

## The Hexagon Briefing: A Global Perspective from HSBC

### Episode #10: S in ESG

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**Jose Rasco:** Thank you for joining us today. Before we begin, you should be aware that relevant information relating to this podcast and the products and services we are about to discuss are available at the end of this recording and on our website.

Welcome to The Hexagon Briefing: A Global Perspective from HSBC. Each episode will bring you insights and discussions on key topics. You can learn more about insights and research offered by HSBC on our website at [www.us.hsbc.com](http://www.us.hsbc.com).

I'm your host Jose Rasco, and thanks for joining us today.

Today we're going to have a discussion with our Americas Head of ESG Banking, Anoushka Mehta. We'll be diving into what does inclusive finance really mean? How do we help our clients reach their goals in terms of ESG, specifically in terms of social investing?

Anoushka Mehta, thank you for joining us today. With eight years of experience at HSBC and roles in both New York and London, you most recently founded Gender Lens Finance. Excited to spend some time talking about this, and the importance of investing in the society that we live and operate in. Welcome, Anoushka. Thanks for joining us.

**Anoushka Mehta** Thank you for having me, Jose. Great to be here.

**Jose Rasco** We have a lot to talk about in terms of looking at what the "S" in "ESG" is and why, in your opinion — I mean this is something that we've been focused on for a while, and last year we took the different months of the year where we focused on whether it's, you know, the LGBT movement or the empowerment of women and Black History Month, and we focused on different aspects of societal investing. Why do you think investors are looking at it more than ever before? Why has it gained in popularity in your mind?

**Anoushka Mehta** I think, more broadly, if we think about the ESG spectrum, investors want to play a more active role in creating positive outcomes, and as I said, we see that across the ESG spectrum. Across the East, when we're talking about climate change we're talking about the S; also, diversity and inclusion, and certainly across the G2, when we think about board governance. I think that also now, thinking about the requirements that they do have to fulfill, be that from regulators, from policymakers, they are now taking a more active stance around ESG. More broadly, we're seeing this come to the fore on the East side of things. So, thinking about the EU Sustainable Finance Disclosure Regulation, as well as other big industry groups and bodies such as the Net

Zero Alliance for asset managers and asset owners, I think what we've really seen over the last couple of years or so, certainly with the onset of the pandemic, is indeed those social factors, those societal factors have really come to the forefront and have become more important than ever before, and we're seeing investors wanting to play a more active role in those discussions. Specifically, where we've seen them playing more of an active role is around diversity and inclusion. We see them looking for diversity and inclusion in the board, in the C-Suite; certainly, with a gender lens, with a racial lens, and I think that's only going to be broadened out going forward. All of that to say that I think investors are only going to continue playing a very strong role in this and will continue being a very big driving force as to how companies think about disclosures and how they want to progress the agenda as well.

**Jose Rasco**

Anoushka, I can't help it, I'm sorry. I'm an economist, so I'm a simple guy and I look at the world in very simple terms. If I want to sell a product but I'm only selling it to white males, I think I'm limiting my upside, right? And therefore, diversity and inclusion just makes common sense at the most fundamental level. What we've noticed is, if you look at baskets that have...for example, there is the Calvert US Large-Cap Diversity Research Index, that has outperformed the Russell 1000 continuously for years. We do see that outperformance, it's about 1 ½ percent a month on average. We see that outperformance even playing out in the markets. And the one thing—and Anoushka I'd love to get your, we're sort of freewheelin' here—but one of the things that I noticed last year with those stocks that were driven up by the social agenda, they were called meme stocks. One of the things that I started talking about was what I called activist alpha and looking at what is going on with the market and how investors are not just voting with their pocketbooks in terms of buying products, they're now voting with their pocketbook or their wallet in terms of buying stocks and bonds. Is that something, this activist alpha, that you think is going to continue in the market? Because it seemed like it was a very hot trend at the beginning of last year, and that it's coming back. What are your thoughts there?

**Anoushka Mehta**

Thanks for those comments, Jose, it thrills me to hear you describe this as a business imperative. It's no longer the "nice thing" to have right diversity and inclusion, this thing that's kind of "done" peripherally. When we think about businesses, it's forming very much a part of business strategy, and there is a significant amount of upside to be seen by having diverse representation within your organization, and tailoring products and services to serve a diverse population. I think that is absolutely very important to note, and I'm very pleased again to hear you say that, and I think there's certainly data now exactly to your point that backs that up. In terms of your comments around the activist alpha trend, I think that it's a really interesting one. And I certainly think that we will continue to see this trend going forward. I think we're seeing consumers and investors more and more interested on that social side of things. Thinking about how that can drive value going forward, I think that's only going to continue picking up in momentum going forward. All of that to say that absolutely, yes, I think this trend is going to continue. I think it is absolutely now seen as a business imperative, and I look forward to being able to continue to contribute to that agenda as well.

**Jose Rasco**

But one of the most important things, obviously, is we can't measure companies if we don't know what the fundamentals look like, right? From a fundamental perspective, I can tell you what a company's price earnings ratio looks like. I can tell you what their net income looks like. There's a growing

importance in terms of the reporting, the disclosures; and look, 15 years ago I was working on values-based investing and impact investing and the biggest problem you had was that you had a database of 50 companies, and only three companies actually reported the data. What do you see in terms of that growing importance for the need for companies to report and disclose some of these social issues?

**Anoushka Mehta**

I think when you take a back step, and you think about the arc of ESG more broadly, in terms of what has been asked of companies historically through to today, we went from, what are you tracking? What are you reporting? Through to, what are you disclosing? What is your plan to actually improve on these metrics, to align to more industry-based targets? I think we're now very much at that stage around disclosure, but also having a plan for what's next. What do you actually want to see as progress in your company? And we're seeing this being demanded again across the "E" and more recently the "S" of ESG. Take an example here in the U.S. I think there is something called the Equal Employment Opportunity, EEO One, which is basically around disclosures in are you providing equal employment opportunities within your organization? Be that around ethnicity, gender, race. There is no mandate as of today to be able to basically put that out in the public domain. It's all on a voluntary basis, but we're now actually seeing investors demand that from companies across the board and to really encourage them. And really pressing them to say, well, this is actually something that you should be making public, because these are really important investment decisions for us to make. So, I think we're going to see more action around this going forward, and I think we'll probably see some standardization around it too. But all of that to say that, absolutely, the data is imperative. It is super important to have that, and I think we're going to see more owners coming in from investors telling companies that we want to see more of that. More of that engagement, and more of that drive behind the data and disclosure.

**Jose Rasco**

I think if you look at the world we're in, if two stocks are relatively similar in terms of their financial metrics, increasingly people are going to say, does this company align with my value set? And if it does, then you know what, I'm going to buy company X as opposed to company Y. So, hopefully that will help push the needle as well. One of the important trends we've seen in this business cycle has been inventory replenishment. With COVID we had a short but really deep recession. Inventory levels were tight, they got really lean, and inventory levels are lean in the manufacturing, wholesale and retail sector, so one of the things that a lot of governments are saying is bring supply chain home. You see that in many sectors, semiconductors being key among them. Europe is defining it as a key sector for the future growth of Europe, and it's the same in the U.S. We're re-onshoring jobs. As we move that supply chain around and bring it closer to home, where you're not just "just in time" but you've got just-in-case inventories, what do you see about social infrastructure in supply chains in the U.S. and globally? Is that something that you think is going to have increasing importance?

**Anoushka Mehta**

Absolutely. I think it's another really pertinent topic to touch upon, and I think really looking at supply chains is one of the big reasons that the "S" in ESG has come to the forefront. If we take a step back and really think about why that is, as we said, COVID-19 and the pandemic really brought to light the impact that companies, organizations, governments, regulators, and policymakers have, not just within their own infrastructure and their own businesses, but outside. Thinking about their workforces, their local communities, their customers, and importantly, as a result of all of that, their

supply chains. I think there's recognition of the fact that these disruptions that have been caused throughout the pandemic need to be future proofed going forward. It's that sort of impact of what is happening outside of my organization, and what impacts do I have outside of my organization, and what can I do to progress going forward. I think supply chains form a really important part of that. I would say that the spotlight will continue to shine on supply chains absolutely, but more broadly, I do think companies are going to be thinking about their holistic purpose outside of their four walls. Thinking about workers, communities, customers, and how they can continue to have an impact.

**Jose Rasco**

You raise a great point, as the integration of the ESG and, don't forget, the technology revolution is just beginning. I guess it begs the question, what do you think the role is of financial institutions in general, in this transition?

**Anoushka Mehta**

Obviously, there's a huge role for financial institutions to play. But I also think there's a huge responsibility for financial institutions to be contributing to this agenda. You think about financial institutions as stewards of capital, but you also think about HSBC and our global presence. There is a huge role that we can play in supporting our clients through the transition, especially in emerging markets where that transition is perhaps going to be the hardest, and where we have a presence, but also in terms of supporting the significant gaps that exist in financial markets for underserved populations. There is a role for us to play, but there is a huge responsibility for us to play as well. As you talk about traditional finance, there are a number of different ways in which we, as an institution, HSBC, can use our platform, our products through finance, to support our clients through that transition to create a more sustainable and a more inclusive future going forward. And I think we as an institution are absolutely committed to doing so in a number of different ways. I think certainly through finance, through traditional finance, there is a big role to play and a big responsibility to ensure that we as stewards of capital are allocating that in a meaningful and impactful way. I do also think that there is a role for financial institutions to play in terms of thought leadership and actually being at the forefront of creating new markets, new standards, and helping to scale those. But I welcome your thoughts on that as well, Jose, as to anything else that you're seeing from your side.

**Jose Rasco**

We have done an awful lot of work on this, and we've looked at the pay gap between men and women and clearly, it is sizable and, in certain countries, much more of a gap than in others. But this is one area where I think the world of finance can really step up. We can help provide loans and opportunities to female entrepreneurs. What do you see happening there in the world of finance, including vendor finance and other things? I know that we have a female entrepreneur's fund, and I know you're involved in some of these efforts. What do you see happening? More broadly, and specifically as regards to HSBC.

**Anoushka Mehta**

I would start by saying absolutely, there is a huge imperative for a financial institution, exactly to your point, in supporting underserved, historically underserved, populations. But I also think there is a huge opportunity. When you take women, for example. They make up 50% of the population. They are earning more than ever before. They are due to control, I think, 70 to 80% of consumer spending going forward. When you put it into that context and you think about these women and female entrepreneurs not getting that right access to capital, there are opportunities there for financial institutions to

step up and support. And I absolutely think that it needs to be viewed through that lens. This is a huge opportunity. This is growth. This is an exciting part of our economy. In terms of what HSBC has specifically been doing in this space, in my view, and perhaps biasedly so, it's exciting, and I think we've played somewhat of a pioneering role thinking about how we can support women and minorities through our business platform and products. There are a number of different things I could list here, but maybe I'll just call out three which are key to me. I think the first one I'd love to draw out is an initiative that we call Gender Lens Finance at HSBC. It's something that we launched here two to three years ago, perhaps before SFESG was fashionable, if you will, to be speaking about. It was thinking about how we can use HSBC's products and platforms to get more capital and more resources into the hands of women and women-led businesses, and I'm really happy to say I'm incredibly grateful to have worked with several of our clients across global banking and markets, that's our corporate and investment bank, to support female-led businesses, women's health and workforce participation. Solutions here have included things like gender bonds, gender loans, sustainability, linked financing, and thinking about supply chain. And as we were discussing before, Jose, future proofing supply chains, bringing more of the underserved population, minority-led businesses into supply chains and also some digital payment solutions. This is a part of our business that we continue to see is incredibly important. It forms part of our ESG story, and it's certainly something that we would love to continue to be able to expand.

The second one I would like to draw upon is across our Commercial Bank. We have committed to supporting women and women and minority-led businesses in a number of different ways. One of these initiatives is committing \$100 million of venture debt to female and minority founders. This is hopefully a true testament of the fact that we want to put our money where our mouth is. We want to support those businesses. We think there is a huge growth opportunity, and we want to be the bank to be there to hold their hands through it.

And in tandem with that, which brings me onto the third point that I'd love to highlight, is a program that we launched last year. A number of my fantastic colleagues went ahead and launched this. It's called HSBC RAW, and this is the recognition of the fact that access to capital, and also access to resources and networks, tends to be challenging for female entrepreneurs; and HSBC RAW is effectively a coaching program to support female entrepreneurs on their journey, connect them with the right resources, and connect them with the network to support them on their journey. Those are just three of the initiatives that come to mind that I thought would be worth highlighting here. I'd say this is just the beginning. We've obviously knocked down the door here, but this is just the beginning. There is still a huge amount to do. And we certainly welcome the opportunity to work with our clients across industries in order to continue moving the needle on this agenda. I think this is one of those things where it is going to take many players across many industries to actually move the needle to progress this very effectively, and we welcome the opportunity to do so with many of our clients and partners.

**Jose Rasco**

One of the big issues globally has been COP26, and I just want to close on this global note here. How do you think that effort can support this effort as we go forward? It's a lot to ask, but...

**Anoushka Mehta**

How much time do you have, Jose?

**Jose Rasco**

We only have 30 seconds or less. No, I'm joking.

**Anoushka Mehta**

Let's do the rapid tour of this, because I think this is a really important point. Look, I think with COP26, the obvious, overarching priority is with securing global net zero and keeping that all important 1.5-degree number within range and within reach. But what I thought was really encouraging to see through COP26, was a real focus on creating a pathway for a more inclusive and just transition, and what that means is really taking people and communities into account through the journey to a net zero future. This can be in terms of health care, jobs, economic security. We have a real opportunity here as we transition to net zero to really think about how we can make this as inclusive and as just, as they call it, as possible. An example of this is the International Energy Agency. They have projected that there will be 30 million new workers needed by 2030 if we have any chance of making that net zero target by 2050. This is an opportunity to make sure that jobs are being distributed and created and made in a more inclusive way. This is going to require very careful and deliberate planning from multiple stakeholders, be that policymakers, government, or the private sector. I'd say that's sort of point one. I think the second point that I thought was very encouraging was to see there was actually a specific day focused on gender. It was that recognition of the fact that women and girls are disproportionately impacted by climate change, and if I'm remembering correctly, Alok Sharma, who is the COP26 President, noted himself that gender and climate are profoundly intertwined. If you think about those who are displaced by climate change, I believe the last number I read was that 80% of those displaced are women and girls. Conversely, there is a huge contribution that women and girls do make in terms of creating a more sustainable environment and a more sustainable future. So, when we think about climate change, when we think about that net zero future, it is absolutely imperative to take women and girls, the underserved populations, into account as we journey towards this net zero future. If there is a way here for us to create a more inclusive future, we absolutely need to be thinking about environmental and social issues in tandem if we're going to achieve that. As I said, I think that needs to be incredibly deliberate, and it needs to be a more conscious decision that we're making. I think with what we saw out of COP26, it was very encouraging to see that those factors are already being taken into account.

**Jose Rasco**

To echo your thoughts, and in closing, I think it's important for financial institutions to recognize the diversity in our economy and the diversity in our population, and to look at the demographic groups, what's happening now, and what do we see happening in the future. Exciting stuff, because these are topics that are near and dear to my heart. Thank you very much for your time, I look forward to having you back soon.

**Anoushka Mehta**

Thank you very much, Jose.  
It was great to be here.

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