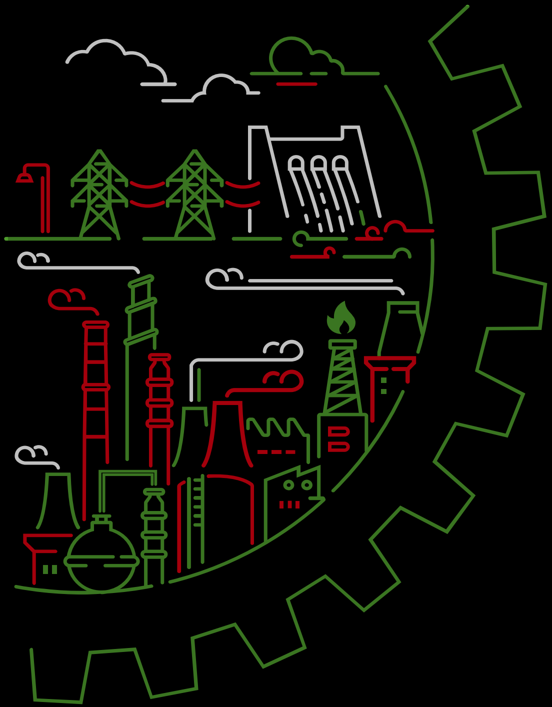
But Asia, with an abundance of natural resources, is also a dominant player in the global renewables market, estimated to control 45% of the global renewables supply chain[4]. As an engine of economic growth and leader in the supply chain for the renewable energy industry, the success of the global transition to net zero hinges on a successful energy transition in Asia.

In 2023, HSBC Alternatives expanded its investment capabilities to capture these opportunities and provide regional solutions for global investors. This included building dedicated, Asia-based investment teams for Energy Transition Infrastructure. Our Asia focused regional solution gives clients exposure to mid-market businesses that develop, own and operate energy transition infrastructure assets.

Solar PV Investment in Asia

In 2023, our Asia Energy Transition Infrastructure team acquired a North-Asia focused renewable energy platform, Tekoma Energy into the Asia Fund. Tekoma Energy is a solar photovoltaic company operating in Japan and Taiwan with plans to expand to South Korea. Our 100% controlling equity position gives us full control over strategy, deployment and expansion. We aim to institutionalise the platform with ESG best practices, alongside operating and financing standard processes. Meanwhile, Tekoma Energy brings an experienced management team with a strong track record, robust pipeline, and a plan to capture opportunities in mature renewables markets in Asia

Note:
1. IEA, 2023
2. UNDP, Making Our Future: New Directions for Human Development in Asia and the Pacific, available at: https://www.undp.org/asia-pacific/rhdr2024
3. IMF, 2022
4. McKinsey, 2022



Supporting climate resilience with technology

Venture capital also serves as a promising avenue in the transition. Innovation in low carbon technologies has a central role to play in the world reaching net zero and reducing greenhouse gas emissions. On the one hand, electric vehicles have been scaled significantly, while several technologies are still in early stages of development, such as smart grids. Smart grids help electricity networks enhance the efficiency and reliability of supply by using technology to balance supply and demand while reducing costs and sustaining the overall stability of the grid.

Another example, carbon capture, usage and storage (CCUS) is designed to capture carbon dioxide from large point sources or industrial facilities producing significant fossil fuels. CCUS is gaining momentum globally – since January 2022, and ambitions for approximately 50 new capture facilities to be built before 2030 have been announced, storing 125 Mt CO2 per year [1]. The US leads CCUS globally, with more than 60% of global CO2 capture capacity[2].

Advancements in this field – climatech – a dynamic and rapidly evolving sector – are helping to cement innovative technology as a powerful tool for achieving ambitious climate policies. Globally, the climatech market was valued at $20 billion in 2023 and this is expected to expand to $183 billion[3] by 2033, with a CAGR of 24.5%.

Understanding these technologies alone, however, is not enough — these developing technologies require wider scaling up and significant investment to realise their potential in the journey to a low-carbon economy.

Climatech

to forecast Energy demand

To capitalise on these opportunities, our venture capital climatech capability invests in early-stage companies seeking to de-carbonise and de-pollute industries, enabling the transition to net zero. Last year, this climate tech solution invested in a US-based electricity analytics platform, Amperon, which uses AI-driven electricity forecasts to help Utilities better balance power grids and increase their use of renewable energy sources in their energy mix.

Ultimately, we believe alternative investment solutions can be key in enabling investors to contribute to the energy transition and unlocking a more sustainable world.

Note:
1. IEA, 2022
2. IEA, 2022
3. Future Market Insights, 2022

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AMFR_2024_ESG_PU_0025. Expires: 31/03/2025