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HSBC AM CEO: 'Naive' to expect oil and gas exposure to be cut to zero overnight

UK asset manager argues that ‘transition is a long process’ as its parent bank faces growing scrutiny for financing fossil fuel projects

By Lisa Kim, John Sedgwick | May 11, 2023

Nicolas Moreau, CEO of HSBC Asset Management, believes it is “naive” to expect the transition away from fossil fuels to happen very quickly on the grounds that a short-term view would hurt the world’s financially disadvantaged populations dependent on coal and oil.

Moreau, who took the top job at the U.K.-headquartered asset manager almost four years ago, has pinpointed environmental, social and governance as an area of growth for the company.

The global manager with US$640 billion in assets under management vowed in September to exclude thermal coal companies from its active funds in the EU and Organisation for Economic Co-operation and Development member countries by 2030 and globally by 2040.

But its parent company HSBC has repeatedly come under fire in recent years for financing fossil fuel projects and upstream oil and gas expanders.

“There is the criticism that we need a big revolution to make the world clean,” Moreau says in an interview with *Ignites Asia* in Hong Kong on Tuesday.

“[But] I think it is naive to think that you can cut oil and gas to zero in one day,” he says. “It doesn’t work this way.”

“Transition is a long process,” Moreau says. “The people that would suffer from a hard stop would be the most fragile populations in countries that rely only on coal or oil to get access to energy – that would be very unfair.”

Western countries could strive for climate transition on a faster timetable but it would not be the case in developing countries, which he says could face “big pushback”, such as “riots” and “[social] unrest”.

“As an asset manager, as an investor, it is really around managing this delicate balance between making sure that we go forward, but on the other hand, we do it in a fair way,” Moreau says.

Since Moreau took over the CEO role in September 2019, HSBC AM’s sustainable assets have grown more than five times from US$10 billion to US$55 billion, the company said.

The firm’s goal is to reach US$70 billion by the end of the year, for which it is developing new projects, Moreau says.

The manager is winning “a lot” of ESG mandates from institutions, such as the two it was awarded from Taiwan’s Bureau of Labor last year, according to Moreau.

HSBC AM is adopting a solution-driven approach when working with institutional investors on ESG, helping them define their objectives, he says.

The asset manager is also developing alternative products to finance institutions' transition, adding the Hong Kong-based green infrastructure specialist Green Transition Partners to its alternatives business, he adds.

HSBC AM's alternative assets currently stand at US$60 billion, the company said.

"Alternatives is also an area of growth for us. That's an area where we want to lead in places where we have the ability to win," Moreau says.

"I'm not claiming that I will be Blackstone in 10 years, but I think we want to be relevant in impact, in Asia, sustainability, using the bank's balance sheet," he says.

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HSBC AM has fewer ESG funds in Hong Kong compared with some rivals.

It has seven ESG funds available in the territory out of around 180 such products, according to the Hong Kong Securities and Futures Commission.

The number of HSBC's green funds is around half of BNP Paribas Asset Management and BlackRock's, and when including exchange-traded funds, HSBC has fewer than Mirae Asset Global Investments.

Last month, HSBC's commitment to green finance was called into question by the Banking on Climate Chaos report.

According to the report, the U.K. bank put forward US$144.93 billion in fossil fuel projects from 2016 to last year, the 13th largest amount among around 2,000 institutions surveyed.

"So much spending is going into exploration of new reserves," says Fiona Donnelly, director at sustainability consultancy Red Links.

"It's astonishing that this profiteering by a few at the expense of everyone is even allowable, particularly on such a global scale," Donnelly adds.

She urges financial institutions to prioritise thinking about the impact climate change will have on humanity over producing earnings that would make their executives look good.

Holding existing coal investments would be acceptable only if it offered a chance to influence investee companies and help them transition into sustainable alternatives, Donnelly says.

Asked about skepticism over financial institutions' ESG policies, HSBC AM's Moreau says: "I think it's legitimate to challenge big financial companies because we've seen a huge growth in the past years."

“We’ve been going very fast at building [ESG] products and it’s time for us to build reporting to report on the impact properly, to check the quality of the data, we are using us to strengthen our platforms,” he says.

Describing HSBC as a “very risk-conscious organisation”, he says the firm has made efforts in the past year to strengthen its infrastructure around ESG, auditing and data providers, and examine its ESG assessment process to deliver on its promise.

Touching on the manager’s ambitions in China, Moreau says its Chinese fund joint venture HSBC Jintrust Fund Management is “very important” and that HSBC is keen to increase its 49% stake.

His comments come one day after a Reuters report that HSBC AM had agreed to acquire its Chinese partner’s 51% ownership, which would give it full control of the business.

“Whether we’ve got a majority [ownership] or not, we will strengthen our fixed-income team in China,” he says.

“I believe it’s more and more important market there for retail and institutional,” he adds.