DC Governance Statement

STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2021

1. Introduction

Governance requirements apply to defined contribution (DC) pension arrangements, to help members achieve a good outcome from their pension savings. The Trustee of the HSBC Bank (UK) Pension Scheme (the "Scheme") is required to produce a yearly statement (which is signed by the Chair of the Trustee) to describe how these governance requirements have been met in relation to:

- the default investment options (including the main default options in which members are invested and other "legacy" funds also classed as default arrangements);
- the requirements for processing financial transactions;
- the charges and transaction costs borne by members;
- an illustration of the cumulative effect of these costs and charges;
- investment returns;
- a 'value for members' assessment; and
- Trustee knowledge and understanding.

All components are integral to any effective and well governed DC pension scheme, and in providing this statement the Trustee seeks to evidence that the Scheme has fulfilled regulatory requirements and demonstrate that a foundation is in place to fulfil the Trustee mission of "helping members to make well informed decisions about their retirement savings".

The Pension Scheme Executive (the "PSE"), an in-house team of experienced pension scheme professionals, supports the Trustee in managing the Scheme, including assisting with communication, administration, finance and investments and can provide an informed view on any third-party advice sought.

The Scheme is used as a Qualifying Scheme for automatic enrolment purposes.

This statement covers the period from 1 January 2021 to 31 December 2021 (the "Scheme Year") and relates only to DC benefits (including additional voluntary contributions ("AVCs") and the DC benefits of hybrid members) in the Scheme.

2. Default arrangements

The Trustee has made available a range of investment funds for members. Each member is responsible for specifying one or more funds for the investment of their account, having regard to their attitude to the risks involved. If a member does not choose an investment option, their account will be invested into the default option applicable to them, which is managed as a "lifecycle" strategy (i.e. it automatically combines investments in proportions that vary according to the time to retirement age). The lifecycles are 100% invested in equities until twenty years from a member's target retirement age from which point they transition gradually into lower risk assets appropriate to the outcome targeted.

Main default arrangements

The Scheme has different default strategies for members, depending on the type of benefits they have. The default options have been designed to be in what the Trustee believes to be the best interests of the majority of the members based on the demographics of the Scheme's membership.

The Scheme has two main default lifecycle arrangements: the Flexible Income Strategy and the Lump Sum Strategy. These lifecycle strategies were set as the default investment arrangement for two distinct cohorts of members, those with DC only benefits and those who are "Hybrid" members (former active DB members on 30 June 2015 who became active DC members from 1 July 2015), respectively.

For DC only members, the default lifecycle (the Flexible Income Strategy) transitions from the Global Equities – passive Fund into the Diversified Assets – active Fund and then de-risks into the Global Bonds – active Fund and the Cash – active Fund as the member nears retirement; this is appropriate for those who want to take their benefits in the form of income drawdown in retirement. This is due to a belief that (based on the demographic profile of the membership and the generous contribution structure) members are likely to accrue large pots, and hence likely to drawdown their pension pot gradually in retirement. Market trends and scheme experience since the introduction of Pension Freedoms in 2015 also indicate that members with larger pots are moving away from purchasing annuities and are choosing to drawdown their retirement income instead.

For Hybrid members, the default lifecycle (the Lump Sum Strategy) targets a cash lump sum at retirement. It transitions from the Global Equities – passive Fund into the Diversified Assets – active Fund and the Global Bonds – active Fund and then de-risks into the Cash – active Fund as the member nears retirement. The rationale for this is that many Hybrid members are expected to take a tax-free cash lump sum at retirement, utilising their DC benefits to provide this (as it is usually more advantageous) before giving up DB benefits.

As a material proportion of members have been shown to leave their pots invested past retirement, the Trustee has ensured that both the main default strategies continue to de-risk after the member's target retirement date. This was introduced following the triennial investment strategy and performance review in 2017 and confirmed as remaining appropriate as part of the triennial investment strategy and performance review which began on 4 June 2020 and ended on 22 June 2020, following which agreed actions were taken forward for further review.

Legacy default arrangements

There are two additional legacy default arrangements: the Annuity Purchase Strategy and the Cash Lifecycle. These strategies are no longer used as default options for new members. A number of members who were within one year of their target retirement age at the time of the asset transition to the current main default arrangements were allowed to remain invested in these legacy default lifecycles.

The Annuity Purchase Strategy transitions members from the Global Equities – passive Fund into the Diversified Assets – active Fund and then de-risks into the Fixed Annuity Tracker – passive Fund and Cash – active Fund as the member nears retirement. The objective of the Strategy is to be appropriate for members intending to take their benefits in the form of an annuity at retirement.

The Cash Lifecycle transitions members from the Global Equities – passive Fund into the Diversified Assets – active Fund and then de-risks into the Cash – active Fund as the member nears retirement. The objective of the Lifecycle is to be appropriate for members seeking to take their entire pot as a cash lump sum at retirement.

Additional default arrangement

The Scheme also makes use of an additional default fund called the Cash - active (default) fund (previously named the Cash – active (ex-Property) Fund). This fund was introduced in March 2020 (and held a small amount of assets from March 2020 to early December 2020) as a result of a decision taken to ensure a separate fund (i.e. one which members could not self-select into) was available to allocate members' contributions in the event of a fund closure (as was the case for the Property – active Fund in 2020). This fund invests in the same underlying fund as the Cash - active Fund. As members' contributions can be directed into this fund without them making an active selection, this fund will continue to be, treated as a default for the purpose of fulfilling legislative requirements.

The objective of the Cash – active (default) fund is to protect the absolute value of the investment by investing in deposits and other short-term money market instruments. The fund aims to perform in line with its benchmark.

Statement of Investment Principles

The Trustee is responsible for the Scheme's investment governance, which includes setting and monitoring the investment strategy for the Scheme's default arrangements.

Details of the objectives and the Trustee's policies regarding the default arrangements can be found in a document called the 'Statement of Investment Principles' ("SIP"). The Scheme's most recent DC SIP covering the default arrangements is attached to this annual statement regarding governance.

As stated in the SIP, the Trustee aims to provide default investment options that the Trustee believes to be reasonable for those members that do not wish to make their own investment decisions. The Scheme's main default options' objectives are to generate returns significantly above inflation whilst members are some distance from retirement, but then to switch automatically and gradually into less risky assets as the member nears retirement with the asset allocation at retirement being designed to be appropriate for members who wish to flexibly take their benefits through an income drawdown arrangement or remain invested in the Scheme or in the case of the Lump Sum Strategy, take their retirement pot as cash.

The objectives of the Scheme's other default arrangements are noted in the applicable sections above.

Monitoring and review

The Trustee formally reviews the strategy and performance of the default arrangements (and other investments) in detail at least every three years or immediately following any significant change in investment policy or the Scheme's member profile. The last formal triennial investment strategy and performance review took place on 4 and 22 June 2020.

The Trustee, with the help of its investment advisor, LCP, carried out an interim annual review of the default arrangements alongside all available options to members over the Scheme Year on 22 June 2021. The Trustee concluded that drawdown remains an appropriate retirement target. The growth phase of the default strategy outperformed inflation over the last 5 years to 31 December 2021.

As part of this review the Trustee confirmed that the Scheme's lifecycles were adequately and appropriately diversified between different asset classes and that the Freechoice options provide a suitably diversified range to choose from.

The Trustee has investigated the potential for further diversification within the growth phase. The review led to a decision to explore the possibility of introducing an allocation to illiquid assets. This will be progressed in 2022.

The Trustee reviewed its investment beliefs in April 2021 at Investment Day. Since then, following advice from its investment advisor, it has reviewed the investment arrangements for consistency with the beliefs and has agreed to take the following actions, which are due to be implemented in 2022:

- within the Emerging Market Equities – active fund, to replace the Schroder Life QEP Emerging Markets Fund with the JP Morgan Emerging Markets Sustainable Equity Fund. This fund also forms part of the Global Equities – active Freechoice option;
- restructure the Property – active Freechoice option, which involves replacing the LGIM Managed Property Fund with the Invesco Global Property Fund and adjusting the strategic allocations to the underlying component funds; and
- explore the possibility of introducing an allocation to illiquid assets within the growth stage of the default strategy, also potentially to be reflected in the Lump Sum Strategy and in the Annuity Purchase Strategy.

In addition to the above, the Trustee has replaced the two multi-asset funds within the Diversified Assets – active fund with the bespoke Schroder Life HSBC Sustainable Diversified Growth Fund, which operates within criteria set by the Trustee, including Responsible Investment credentials. This change to the Diversified Assets – active fund was implemented over five tranches from 29 July 2021 to 26 August 2021.

On 10 June 2021, the Trustee reviewed all legacy lifecycles and agreed to move all members from Lifecyle 2 into a default lifecycle based on whether they are a DC or DB/Hybrid member unless they elect to stay where they are. This was agreed following formal written advice from the investment advisor and given concerns that the legacy strategy design may not be aligned with the retirement outcome targeted by this member cohort. This transfer is expected to be implemented in Q4 2022.

The Trustee also reviews the performance of the default arrangements against their aims, objectives and policies on a quarterly basis, through a performance report provided by their investment advisors. This review includes an analysis of fund performance and member activity to check that the risk and return levels meet expectations. The Trustee reviews that took place during the Scheme Year concluded that the default arrangements were performing broadly as expected and that the performance of the default arrangements remains consistent with their stated aims and objectives and the only changes to be made or explored further are intended to provide further benefits to members (e.g. increased growth / cost savings). The Cash – active (default) Fund was incorporated in this review given the underlying fund is the same as the Cash – active Fund which is a self-select option. It will be incorporated into future default strategy reviews where this is required given the Fund will not always hold assets.

3. Requirements for processing core financial transactions

The processing of core financial transactions is carried out by the administrators of the Scheme's DC section, Willis Towers Watson Technology and Administration Solutions ("WTW TAS"), as well as the providers of the Scheme's AVC arrangements. Core financial transactions include (but are not limited to): the investment of contributions, processing of transfers in and out of the Scheme, transfers of assets between different investments within the Scheme, and payments to members or beneficiaries.

3.1. DC benefits (including current AVC arrangements)

Service level agreement

The Trustee has a service level agreement ("SLA") in place with WTW TAS which covers the accuracy and timeliness of all core financial transactions. The SLA includes (but is not limited to):

- The processing of monthly contributions, including resolution of queries with the Bank, and payment reconciliation, with the investment manager within 9 days of receipt of the payroll contribution file (around the 16th of the month). In addition to this the Scheme also targets the investment of contributions within 5 days following deduction from pay, and this target is also monitored quarterly.
- The processing of investment fund switches within 2 days of receipt of member request. Members also have the facility to do this online, in which case, the request will be actioned within 24 hours.
- The processing of transfer requests (both in and out of the Scheme) within 5 days from receipt of request. Some members also have the facility to run transfer out quotes online.
- The processing of retirement requests and payments within 4 days from receipt of request.
- The production of annual benefit statements and Statutory Money Purchase Illustration statements within 2 months following the receipt of full, accurate data.
- The answering of 80% of member calls within 30 seconds.
- Quarterly reporting on the completeness and accuracy of common and conditional data.
- Management of member records and financial data.
- The provision and management of member online access.

WTW TAS internal controls

The Trustee has received assurance from WTW TAS that there are adequate internal controls to ensure that core financial transactions for the Scheme were processed promptly and accurately during the Scheme Year. The key activities undertaken by WTW TAS to help it ensure that core financial transactions were processed promptly and accurately included:

- Recording all member monetary transactions and benefit processing activities, that form part of core financial transactions, in a work management system which automatically assigns the correct SLA for each activity. Work activity is monitored, with tasks allocated on a daily basis.
- Preparing weekly, monthly and quarterly reporting which is presented and discussed with the PSE on no less than a monthly basis.
- Monthly bank, unit and fund reconciliations are performed, which are provided to the PSE.
- Peer review of all monetary transactions with different levels of payment authorisation required depending on the value of the payment.

WTW TAS provided its own annual assurance report (AAF 01/06) during the Scheme Year in order to confirm the adequacy of its internal controls and the application of those controls in ensuring that core financial transactions were processed promptly and accurately. No significant issues were raised in the report.

In addition, analysis was undertaken over the Scheme Year by WTW TAS in respect of any issues, errors or breaches arising to understand the cause, with rectification plans implemented where necessary, which were monitored on a monthly or more frequent basis.

Trustee monitoring

The Trustee recognises that delay and error can cause significant issues for members. They can also cause members to lose faith in the Scheme, which may in turn reduce their propensity to save and impair future outcomes. The Trustee has taken steps to try and ensure that there were adequate internal controls to ensure that core financial transactions relating to the Scheme were processed promptly and accurately during the Scheme Year. The Trustee regularly monitored the timeliness and accuracy of core financial transactions through several channels. The PSE, on behalf of the Trustee:

- Reviewed monthly performance reporting on key processes, core financial transactions and complaints. Any issues and anomalies identified were followed up with the administrator for explanation.
- Held weekly service meetings as well as monthly meetings with the administrator to review and assess service performance, discuss issues, and progress on project related activity.

- Reviewed quarterly reporting, which included, but was not limited to membership statistics, member transaction levels, service performance, financial reporting, complaints, errors and breaches, member online usage.

As part of these review processes, the PSE reviewed whether core financial transactions were accurate, up to date and completed within statutory timeframes and within the service levels agreed with WTW TAS. Any issues identified by the PSE as part of its oversight were raised with WTW TAS immediately and steps were taken to resolve the issue (see below for details).

The accuracy and quality of Scheme data is assessed and monitored on a quarterly basis by the Trustee. No significant issues/exceptions were identified during the Scheme Year in relation to the accuracy and quality of DC related data.

Performance over the Scheme Year

In each quarter of the Scheme Year, core financial transactions were completed within the agreed timescale for the following percentage of cases:

	Quarter 1	Quarter 2	Quarter 3	Quarter 4
DC Only	91.5%	78.4%	91.4%	97.4%
Hybrid	79.2%	65.8%	61.9%	86.6%

For DC only members, overall the Scheme administrators performed behind agreed service levels, with an average of 89.7% for DC in 2021 which fell just below the agreed target of 90%. There was also a drop in administrator performance levels in respect of Hybrid members.

The Trustee, via the PSE, required additional disclosures in respect of any monetary transactions and benefit processing activity that were not completed within the agreed timescales, including the cause of the delay, the extent to which agreed timescales were breached and whether the cause of the delay was a systemic issue. The issues resulting in delays and the proposed remedial activities were closely monitored by the PSE, on behalf of the Trustee, to minimise the risk of the issues re-occurring.

During the Scheme Year, of the various core financial transactions, transfer outs had the lowest percentage of tasks completed within the SLA. The checks associated with the FCA’s Senior Management & Certification Regime have lengthened processing times as some IFAs retained office closures and telephone lines, making contact only possible via email. Coupled with the broader impacts of COVID-19 on all providers this has lengthened the processing time for several DC transfers. The continuing impact of high work volumes impacted SLA adherence. However, the majority of transfer outs were processed just 1–2 days past SLA date. Over Q2 and Q3, SLA achievement for DC transfer settlement casework continued to be impacted by delays in receiving confirmation from HMRC of the receiving schemes registration status and the high number of touchpoints associated with the processing of these cases.

Q4 saw an improvement in SLA performance across the various core financial transactions following the clearance of out of service work items and onboarding of additional off-shore resources during Q3 2021 along with the successful implementation of process improvement changes.

The monetary transactions and activities which were completed outside of agreed timescales during the Scheme Year have been reviewed and the PSE are comfortable that WTW TAS have sufficiently updated their procedures going forward.

Over the Scheme Year, increased complaint numbers in Q1 and Q2 were predominately due to delays but also due to some procedural issues. WTW TAS actively managed these complaints from the point of original escalation through to the solution and carried out root cause analysis. WTW TAS has also invested significant time in training new and existing staff to prevent quality issues.

The employers of the Scheme’s members are responsible for calculating contributions and paying to the Scheme with the timeframes set out in each sections’ Schedule of Contributions. While this is out of the control of the Trustee and WTW TAS, WTW TAS perform validation checks based on information that is available to them. The Trustee is also required to obtain an audit opinion as to whether contributions are paid in accordance with the Schedules of Contributions which can be found in the Scheme’s Annual Report & Financial Statements.

No other issues or anomalies were identified during the Scheme Year in relation to the processing of core financial transactions of DC benefits.

Overall, based on the processes operated and information provided as described above, the Trustee is satisfied that over the Scheme Year (in relation to DC benefits), other than the exceptions noted above:

- the administrator was operating appropriate procedures, checks and controls and operating within the agreed SLA; and
- there have been no known material administration errors in relation to processing core financial transactions; and
- core financial transactions were processed promptly and accurately during the Scheme Year.

3.2. Legacy AVCs

There are a small number of members invested in a relatively large number of legacy AVC arrangements and these investment options are no longer open to contributions. These legacy AVCs only account for a small proportion (less than 0.1%) of the total DC assets within the Scheme. Therefore, the Trustee has taken a proportionate approach to collecting information on and reviewing them, compared to the other DC benefits within the Scheme.

The Scheme's legacy AVC providers are:

- Standard Life
- Scottish Widows
- Schroders
- Prudential
- Phoenix Life
- Aviva (Ex Friends Life policy)
- Aegon

The Trustee's DC advisor has sought to obtain information from these AVC providers on the processing of core financial transactions for the AVC assets they hold and the internal controls in place to ensure that core financial transactions relating to the Scheme are processed promptly and accurately. As these products are largely standardised insurance products, some of the information that has been provided reflect the provider's standard processes rather than scheme specific processes.

Standard Life

There is a standard SLA covering the accuracy and timeliness of all core financial transactions which targets 10 working days for core financial transactions and has an internal controls statement which outlines information about processing of these core financial transactions. Governance and oversight arrangements are in place to monitor SLA performance against defined service levels and risk standards. Authorising and processing core financial transactions and achieving the stated SLA is managed through controlled systems including, but not limited to, the following actions:

- Automated systems are designed to ensure consistent, timely and accurate receipt and allocation to the correct funds for regular and single payments;
- Regular monitoring of process and people performance, including control self-assessment reviews;
- Reconciliations are carried out between Finance and Customer Operations to ensure contributions are accurately recorded;
- Documented business procedures are in place for contributions processes;
- Compliance with processes is supported by an automated workflow system that ensures work is enabled, tracked and managed;
- A dedicated control team actively manages manual payments (including automation failures) and the reporting of missed contributions to the Pensions Regulator; and
- An automated quotes system, which ensures the consistent application of calculations.

A quality assurance framework is in place to ensure that payments are processed in line with the defined processes and service levels.

Standard Life outline what reporting it supplies to the Trustee in their SORP guide, which includes key metric information such as the total value of the Scheme's assets under the Standard Life policy.

Standard Life has confirmed that there have been no material administration issues, errors or unreasonable delays over the Scheme Year.

Scottish Widows

Within the team that services the Scheme's policy, the SLA is between 5-7 working days. Scottish Widows has confirmed that there have been no material administration issues, errors or unreasonable delays over the Scheme Year. An Annual Disclosure Statement is issued to the Trustee shortly after the Reporting Date, 28 March.

Schroders

The Trustee has a direct contract with Schroder Pension Management Limited (SPML) dated 2 October 2006 which sets out the terms of the policy. Schroders' obligations are detailed in the SPML Key Features and SPML Policy Rules documents. Schroders internal controls document outlines its control objectives which include but are not limited to:

- Client new monies and withdrawals are processed and recorded completely and accurately and appropriately authorised; and
- Investment transactions are properly authorised, executed and allocated in a timely and accurate manner.

Monthly valuations and transaction statements, monthly performance reports, and quarterly investment reports are available to the Trustee via SchrodersLink.

Schroders has confirmed that there have been no material administration issues, errors or unreasonable delays over the Scheme Year.

Prudential

Prudential use "End to End" working and reporting. This aims to join all of the current transactional activities together with the journey time calculated from the first point of contact to the point of closure where no other activity is required to deliver the customer outcome.

They set out four main work areas including bereavements, claims, new business and servicing, and provide an upper, lower and tail target for the number of days they aim for a case to be completed.

Prudential monitors service performance on a weekly basis with senior management oversight, against a variety of metrics. Prudential supplies the Trustee with governance reports which include SLA reports so that they can monitor administration performance. Prudential aims for 75% of cases to be completed within the upper targets. Over the year the quarterly percentages completed within the upper targets were 81.3%, 78.8%, 81.6% and 84.4% over Q1, Q2, Q3 and Q4 2021 respectively.

Delays experienced in 2021 were caused by a combination of factors including the loss of operational efficiency whilst remote working (due to regulations) combined with detailed familiarisation with a new administration system. The new system maintains greater controls in relation to the processing of contributions. Some data received was not immediately reconcilable which led to delays in processing. The scheme account reconciliation process and issue of Annual Benefit Statements ("ABS") were delayed because of the factors outlined earlier in this paragraph and a one-year issue of merging part year records together as a result of system migration. ABS must be issued within 12 months of the Scheme Year and therefore there has not been a breach of the ABS requirements. Significant additional resource and incident management oversight has been introduced to resolve delays and return the service to pre-migration performance levels.

Phoenix Life

Phoenix Life has a range of internal controls to ensure arrangements and procedures and being followed in the administration and management of the Scheme and monitored. Below are some examples of key controls Phoenix Life operates on behalf of Trustee:

- Specialist training provided to specific business units;
- Internal Audit (regularly monitoring systems and controls);
- IT security polices to protect customer and Phoenix Life's data; and
- Data protection procedures, policies including annual staff training and testing.

The Trustee is not aware of any material administration issues, errors or unreasonable delays over the Scheme Year.

Aviva (Ex Friends Life)

Aviva has a wide range of policies, internal controls, and practices in place to manage their investment administration activities. Aviva has confirmed that there have been no material administration issues, errors or unreasonable delays over the Scheme Year.

The Trustee receives an Annual Short Investment Report as and when requested, in addition to a Quarterly Investment Report which is provided each quarter.

Aegon

Aegon operates different SLAs based on the type of query, these range from 1 day (cheque banking) to 20 days (renewing the Scheme). The SLA for the majority of tasks is between 5 and 8 days. Aegon produces an SLA report specific for the Scheme. Tasks completed during the Scheme Year included issuing statements, providing Scheme valuations and retirement quotes and answering a Scheme Wind up Query. 90% of tasks were completed within the SLA. Aegon can supply quarterly MI reports on a request basis to the Trustee. There were no financial transactions over the Scheme Year.

Aegon has confirmed there have been no material administration issues, errors or unreasonable delays over the Scheme Year.

Trustee monitoring

The Trustee carries out regular reviews of its legacy Additional Voluntary Contributions (AVC) arrangements with the last review undertaken on 10 June 2021. This review highlighted no material concerns with the legacy AVC arrangements.

4. Member-borne charges and transaction costs

The Trustee is required to set out the charges incurred by members during the Scheme Year in this Statement. As the sponsoring employer pays the DC investment fund annual management charges, platform expenses and all other administration expenses, the member borne charges are limited to the additional fund expenses incurred by the underlying managers in the day-to-day running of the funds (for example, custodian fees etc), with the exception of some legacy AVCs funds (see below).

The Trustee endeavours to ensure that the additional fund expenses are below 0.20% per annum on each fund. As at 31 December 2021, the highest additional expenses of all funds that were available to members was for the Global Equities – active Fund, at 0.07%.

The Trustee is also required to disclose transaction cost figures. In the context of this Statement, the transaction costs shown are those incurred when the Scheme's fund managers buy and sell assets within investment funds but are exclusive of any costs incurred when members invest in and switch between funds.

The transaction costs are borne by members. The charges and transaction costs have been supplied by Fidelity (the Scheme's platform provider) and the legacy AVC providers. The charges and transaction cost information has been provided for the Scheme Year for the default arrangements and self-select options (but not all of the legacy AVC funds – further details below).

When preparing this section of the Statement, including the illustrations, the Trustee has taken account of statutory guidance. All additional fund expenses and transaction cost figures shown in this section are over the Scheme Year. Under the prescribed way in which transaction costs have been calculated it is possible for figures to be negative, where market movements are favourable between the time a trade is placed and it is executed. We have shown any negative figures in the tables for the year as provided, but for the costs and charges illustrations we have used zero where a transaction cost is negative to give a more realistic projection (ie we would not expect transaction costs to be negative over the long term).

Default arrangements charges and transaction costs

The default arrangement for most DC-only members is the Flexible Income Strategy and for most Hybrid members the default arrangement is the Lump Sum Strategy. These default arrangements have been set up as a Lifecycle approach, which means that members' assets are automatically moved between different investment funds as they approach their retirement date. This means that the level of charges and transaction costs will vary depending on how close members are to retirement and in which funds they are invested.

For the Scheme Year, annualised charges and transaction costs are set out in the following tables.

Flexible Income Strategy (main DC-Only member default)

Years to retirement	Additional fund expenses	Transaction costs
20 or more years to retirement	0.00%	0.15%
15 years to retirement	0.02%	0.20%
10 years to retirement	0.03%	0.24%
5 years to retirement	0.04%	0.22%
At retirement	0.03%	0.17%

Lump Sum Strategy (main Hybrid member default)

Years to retirement	Additional fund expenses	Transaction costs
20 or more years to retirement	0.00%	0.15%
15 years to retirement	0.02%	0.20%
10 years to retirement	0.03%	0.24%
5 years to retirement	0.04%	0.22%
At retirement	0.02%	0.07%

For the Scheme Year, annualised charges and transaction costs for the legacy default arrangements are set out in the following tables. Charges are only shown at retirement for the Cash Lifecycle as the strategy is closed to new members and all members in this strategy are at least at their Target Retirement Age.

Annuity Purchase Strategy (legacy default and current Freechoice option)

Years to retirement	Additional fund expenses	Transaction costs
20 or more years to retirement	0.00%	0.15%
15 years to retirement	0.02%	0.20%
10 years to retirement	0.03%	0.24%
5 years to retirement	0.02%	0.15%
At retirement	0.00%	-0.01%

Cash Lifecycle (legacy default arrangement)

Years to retirement	Additional fund expenses	Transaction costs
At retirement	0.00%	0.02%

Cash - active (default) fund (additional default arrangement)

Years to retirement	Additional fund expenses	Transaction costs
Cash - active (default)	0.00%	0.02%

Self-select options charges and transaction costs

With the exception of the legacy Cash Lifecycle Strategy, the default arrangements are also available as self-select options for those not defaulted into them. Members also have the choice to invest into any of the 18 funds available in the self-select range (known as "Freechoice").

The level of charges for each self-select fund and the transaction costs over the Scheme Year are set out in the following table. The underlying funds used within the current main default arrangements are shown in bold.

Fund name	Additional fund expenses	Transaction costs
UK Equities - active	0.01%	0.31%
Diversified Assets - active	**0.06%**	**0.33%**
Shariah Law Equities - passive	0.00%	0.11%
Sustainable and Responsible Equities - active	0.00%	0.10%
Global Bonds - active	**0.03%**	**0.08%**
UK Equities - passive	0.00%	0.02%
Global Equities - passive	**0.00%**	**0.15%**
Property - active	0.03%	0.07%
Fixed Annuity Tracker - passive	0.00%	-0.02%
Inflation Linked Annuity Tracker - passive	0.00%	-0.01%
Cash - active	**0.00%**	**0.02%**
European (ex UK) Equities - passive	0.00%	0.00%
North American Equities - passive	0.00%	0.00%
Japanese Equities - passive	0.00%	0.00%
Asia Pacific (ex-Japan) Equities - passive	0.00%	0.00%
Global Equities - active	0.07%	0.20%
Sterling Corporate Bonds - active	0.01%	0.00%
Emerging Markets Equities - active	0.03%	0.60%

Legacy lifecycle strategies

The Scheme also has three further legacy lifecycle strategies which were previously available for members to select namely the Capital Lifecycle, Lifecycle 2 and Flexicycle. These strategies are closed to new members, but existing members have been permitted to remain invested.

For the Scheme Year, annualised charges and transaction costs are set out below.

Capital Lifecycle (legacy Freechoice lifecycle)

Years to retirement	Additional fund expenses	Transaction costs
At retirement	0.05%	0.25%

All members invested in this strategy are past their Target Retirement Age and therefore invested in an allocation of 75% Diversified Assets – active and 25% Cash - active.

Lifecycle 2 (legacy Freechoice lifecycle)

Years to retirement	Additional fund expenses	Transaction costs
20 or more years to retirement	0.06%	0.20%
15 years to retirement	0.06%	0.20%
10 years to retirement	0.06%	0.20%
5 years to retirement	0.06%	0.20%
At retirement	0.00%	-0.01%

Members in Lifecycle 2 who are 20 or more years from retirement are invested in 60% Global Equities – active, 20% Property – active and 20% Diversified Assets – active. Members who are five years from retirement are then de-risked gradually so that at target retirement age, members are invested in 75% Fixed Annuity Tracker – passive and 25% Cash – active. As part of the annual Lifecyle review over the Scheme Year, the Trustee agreed that members in Lifecycle 2 were to be automatically moved to a more appropriate default strategy, unless they actively choose to opt out of a switch and stay in Lifecycle 2. This is due to take place over the 2022 Scheme Year.

Flexicycle (legacy Freechoice lifecycle)

Flexicycle is a lifecycle strategy that allowed members to create an investment strategy by selecting their preferred growth and consolidation phase funds and the point at which their DC pension pot would switch between them. There was also a choice of switching periods between these phases and a choice of at retirement allocation. The Trustee is therefore not able to display annualised charges and transaction costs for each possible combination in this Statement. The relevant charges and costs can be seen for the possible underlying funds with the options for the growth phase being the Global Equities – active, Global Equities – passive, Diversified Assets – active, Sustainable and Responsible Equities – active and Emerging Markets Equities – active Funds and the options for the consolidation phase being the Fixed Annuity Tracker – passive, Inflation Linked Annuity Tracker – passive, Diversified Assets – active and Cash – active Funds.

Additional Voluntary Contribution fund charges and transaction costs

As well as the DC funds noted above, which contain the majority of the Scheme's AVC investments, some members were also invested in a number of legacy AVC funds during the Scheme Year.

The majority of the Scheme's legacy AVC assets are invested in "with-profits" funds. With-profits returns are delivered through guaranteed annual and non-guaranteed terminal bonuses (guarantees only apply at contractual events, e.g. retirement) and these can be influenced by the asset allocation within the fund which is itself reflective of the strength of the provider, and therefore affects investment returns and bonus rates.

The Trustee, with their investment advisors, has sought to obtain details of the charges and transaction costs from the Scheme's legacy AVC providers for the Scheme Year. At the time of producing this Statement, that process is still ongoing. Some data is currently outstanding from Aviva (Ex Friends Life) and Prudential. The Trustee will continue to ask its legacy AVC providers on a regular basis to disclose details of the charges and transaction cost data with the intention of adding this into the next annual DC governance statement. In last year's statement the transaction costs for the Aviva (Ex Friends Life) AVC funds and the TERs for the Aviva (ex Friends Life) With-profits Fund and Scottish Widows With-Profit Fund, were outstanding. The Trustee, with their investment advisors continued to follow up with Aviva but were unable to obtain the transaction costs in a suitable format. Neither Aviva or Scottish Widows were able to provide the TER for the With-profits funds. The Trustee continues to work with its advisors to collect outstanding data.

The charges shown for the AVC arrangements are the Total Expense Ratios ("TER") for the Scheme Year (except where otherwise shown), which includes the annual fund fees as these are not met by the Bank, unlike for the DC funds.

Aviva (Ex Friends Life) AVC funds	TER[1]	Transaction costs
GM UK Equity Fund	0.37%	0.00%
GM Overseas Equity Fund	0.52%	n/a[2]
GM European Equity Fund	0.41%	n/a[2]
GM Asia Pacific ex Japan Equity Fund	0.48%	n/a[2]
GM Property Fund	0.60%	0.14%
With-profits Fund	n/a[2]	n/a[2]
Standard Life AVC funds[5]	**TER[1]**	**Transaction costs**
Pension Millennium With Profits Fund	1.15%[4]	0.17%
Pension Millennium With Profits 2006 Fund	1.20%[4]	0.17%
Pension With Profits Fund	1.75%[4]	0.12%
Standard Life Property Pension Fund	1.03%	0.20%
Standard Life Managed Pension Fund	1.02%	0.12%
Other AVC providers	**TER[1]**	**Transaction costs**
Schroders Life Managed Balanced Fund	0.54%	0.16%
Aegon Cash Fund	1.01%[6]	0.00%
Phoenix Life With-Profits Fund	0.64%	0.06%
Prudential With-Profits Cash Accumulation Fund	n/a[7]	0.00%[8]
Scottish Widows With-Profit Fund	n/a[3]	0.22%

[1]TER = Total Expense Ratio. The TER encompasses charges made to / by funds, typically including the Annual Management Charge, custody fees and other expenses
[2]Transaction costs/TER were not provided to the Trustee from the fund provider. The Scheme's investment advisors are working with the provider to confirm this cost over the period with the aim of including in next year's statement.
[3]Scottish Widows have confirmed expenses do apply to the With Profits fund, however the costs is implicit and therefore TERs do not apply.
[4]The Fund has no explicit fund management charge. The charge shown includes an allowance for the cost of guarantees and is the deduction Standard Life currently use, for illustrative purposes, in quotations.
[5]A Scheme-specific discount of 0.40% is applied annually.
[6]A rebate of 0.40% is applied yearly to paid up member's policy when the policy fund value is more than £50,000 Resulting in net charge of 0.60%. Rebate is applied annually in arrears on policy anniversary
[7] Charges on the Prudential With Profits Fund are not explicit, they are accounted for in the bonus declared on the Fund.
[8] As at 30 September 2021. The Scheme's investment advisors are working with the provider to confirm this cost over the Scheme year with the aim of including in next year's statement.
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Illustration of charges and transaction costs

Over a period of time, the charges and transaction costs that are taken out of a member's pension savings can reduce the amount available to the member at retirement. The following table sets out an illustration of the impact of charges and transaction costs on the projected value of an example member's pension savings. In preparing this illustrative example, the Trustee has had regard to the relevant statutory guidance.

As each member has a different amount of savings within the Scheme and the amount of any future investment returns and future costs and charges cannot be known in advance, the Trustee has had to make a number of assumptions about what these might be. The assumptions are explained below:

- The "before costs" figures represent the savings projection assuming an investment return with no deduction of member-borne charges (i.e. the additional expenses) or transaction costs. The "after costs" figures represent the savings projection using the same assumed investment return but after deducting member-borne charges and an allowance for transaction costs.
- The transaction cost figures used in the illustration are those provided by the managers over the past three years, subject to a floor of zero (so the illustration does not assume a negative cost over the long term). We have used the average annualised transaction costs over the past three years as this is the longest period over which figures were available and should be more indicative of longer-term costs compared to only using figures over the Scheme Year.

Illustrations are provided for the default option for DC only members (the Flexible Income Strategy) since this is the arrangement with the most members invested in it, the Lump Sum Strategy (which is the default for most Hybrid members), the Annuity Purchase Strategy, the Cash Lifecycle and the Cash – active Fund as these strategies are also classified as default arrangements as well as two funds from the Freechoice fund range. The two Freechoice funds shown in the illustration are:

- the fund with the highest charges – Emerging Markets Equities - active
- the fund with the lowest charges – Fixed Annuity Tracker – passive

The charges illustration table is shown below.

Years invested	Flexible Income Strategy		Lump Sum Strategy		Annuity Purchase Strategy		Cash Lifecycle		Cash – active (default)	
	Before costs	After costs	Before costs	After costs	Before costs	After costs	Before costs	After costs	Before costs	After costs
1	£5,900	£5,900	£5,900	£5,900	£5,900	£5,900	£5,900	£5,900	£5,600	£5,600
3	£11,200	£11,200	£11,200	£11,200	£11,200	£11,200	£11,200	£11,200	£10,200	£10,200
5	£16,900	£16,800	£16,900	£16,800	£16,900	£16,800	£16,900	£16,800	£14,500	£14,500
10	£32,400	£32,200	£32,400	£32,200	£32,400	£32,200	£32,400	£32,200	£24,500	£24,500
15	£50,200	£49,700	£50,200	£49,700	£50,200	£49,700	£50,200	£49,700	£33,400	£33,400
20	£70,500	£69,700	£70,500	£69,700	£70,500	£69,700	£70,500	£69,700	£41,300	£41,300
25	£92,700	£91,000	£92,700	£91,000	£92,700	£91,000	£92,700	£91,000	£48,400	£48,400
30	£115,400	£112,100	£115,400	£112,100	£115,400	£112,100	£115,400	£112,100	£54,800	£54,800
35	£135,800	£130,200	£135,800	£130,200	£133,000	£128,000	£137,700	£131,800	£60,400	£60,400
40	£149,100	£141,400	£145,400	£138,500	£136,500	£131,200	£148,800	£141,000	£65,500	£65,500
Percentage Difference	5.4%		5.0%		4.0%		5.5%		0.0%	

Years invested	Fixed Annuity Tracker - passive		Emerging Markets Equities - active	
	Before costs	After costs	Before costs	After costs
1	£5,600	£5,600	£5,900	£5,900
3	£10,200	£10,200	£11,400	£11,300
5	£14,500	£14,500	£17,400	£17,000
10	£24,500	£24,500	£34,300	£33,100
15	£33,400	£33,400	£54,600	£51,700
20	£41,300	£41,300	£79,100	£73,500
25	£48,400	£48,400	£108,500	£98,800
30	£54,800	£54,800	£143,800	£128,400
35	£60,400	£60,400	£186,200	£162,800
40	£65,500	£65,500	£237,300	£202,900
Percentage Difference	0.0%		17.0%	

Notes

- Values shown are estimates and are not guaranteed. The illustration does not indicate the likely variance and volatility in the possible outcomes from each fund. The numbers shown in the illustration are rounded to the nearest £100 for simplicity.
- Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
- Annual salary growth and inflation is assumed to be 2.5%. Salaries could be expected to increase above inflation to reflect members becoming more experienced and being promoted. However, the projections assume salaries increase in line with inflation to allow for prudence in the projected values.
- The starting account (pot) size used is £3,300. This is the average (median) pot size for HSBC scheme members aged 25 years and younger (we have used the average of the under 25s rather than the average of the whole Scheme to allow for a

more representative 40-year projection). This assumption, and others mentioned, are as at 31 December 2021, the Scheme Year end.

- The projection is for 40 years, being the approximate duration that the youngest Scheme member has until they reach the Scheme Normal Pension Age.
- The starting salary is assumed to be £22,200. This is the median salary for HSBC scheme members aged 25 years and younger.
- The contribution rate is assumed to be 11.0% (includes employee and employer contributions). This is the median contribution rate for HSBC Scheme members aged 25 years and younger.
- The projected before charges annual returns used are as follows:
  - Flexible Income Strategy: 2.8% above inflation for the initial years, gradually reducing to a return of 0.5% below inflation at the ending point of the lifestyle.
  - Lump Sum Strategy: 2.8% above inflation for the initial years, gradually reducing to a return of 1.3% below inflation at the ending point of the lifestyle.
  - Annuity Purchase Strategy: 2.8% above inflation for the initial years, gradually reducing to a return of 0.5% below inflation at the ending point of the lifestyle.
  - Cash Lifecycle: 2.8% above inflation for the initial years, gradually reducing to a return of 1.3% below inflation at the ending point of the lifestyle. We have shown projections over 40 years however the strategy is closed to new members and all members in this strategy are at least at their Target Retirement Age.
  - Cash – active (default): 2.3% below inflation
  - Fixed Annuity Tracker – passive fund: 2.3% below inflation
  - Emerging Markets Equities – active fund: 3.8% above inflation

No allowance for active management has been made in the return assumptions (e.g. assumed return for a passive and active global equity fund is equal).

5. Investment returns

This section states the annual return, after the deduction of member borne charges and transaction costs, for all investment options that members can select or could select during the Scheme Year, and in which assets relating to members were invested during the Scheme Year.

For the arrangements where returns vary with age, such as for the default strategy and the other current and legacy lifecycle strategies, returns are shown over various periods for a member aged 25, 45 and 55 at the start of the period the returns are shown over. The majority of members have a target retirement age of 65. To calculate the investment returns at different ages for the lifecycle strategies we have applied the lifecycle de-risking to a member with a target retirement age of 65 i.e. for a member aged 55 we have assumed they are 10 years from their target retirement age. Performance below reflects any changes made to underlying investment managers over the periods shown.

Flexible Income Strategy (main DC-Only member default) net returns over periods to Scheme Year end

Age of member at the start of the period	1 year (%)	Since inception* (% p.a.)
25	25.4	10.1
45	25.4	9.4
55	15.9	5.9

*This strategy has been available for less than 5 years, as such we have shown performance since the strategy's inception on 19 April 2018.

Lump Sum Strategy (main Hybrid member default) net returns over periods to Scheme Year end

Age of member at the start of the period	1 year (%)	Since inception* (% p.a.)
25	25.4	10.1
45	25.4	9.4
55	15.9	5.9

*This strategy has been available for less than 5 years, as such we have shown performance since the strategy's inception on 19 April 2018.

Annuity Purchase Strategy (legacy default and current Freechoice option) net returns over periods to Scheme Year end

Age of member at the start of the period	1 year (%)	5 years (% p.a.)
25	25.4	12.5
45	25.4	11.5
55	15.9	7.3

Cash Lifecycle (legacy default arrangement) net returns over periods to Scheme Year end

Age of member at the start of the period	1 year (%)	5 years (% p.a.)
25	25.4	12.5
45	25.4	11.5
55	15.9	7.4

Net returns have been shown for the Cash Lifecycle at ages 25, 45 and 55, however, the strategy is closed to new members and all members invested are at least at their Target Retirement Age.

Cash - active (default) fund (additional default arrangement) net returns over periods to Scheme Year end

Age of member at the start of the period	1 year (%)	5 years (% p.a.)
25	0.1	0.4
45	0.1	0.4
55	0.1	0.4

Self-select fund net returns over periods to Scheme Year end

Fund name	1 year (%)	5 years (% p.a.)
UK Equities - active	16.5	5.1
Diversified Assets - active	**6.4**	**4.4**
Shariah Law Equities - passive	27.9	19.0
Sustainable and Responsible Equities - active	16.7	11.4
Global Bonds - active	**1.4**	**3.9**
UK Equities - passive	18.0	5.5
Global Equities - passive	**25.4**	**12.5**
Property - active	24.9	7.1
Fixed Annuity Tracker - passive	-4.8	3.9
Inflation Linked Annuity Tracker - passive	0.1	4.6
Cash - active	**0.1**	**0.4**
European (ex UK) Equities - passive	16.5	10.7*
North American Equities - passive	29.5	21.0*
Japanese Equities - passive	2.5	6.4*
Asia Pacific (ex-Japan) Equities - passive	2.4	7.1*
Global Equities - active	16.0	10.9
Sterling Corporate Bonds - active	-3.2	4.4*
Emerging Markets Equities - active	0.2	7.7

*5 year performance is not available for the passive regional equity funds and the Sterling Corporate Bonds – active Fund as such we have shown since inception performance from 31 March 2018.

The underlying funds used within the current main default arrangements are shown in bold.

Flexicycle is a lifecycle strategy that allowed members to create an investment strategy by selecting their preferred growth and consolidation phase funds and the point at which their DC pension pot would switch between them. There was also a choice of switching periods between these phases and a choice of at retirement allocation. The Trustee is therefore not able to display net returns for each possible combination in this Statement. The relevant charges and costs can be seen for the possible underlying funds in the table above with the options for the growth phase being the Global Equities – active, Global Equities – passive, Diversified Assets – active, Sustainable and Responsible Equities – active and Emerging Markets Equities – active Funds and the options for the consolidation phase being the Fixed Annuity Tracker – passive, Inflation Linked Annuity Tracker – passive, Diversified Assets – active and Cash – active Funds.

Capital Lifecycle (legacy Freechoice lifecycle) net returns over periods to Scheme Year end

Age of member at the start of the period	1 year (%)	5 years (% pa)
25	25.4	12.5
45	25.4	11.5
55	15.9	7.4

Net returns have been shown for the Capital Lifecycle at ages 25, 45 and 55, however, the strategy is closed to new members and all members invested are at least at their Target Retirement Age.

Lifecycle 2 (legacy Freechoice lifecycle) net returns over periods to Scheme Year end

Age of member at the start of the period	1 year (%)	5 years (% pa)
25	15.9	8.9
45	15.9	8.9
55	15.9	8.9

AVC fund net returns over periods to Scheme Year end

Fund name	1 year (%)	5 years (% p.a.)
GM UK Equity Fund	17.9%	6.0%
GM Overseas Equity Fund	19.1%	9.8%
GM European Equity Fund	15.4%	8.5%
GM Asia Pacific ex Japan Equity Fund	3.4%	8.5%
GM Property Fund	9.8%	5.2%
Aviva (ex Friends Life) With-profits Fund	Not available	Not available
Standard Life Pension Millennium With Profits Fund	Not available	Not available
Standard Life Pension Millennium With Profits 2006 Fund	Not available	Not available
Standard Life Pension With Profits Fund	Not available	Not available
Standard Life Property Pension Fund	Not available	Not available
Standard Life Managed Pension Fund	Not available	Not available
Schroders Life Managed Balanced Fund	Not available	Not available
Aegon Cash Fund	-0.9%	-0.5%
Phoenix Life With-Profits Fund	N/A	N/A
Prudential With-Profits Cash Accumulation Fund[1]	6.0%	4.4%
Scottish Widows With-Profit Fund	Not available	3.2%

[1] For investments in the Prudential With-Profits Cash Accumulation Fund, the value of the policy depends on how much profit the fund makes and how Prudential decide to distribute that profit. Policyholders receive a distribution of profits by means of bonuses, or other methods as specified in the relevant policy documentation. There are two types of bonus, regular (or revisionary) and final (or terminal) bonus. For the performance figures it is assumed that 1 or 5 scheme revision dates ending after 15 March 2021 have passed since the contribution was invested. The returns include both regular and final bonuses added to a benefit paid at normal retirement date, but make no allowance for any applicable initial charges, allocation rates or early cash in charges (explicit charges).

At the time of writing, Aviva (Ex Friends Life), Standard Life, Schroders Life, Phoenix Life, and Scottish Widows have been unable to provide net returns over the periods to 31 December 2021. The Trustee continues to request this information through its investment advisor with the intent of including this information in next year’s Statement.

6. Value for members assessment

The Trustee is required to assess the extent to which member borne charges and transaction costs for the Scheme Year represent good value for members.

6.1. DC benefits (including current AVC arrangements)

The Trustee reviews all member-borne charges annually (including transaction costs where available), with the aim of ensuring that members are obtaining value for money given the circumstances of the Scheme. The most recent value for members' review took place on 1 July 2022. The assessment was undertaken taking account of the Pensions Regulator's Code of Practice No.13 (Governance and administration of occupational trust-based schemes providing money purchase benefits) and accompanying guidance. There is no legal definition of 'good value' which means that determining this is subjective. The Trustee notes that value for money does not necessarily mean the lowest fee, and the overall quality of the benefit received by members was also considered in this assessment. The assessment was undertaken with assistance from the Trustee's DC advisor and involved a wide assessment of value considering the key elements of the Scheme and agreeing relevant value ratings for each area, in addition to looking at the value attributable to member borne costs and charges.

Assessment of value relating to member borne charges and transaction costs

The member borne charges are limited to additional fund expenses (not the annual fund charges) and transaction costs for the DC funds and the assessment found this compares very favourably to other DC schemes.

The Trustee's investment advisors have confirmed that the additional expenses paid by members for the DC funds are competitive for the types of fund available to members. Members pay significantly less than members in other schemes as they only pay the additional expenses element for the DC funds.

Wider value assessment

In carrying out the value assessment, the Trustee also considered the wider benefits members receive from the Scheme, which include:

- the oversight and governance of the Trustee, including ensuring the Scheme is compliant with relevant legislation, and holding regular meetings to monitor the Scheme and address any material issues that may impact members;
- the design of the default arrangements and how this reflects the interests of the membership as a whole;
- the range of investment options and strategies;
- the quality of communications delivered to members;
- the quality of support services such as the Scheme website where members can access fund information online; and
- the efficiency of administration processes and the extent to which the administrator met or exceeded its service level standards.

The following table sets out the summary of how the Trustee has assessed value.

Area	Assessment	Commentary
Charges	Very good	Most of the Scheme's costs are covered by the sponsoring employer, with only transaction costs and additional expenses borne by the member. Charges paid by members are therefore extremely competitive when compared to typical fees paid by members in other large DC schemes.
Scheme Administration	Good	The agreed service levels for achieving a task are generally shorter than the standard levels expected, and these are achieved in the majority of cases for DC members. The Trustee reviewed monthly performance reporting on key processes, transactions and complaints. Any issues and anomalies identified were followed up with the administrator for explanation. The Trustee held weekly service meetings as well as monthly meetings with the administrator to review and assess service performance, discuss issues, and progress on project related activity. Any issues identified by the PSE as part of its oversight were raised with WTW TAS immediately and steps were taken to resolve the issue.
Scheme management and Governance	Very Good	The Trustee has a high level of knowledge and engagement in managing the Scheme, resulting from a comprehensive training programme, supported by a strong team in the PSE.
Communications	Very good	A wide suite of communication tools and resources are offered to Scheme members which is continually reviewed. New communications and actions were implemented over the Scheme year, including (but not limited to) a new joiner nudge and interactive checklist and running an email address collection campaign.
At Retirement	Good	During the Scheme Year, the PSE/Trustee progressed with reviewing wider post-retirement support and is in the process of implementing this offering. They issued a "Guide to your retirement pack" following

Area	Assessment	Commentary
		the move to online packs and updated and re-issued the over Target Retirement Age ("TRA") nudges encouraging members pre and past TRA to think about their target retirement date, and if this is aligned to their intentions.
Default arrangement	Very good	Different defaults are available to different cohorts of members, recognising their different requirements. The default investment strategies were reviewed as part of the Triennial Investment Strategy and Performance Review in June 2020. As a result of this review the Trustee concluded that the high-level strategy of the lifecycles remains appropriate for members.
Self-select investment range	Very good	The Scheme offers a good range of funds covering all the main asset classes with active and passive options and the option to invest in lifecycle strategies that target drawdown, annuity purchase or a cash lump sum (reflecting the three broad choices members have at retirement).
Scheme design	Very good	Employer contributions are generous when compared to the market, with total contribution rates exceeding the industry benchmarks. A similar proportion of members changed their contribution rate during 2021 compared to 2020 and, positively, the vast majority of those changes were members increasing their contributions, to take greater advantage of the matching contributions available to them.

Conclusion

Overall, the Trustee believes that members of the Scheme are receiving good value for the charges and transaction costs that they incur as the assessment showed that members benefited from well-designed default investment strategies and a range of investment options as well as very low charges, amongst other benefits as summarised above.

6.2. Legacy AVC arrangements

There are a small number of members invested in a relatively large number of legacy AVC arrangements and these investment options are no longer open to contributions. These legacy AVCs only account for a small proportion (less than 0.1%) of the total DC assets within the Scheme. Therefore, the Trustee has taken a proportionate approach to reviewing them, compared to the other DC benefits within the Scheme.

The Trustee carries out regular reviews (at least every 3 years) of its legacy Additional Voluntary Contributions (AVC) arrangements with the last review undertaken during the Scheme Year being on 10 June 2021. This review highlighted no material concerns with the AVC arrangements and confirmed it would be in members' best interests to remain with these providers rather than be transferred into an alternative arrangement as this would result in a loss of guarantees or high exit charges.

The Trustee continues to close empty legacy AVC policies and remove investment funds with zero members as and when these are identified. As members in these AVC schemes have fewer investment choices and pay higher fees in comparison to the main DC assets, the Trustee will continue to communicate with members to make them aware that they might benefit from moving their AVC assets to investment funds in the main DC investment platform with Fidelity.

7. Trustee knowledge and understanding

General

The Trustee Directors are required to develop and maintain appropriate levels of knowledge and understanding. Considering the knowledge and experience of the Trustee Directors with the specialist advice received from the appointed professional advisors (e.g. investment advisors, legal advisors), the Trustee believes it is well placed to properly exercise its functions as Trustee of the Scheme.

The Trustee ensures that the appropriate level of Trustee Knowledge & Understanding ("TKU") is achieved and maintained in the following ways.

A bespoke HSBC Trustee training curriculum (known to the Trustee as 'TKYou') is in place to ensure that all Trustee Directors develop the necessary knowledge, understanding and skills to manage and govern the Scheme. The training is designed, and the external courses attended, to help the Trustee Directors to learn about and discuss current legislative and regulatory requirements concerning pensions law and the principles relating to funding and investment. This is underpinned by the Trustee's policy on knowledge and understanding which was applied during the Scheme Year and ensures that:

- Every member-nominated Trustee Director candidate must complete the Pensions Regulator's Trustee Toolkit prior to being interviewed for selection. Bank-nominated Trustee Directors are required to comply with the TKU Regulations by completing the Trustee Toolkit within six months of becoming a Trustee Director. The Trustee Toolkit is an online learning programme from the Pensions Regulator aimed at trustees of occupational pension schemes and designed to help trustee meet the minimum level of knowledge and understanding required by law.

- Newly appointed Trustee Directors have meetings with key advisors and PSE executive committee members covering a variety of topic. One new Trustee Director was appointed during the Scheme Year.
- Pre-Board Trustee training is provided to support the Trustee Directors in advance of specific decisions and topics which are particularly complex.
- Training logs are completed for each module of training undertaken, with the Trustee documenting what they learnt from the module, how it has improved their skills and knowledge and how they will use it in their role as Trustee.
- Trustee meeting attendance is recorded to ensure that all Trustee Directors regularly attend meetings and are informed as to Scheme specific and regulatory updates.
- Trustee training in respect of attending annual conferences and manager monitoring meetings is also documented and reviewed at each quarterly Trustee meeting.
- All Trustee Directors have access to previous years' training modules via recordings and files retained in the Trustee Reading Room (an online resource available to Trustee Directors).
- All Trustee Directors complete an annual self-assessment to help identify training needs.
- Two of the Trustee Directors are professional trustees (three from 1 February 2022) as defined by the Pensions Regulator and are required to meets its standards for accreditation as professional trustees including being able to demonstrate specialist pensions capability and the completion of at least 25 hours per year of continuing professional development.

The policy is reviewed annually in conjunction with a formal annual review of the balance of skills and competencies on the Board and on the Committees. A number of areas were assessed during the Scheme Year; including:

- The Board considered whether the board and committee structure was appropriate to give DC the necessary time and focus and give all Trustee Directors suitable exposure to DC matters. IT was also considered as part of an exercise to update committees' terms of reference.
- The Trustee Directors carried out an assessment of the extent to which committee Terms of Reference obligations and requirements have been met; this had a satisfactory outcome.
- The Scheme governance framework and documentation was reviewed to ensure it remained up-to-date.

During the Scheme Year, the Trustee considered the effectiveness of its decision making after each Trustee meeting. The next formal Trustee effectiveness review will be carried out in 2022.

Activities during the Scheme Year

During the Scheme Year, the Trustee Directors undertook the following Trustee training relevant to the Scheme's DC benefits:

- A session on Climate Regulation and Net Zero; and
- Trustee training away days including strategy day, investment day, and governance day, to update all Trustee Directors with relevant developments. Topics covered include Stewardship & Engagement, investment beliefs, ESG priorities and how ESG is and can be integrated into investment decision-making, the mission statement and governance structure. Attendance is documented and in 2021, all Trustee Directors attended at least two training days.

In addition, the following steps were taken in respect of TKU:

- The PSE in consultation with the Governance and Nominations Committee reviewed the training logs mentioned above and devised a training plan for the Board as a whole.
- Training needs for individual Trustee Directors were identified by each individual and agreed in the annual reviews held with the Trustee Chair.
- There was a continual focus on DC governance and investment strategies, as well as training on, amongst other things, Investment beliefs (including ESG and social impact) and administration processes. This approach to Trustee training, in conjunction with the external support received from advisors (described below), enables the Trustee to have the relevant knowledge and understanding of the scheme documentation (e.g. Trust Deed and Rules, Trustee policies, SIP etc.), the relevant principles relating to funding and investment, and the law and regulations relating to pensions and trust, as well as market developments at the appropriate times to effectively run the Scheme and make decisions.

In particular, during the Scheme Year, in addition to the ongoing training outlined above, the Trustee has met the knowledge and understanding requirements by:

- receiving updates on topical issues each quarter from its legal and investment advisors to keep up to date with pensions law and the principles of DC investing;

- obtaining advice from its relevant professional advisors. For example, the Trustee received appropriate professional advice when reviewing and adopting a revised SIP during the Scheme Year, helping the Trustee Directors ensure they have a working knowledge of the current SIP. All Trustee decisions are supported by professional advice where required, which includes the attendance of professional advisors at Trustee meetings,
- receiving legal advice on the Scheme's trust deed and rules and any amendments required to it, such that the Trustee Directors have a working knowledge of this document;
- the Trustee Directors considering and applying their knowledge of the Trust Deed and Rules, SIP and Trustee policies where relevant to Trustee decisions; and
- attending external events, such as training provided by advisors, topic specific conferences and seminars. As well as learning, this provides an external perspective of what other schemes are doing and whether there are learnings which could be taken.

The Trustee Governance and Nominations Committee appraises the balance of skills and competencies on the Board, and Trustee succession is planned to address any gaps which are identified in this process.

For the reasons set out above, considering the collective knowledge and experience of the Trustee with the specialist advice (both in writing and whilst attending meetings) received from the appointed professional advisors, the Trustee Board believes it is well placed to exercise its functions as the Trustee of the Scheme properly.

R. G. Picot

____ Date: **27 July 2022**

R Picot, Chair of the Trustee of the HSBC Bank (UK) Pension Scheme

For and on behalf of HSBC Bank Pension Trust (UK) Limited

Statement of Investment Principles

HSBC Bank (UK) Pension Scheme
Defined Contributions

September 2021

HSBC

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Statement of Investment Principles for the HSBC Bank (UK) Pension Scheme – Defined Contributions

1. Introduction

This Statement of Investment Principles ("SIP") sets out the policy of the HSBC Bank Pension Trust (UK) Limited ("the Trustee") on various matters governing decisions about the investments of the HSBC Bank (UK) Pension Scheme ("the Scheme"). The Scheme consists of three sections; the HBUK Section, the HSBC Global Services Section and the HSBC Bank plc Section. Each section provides Defined Benefit ("DB") and Defined Contribution ("DC") benefits. This SIP covers the DC benefits of all three sections, and replaces the previous SIP dated January 2021. For details on the Scheme's DC investment arrangements, please see the separate Investment Policy Implementation Document ("IPID").

The SIP is designed to meet the requirements of Section 35 (as amended) of the Pensions Act 1995 ("the Act"), the Occupational Pension Schemes (Investment) Regulations 2005, and the Occupational Pension Schemes (Charges and Governance) Regulations 2015.

This SIP has been prepared after obtaining and considering written professional advice from LCP, the Scheme's DC investment adviser, whom the Trustee considers to be suitably qualified and experienced to provide such advice. The advice takes into account the suitability of investments, including the need for diversification, given the circumstances of the Scheme, and the principles contained in this SIP. The Trustee has consulted with the relevant employers in producing this SIP.

The Trustee will review this SIP from time to time and, with the help of its advisers, will amend it as appropriate. These reviews will take place as soon as practicable after any significant change in investment policy, or in the demographic profile of the relevant members, and at least once every three years.

Appendix 1 sets out details of the respective key responsibilities of the Trustee, platform provider, investment adviser and investment managers. It also contains a description of the basis of remuneration of the investment adviser and the investment managers.

Appendix 2 sets out the Trustee's policy towards risk measurement and management.

2. Investment objectives

The Trustee's primary objectives are to provide members with access to:

- an appropriate range of investment options, reflecting the membership profile and the variety of ways that members can draw their benefits in retirement; and
- a default investment option that the Trustee believes to be reasonable for those members that do not wish to make their own investment decisions. The Scheme's default options' objectives are to generate returns significantly above inflation whilst members are some distance from retirement, but then to switch automatically and gradually to lower risk investments as members near the taking of their DC pot.

3. Investment strategy

The Trustee has made available a range of investment funds for members. Each member is responsible for specifying one or more funds for the investment of their account, having regard to their attitude to the risks involved. If a member does not choose an investment option, their account will be invested into a default option, deemed most appropriate to them, which is managed as a "lifecycle" strategy (ie it automatically combines investments in proportions that vary according to the time to retirement age).

The Scheme has different default strategies for members, depending on the type of benefits they have. The default options have been designed to be in line with what the Trustee believes to be the best interests of the majority of the members based on the demographics of the Scheme's membership.

For members with only DC benefits, the main default option targets flexible income drawdown at retirement, since the Trustee believes that most of these members will wish to take their benefits in this form. Therefore, the initial growth phase is invested to target a return significantly above inflation, and then in the 20 years before retirement, it switches gradually into less risky assets, with the asset allocation at retirement being designed to be appropriate for members who wish to flexibly take their benefits through an income drawdown arrangement or remain invested in the Scheme. This default lifecycle continues to move into less risky assets in the 5 years following a member's target retirement age; providing further gradual de-risking for members who may not have updated their target retirement age despite deciding to retire at an older age.

For members with both DC and DB benefits in the Scheme, known within the Scheme as Hybrid members, the main default option targets a cash lump sum at retirement, because the Trustee believes that most of these members will wish to take their DC benefits in this form. Similar to the main default for DC members, the initial growth phase targets a return significantly above inflation, and then in the 20 years before retirement, it switches gradually into less risky assets, into an asset allocation at retirement designed to be appropriate for member taking a cash lump sum. This default lifecycle for Hybrid members also continues to move into less risky assets in the 5 years following a member's target retirement age; providing further gradual de-risking for members who may not have updated their target retirement age despite deciding to retire at an older age.

In addition to the two main defaults, the Scheme also currently offers an alternative lifecycle strategy; one designed to be appropriate for members who wish to purchase an annuity at retirement. This strategy was the previous main default for DC members of the Scheme and, as members did not make a choice to invest in this strategy, this lifecycle continues to be considered a default by the Trustee for the purpose of fulfilling legislative requirements.

As well as the three lifecycle strategies noted above, the Scheme also makes use of an additional default fund called the Cash - active (default). This fund was introduced as a result of a decision taken to ensure a separate fund (ie one which members could not self-select into) was available to allocate members' contributions in the event of a fund closure in the future (such as one similar to that of the Property – active Fund in 2020). This fund invests in the same underlying fund as the Cash - active fund. As members' contributions can be directed into this fund without them making an active selection, this fund will be treated as a default for the purpose of fulfilling legislative requirements. The objective of the fund is 'To protect the absolute value of the investment by investing in deposits and other short-term money market instruments. The fund aims to perform in line with the benchmark.

The Trustee also operates four legacy lifecycle strategies known as Capital Lifecycle, Cash Lifecycle, Flexicycle and Lifecycle 2. Whilst closed to new member investment, members invested at the time of closure are able to continue to contribute to these strategies. The Cash Lifecycle is a legacy version of the existing main defaults for Hybrid members of the Scheme and, as members did not make a choice to invest in this strategy, this lifecycle also continues to be considered a default by the Trustee for the purpose of fulfilling legislative requirements. Flexicycle uses a similar strategy structure to the lifecycles but allowed members some flexibility to choose between a number of funds to invest in during the growth phase and the de-risking phase, and decide when to switch between the phases. Members invested in Flexicycle when it was closed to new member investments are no longer able to amend their fund selections within the strategy. Lifecycle 2 makes greater use of active management and has an asset allocation at retirement suitable for members looking to purchase an annuity at retirement.

The Trustee will monitor the relevant members' behaviour to check whether assumptions made about how members will access their benefits are borne out in practice.

4. Considerations made in determining the investment arrangements

When deciding how to invest the Scheme's assets, the Trustee considers a number of risks, including, but not limited to, those set out in Appendix 2. Some of these risks are more quantifiable than others, but the Trustee has tried to allow for the relative importance and magnitude of each risk.

The Trustee considered a wide range of asset classes for investment, and the expected returns and risks associated with those asset classes.

In determining the investment arrangements, the Trustee also takes into account:

- the best interests of all members and beneficiaries;
- the profile of the membership and what this is likely to mean for the choices members might make upon reaching retirement;
- the risks, rewards and suitability of a number of possible asset classes and lifecycle strategies and whether the return expected for taking any given investment risk is considered sufficient given the risk being taken;
- the need for appropriate diversification within the default strategies and other lifecycle options to ensure that, for each such option, both the overall level of investment risk and the balance of individual asset risks are appropriate;
- the need for appropriate diversification within the other investment options offered to members; and
- the Trustee's investment beliefs about how investment markets work and which factors are most likely to impact investment outcomes.

The Trustee's key investment beliefs are set out below:

- active management can only be profitably harnessed by skilful managers in selected asset classes, and where appropriate skilful managers can be identified by the Trustee, its Pension Scheme Executive and its advisers;
- mandates that either access non-mainstream markets and/or systematically replicate active managers more cheaply (known as 'Smart beta'), are preferable solutions for some asset classes;
- environmental (including climate change risks), social and governance issues are all important factors in investment decision making;
- both qualitative and quantitative factors should be taken into account in evaluating investment risk, so that risk can be properly accessed and, where practical, managed;
- any conflict of interest between the Trustee, as asset owners, and their agents (advisors, fund managers, Pension Scheme Executive) should be monitored and managed;
- there are exploitable risk premiums over the long term from; equities, credit, illiquid assets and selected emerging markets;
- there can be a first mover advantage for investors who are able to react swiftly to new investment opportunities;
- the Trustee's governance budget (money and time) should be focussed on investment decisions that will have the greatest positive effect on member outcomes;
- the Trustee believes investment delivering an appropriate risk adjusted return can also have a social impact;
- DC communications should be tailored to maximise the probability of individual members making well-informed investment decisions;
- investment management costs and fees, including transaction costs, should be transparent; and
- The Trustee aims to accommodate DC members who wish to invest in active funds.

The Trustee's key investment beliefs and understanding of the Scheme's membership are reflected in the design of the default and other lifecycle options, and in the range of other funds made available to members.

5. Implementation of the investment arrangements

Before investing in any manner, the Trustee obtains and considers proper written advice from its investment adviser on the question of whether the investment is satisfactory, having regard to the need for suitable and appropriately diversified investments.

Details of the investment managers are set out in the separate IPID.

The Trustee has entered into a contract with a platform provider, who makes available to members a range of eighteen different funds that can be accessed through three distinct structures; Lifecycle, Flexicycle or Freechoice. There is no direct relationship between the Scheme and the underlying investment managers of the DC investment funds.

The investment managers' primary role is the day-to-day investment management of the Scheme's investments. The managers are authorised under the Financial Services and Markets Act 2000 (as amended) to carry out such activities.

The Trustee and investment managers to whom discretion has been delegated exercise their powers to giving effect to the principles in this SIP, so far as is reasonably practicable.

The Trustee selects the investment managers with an expectation of a long-term arrangement, which encourages active ownership of the underlying assets, which is discussed further in Section 7. When assessing a manager's performance, the focus is on longer-term outcomes, and the Trustee would not expect to terminate a manager's appointment based purely on short term performance. However, a manager's appointment could be terminated within a shorter timeframe due to other factors such as a significant change in business structure, the investment team or agreed contractual terms.

Alignment between a manager's management of each pooled fund's assets and the Trustee's policies and objectives are a fundamental part of the appointment process of a new manager. The following steps are taken to encourage alignment between the Scheme and the managers:

- Before investing, the Trustee will seek to understand the manager's approach to sustainable investment (including engagement). The Trustee has limited influence over managers' investment practices because all the Scheme's assets are held in pooled funds, however the Trustee will ensure the investment objectives and guidelines of the vehicle are consistent with its own objectives, set out in Section 7.
- To maintain alignment, managers are provided with the most recent version of the Scheme's SIP which includes the Trustee's policy on sustainable investment, on an annual basis and are required to explicitly confirm that the assets are managed in line with the Trustee's policies as outlined in those documents.
- Should the Trustee's monitoring process reveal that a manager's portfolio is not aligned with the Trustee's policies, the Trustee will engage with the manager further to encourage alignment. This monitoring process includes specific consideration of the sustainable investment/ESG characteristics of the portfolio and managers' engagement activities. If, following engagement, it is the view of the Trustee that the degree of alignment remains unsatisfactory, the manager will be terminated and replaced.

Managers are paid an ad valorem fee, in line with normal market practice, for a given scope of services which includes consideration of long-term factors and engagement. The Trustee reviews the costs and value for money incurred in managing the Scheme's assets annually, which includes the costs associated with portfolio turnover. In assessing the appropriateness of the portfolio turnover costs at an individual manager level, the Trustee will have regard to the actual portfolio turnover and how this compares with the expected turnover range for that mandate.

6. Realisation of investments

The investment managers have discretion over the timing of realisation of investments of the Scheme within the portfolios that they manage, and in considerations relating to the liquidity of investments.

The Trustee's policy is to invest in funds that offer daily dealing to enable members to readily realise and change their investments.

7. Environmental, social and governance ("ESG") and other financially material considerations

As stated in section 4, one of the Trustee's investment beliefs is that Environmental (including Climate Change risks), social and governance risks are all important factors in investment decision making.

In setting the investment strategy for the Scheme's default investment options, and the alternative lifecycle strategies, the Trustee's primary objective is to generate returns significantly above inflation whilst members are some distance from retirement and to switch gradually to lower risk investments as members approach their target retirement date.

ESG factors, including climate change can have a material financial impact on the value of the default investment options, and the alternative lifecycle strategies, over the time horizon applicable to members invested in them. The Trustee therefore believes that by taking such factors into account in its investment process, the Scheme is better positioned to deliver on its objectives.

The Trustee takes account of ESG factors when setting the asset allocation for the default investment options, and the alternative lifecycle strategies, and when selecting (and monitoring the performance of) its appointed investment managers. For most of the Scheme's investments, the Trustee expects the investment managers to invest with a long time horizon, and to use their engagement activity to drive improved performance over these periods.

The Trustee adopts the following approach in relation to the selection (and monitoring) of investment managers:

- In relation to funds where the investment manager is permitted to make active decisions about the selection, retention and realisation of investments the Trustee expects the investment managers to take steps to ensure financially material considerations (including climate change and other ESG considerations) are implicitly incorporated into the investment decision-making process where permissible within applicable guidelines and restrictions. The Trustee undertakes regular reviews to ensure the policy is being carried out effectively and in line with evolving good practice. Within some asset classes, where it is possible in the context of DC operational constraints, the Trustee considers investment options that give increased weight to ESG considerations. An investment fund that explicitly combines investment return with climate factors in the selection, retention and realisation of assets is included in the lifestyle strategies provided to the DC members of the Scheme (with the exception of Lifecycle 2 and some members within Flexicycle) and is also available as a Freechoice option. The Trustee regularly monitors the performance and ESG risk mitigation offered by this investment option and would consider replacing the fund should either the performance or ESG-related objectives of the fund become misaligned with Trustee beliefs or expectations.

The Trustee recognises climate change as a systematic, long-term material financial risk to the value of the Scheme's investments. Therefore, the Trustee has a fiduciary duty to consider climate change risk when making investment decisions. Within the context of its fiduciary responsibility, the Trustee is supportive of the Paris Agreement to avoid dangerous climate change by limiting global warming to well below 2°C above pre-industrial levels and pursuing efforts to limit it to 1.5°C. The Trustee considers climate-related factors within its separately documented scheme-wide ESG risk management framework, and is ultimately responsible for setting the climate-related objectives of the scheme including how the investment portfolios are aligned with achieving the goals of the Paris Agreement. In summary, the Trustee:

- Has established a Climate Risk Working Group ("CRWG") comprised of its Advisers and members from the Trustee Board, ALCo and Pension Scheme Executive to identify strategic targets relating to climate-related risks and opportunities pertinent to the Scheme;
- Has made ALCo responsible for ensuring that the Trustee Board's climate objectives are implemented into the Scheme's investment policy. This includes selecting the appropriate analysis and metrics to measure climate-related risks and opportunities;
- Requires its investment advisers to advise on, and provide objective assessments of, differing approaches to responsible investment to help the Trustee decide appropriate responsible investment objectives for the Scheme. This includes informing the Trustee of new responsible investment opportunities or emerging risks and assisting with the implementation of the climate-related strategy of the Trustee;

- Has included specific climate-related objectives in the advisers' annual objectives to ensure its advisers are taking adequate steps to identify and assess climate-related risks and opportunities. The Trustee annually assesses the delivery of this advice using the Competition Market Authority's Investment Consultant Objectives framework;
- Expects its appointed investment managers to be cognisant of climate change risks and opportunities within their investment processes as applied to the assets of the Trustee. Investment managers are further expected to annually report on how these risks and opportunities have been incorporated into the investment process within applicable guidelines and restrictions;
- Has a preference for 'Engagement' rather than 'Exclusion' as a method of incorporating climate change risks into an effective fiduciary framework. However, the Trustee expects investment managers to independently consider whether exclusion or engagement is more appropriate within their investment process;
- Encourages the further development of asset classes that are supportive of achieving the well below 2°C target provided they are all based within the primary fiduciary framework;
- Supports the Task Force on Climate-related Financial Disclosures (TCFD) and aims to incorporate its recommendations into the Scheme's reporting, subject to data availability;
- Supports the further development of effective climate change risk metrics to enhance the ability of all stakeholders in the investment chain to assess and minimise such risks;
- Supports the Transition Pathway Initiative and uses the analysis to review material exposures to the world's largest emitters and inform impactful engagement strategies through its asset managers, in line with the Trustee's investment beliefs;
- Recognises that 'Climate Change' will be subject to much further analysis and subsequent policy changes in the coming years. The Trustee is supportive of adopting an evolving policy in order to ensure all relevant developments are captured; and
- Is supportive of policy initiatives that, in its opinion, contribute towards achieving the well below 2°C target.

The Trustee will support Responsible Investment organisations or initiatives where in doing so will help the trustee achieve at least one of the following goals:

- Help to implement new Responsible Investment solutions in a proportionate and practical way with a clear focus on excellence and continuous improvement;
- Influence government policy, market developments and pension funds with respect to Responsible Investment;
- Improve the risk and return characteristics of investments to improve the financial outcomes for members;
- Improve transparency in reporting, being generous with knowledge and helping to shape new ideas within Responsible Investment.

Currently the Trustee is associated with the following organisations:

- A member of the Institutional Investor Group on Climate Change ("IIGCC")
- A member of the Cambridge Institute for Sustainability Leadership ("CISL")
- A signatory to the Principles for Responsible Investment ("PRI")
- A supporter of the Transition Pathway Initiative ("TPI")
- A supporter of Climate Action 100+

The Trustee recognises that it cannot support all organisations or initiatives and so will review its associations periodically. The Trustee will disclose successes and learnings from its associations on an annual basis.

The Trustee also has a policy of avoiding investments in controversial weapons manufacturers on grounds of financial risk, as it believes this is in the best financial interests of the Scheme and its members. Where the financial implications of excluding controversial weapons manufacturers (either due to increased costs to members or reduced investment opportunities) are, in the opinion of the Trustee, greater than the financial risks of including them, some exposure to controversial weapons manufacturers may be maintained. The Trustee has a policy of requesting that each of its appointed fund managers' report on an annual basis as to their exposure to controversial weapons manufacturers, if any.

8. Members' Views and Non-Financial Factors

The Trustee does not take into account any non-financial matters (ie matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in setting the investment strategy for the Scheme's default investment options. However, it recognises the importance of offering a suitable range of investment options for members who wish to express an ethical preference in their pension saving.

The Trustee has made the following Freechoice options available to members who would like to invest in funds with specific non-financial considerations:

- Sustainable & Responsible Equities – Active
- Shariah Law Equities – Passive

The Trustee keeps up to date with other fund options available in the market via updates from its investment advisors.

9. Stewardship

The Trustee has examined how rights, including voting rights, attached to investments should be exercised. The Trustee recognises its responsibilities as shareholders being the owners of capital, and believes that good stewardship practices including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protects and enhances asset owner value in the long term.

The Trustee has delegated to its investment managers the exercise of rights attaching to investments, including voting rights, and engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, risks, capital structure, conflicts of interest and ESG considerations. The Trustee expects its investment managers to exercise ownership rights and undertake monitoring and engagement in line with the managers' general policies on stewardship, which reflect the recommendations of the UK Stewardship Code issued by the Financial Reporting Council, and which are provided to the Trustee from time to time, taking into account the financial interests of the beneficiaries.

The Trustee seeks to appoint managers that have strong stewardship policies and processes. While the Trustee chooses managers with an aim to align their beliefs on stewardship, and there is a degree of influence, the Trustee has less direct influence over the managers' policies on the exercise of investment rights where assets are held in pooled funds; this is due to the collective nature of these investments.

The Trustee monitors and regularly reviews the ownership rights that it has delegated to its investment managers as well as how the investment managers have voted and engaged with the companies in which they invest. This process is to ensure the policy is also being carried out effectively and in line with evolving good practice.

The Asset and Liability Committee endorsed this SIP on 31 August 2021 and the full Board approved the SIP on 4 September 2021. Document effective from 1 October 2021.

Appendix 1: Responsibilities, decision-making and fees

The Trustee has decided on the following division of responsibilities and decision-making for the Scheme. This division is based upon the Trustee's understanding of the various legal requirements placed upon it, and its view that this division allows for efficient operation of the Scheme overall, with access to an appropriate level of expert advice and service. The Trustee's investment powers are set out within the Scheme's governing documentation.

1. Trustee

In broad terms, the Trustee is responsible in respect of investment matters for:

- setting the investment strategy, in consultation with the employers;
- developing a mutual understanding of investment and risk issues with the employers;
- reviewing the investment policy as part of any review of the investment strategy;
- setting the policy for rebalancing between asset classes;
- appointing (and, when necessary, dismissing) investment managers, investment advisers and other service providers;
- monitoring the exercise of the investment powers that they have delegated to the investment managers and monitoring compliance with Section 36 of the Act;
- formulating a policy on taking account of non-financial factors when making investment decisions and a policy on voting rights;
- communicating with members as appropriate on investment matters, such as the Trustee's assessment of its effectiveness as a decision-making body, the policies regarding responsible investment and how such responsibilities have been discharged;
- putting effective governance arrangements in place and documenting these arrangements in a suitable form;
- reviewing the content of this SIP from time to time and modifying it if deemed appropriate; and
- consulting with the employers when reviewing the SIP.

The Trustee has delegated responsibility for a number of investment matters to an Asset and Liability Committee ("ALCo"). This committee is responsible for selecting, monitoring the performance of and, when required, replacing investment managers and ensuring that the high-level strategy and beliefs set by the Trustee are implemented effectively.

The Trustee has appointed a Chief Investment Officer ("CIO") to the Pension Scheme Executive. It is the responsibility of the CIO to liaise with the Scheme's advisers to ensure that the procurement of legal and investment advice and their input to the Trustee's decision making process are optimised from the Trustee's perspective.

2. Platform provider

The investment platform provider will be responsible for:

- providing access to a range of funds managed by various investment managers; and
- providing the Trustee with regular information concerning the management and performance of the assets.

3. Investment managers

In broad terms, the investment managers will be responsible for:

- managing the portfolios of assets according to their stated objectives, and within the guidelines and restrictions set out in their respective investment manager agreements and/or other relevant governing documentation;
- taking account of financially material considerations (including climate change and other ESG considerations) as appropriate when managing the portfolios of assets;
- exercising rights (including voting rights) attaching to investments and undertaking engagement activities in respect of investments;
- providing the investment platform provider with regular information concerning the management and performance of their respective portfolios; and
- having regard to the provisions of Section 36 of the Act insofar as it is necessary to do so.

The custodians of the portfolios (whether there is a direct relationship between the custodian and the Trustee or not) are responsible for safe keeping of the assets and facilitating all transactions within the portfolios.

The Trustee, the CIO and its adviser will have regular meetings with the investment managers and platform provider to ensure they continue to carry out their work competently and have the appropriate knowledge and experience to manage the investments of the Scheme.

4. Investment adviser

In broad terms, the investment adviser will be responsible, in respect of investment matters, as requested by the Trustee, for:

- advising on a suitable fund range and default strategies for the Scheme, and how material changes to legislation or within the Scheme's benefits and membership may impact this;
- advising on the selection, and review, of the investment managers; and
- participating with the Trustee in reviews of this SIP.

5. Fee structures

The Trustee recognises that the provision of investment management and advisory services to the Scheme results in a range of charges to be met. These platform, investment management and advisory charges are met entirely by the Employers and are not deducted from members' assets. Depending on the fund invested in, members are liable for paying the additional expenses charged by the investment managers. The Trustee monitors the level of additional expenses charged by managers to ensure that they remain appropriate.

The Trustee has agreed Terms of Business with the Scheme's investment advisers, under which work undertaken is charged for by an agreed fixed fee or on a "time-cost" basis.

6. Performance assessment

The Trustee is satisfied, taking into account the external expertise available, that there are sufficient resources to support its investment responsibilities. The Trustee believes that it has sufficient expertise and appropriate training to carry out its role effectively.

It is the Trustee's policy to assess the performance of the Scheme's investments, investment providers and professional advisers from time to time. The Trustee will also carry out periodically an assessment of its own effectiveness as a decision-making body and will decide how this may then be reported to members.

Appendix 2: Policy towards risk, risk measurement and risk management

The Trustee considers that there are a number of different types of investment risk that are important for the Scheme. These include, but are not limited to:

1. Volatility and the risk of inadequate returns

As members' benefits are dependent on the investment returns achieved, it is important that investment options are available which can be expected to produce adequate real returns over the longer term. It is also important that members are offered a range of funds with varying levels of return and consequent volatility to allow members to invest according to their individual risk tolerances and circumstances. Members are offered lifecycle strategies that reduce risk by moving to less volatile assets as they approach retirement.

On this basis, equity and equity-based funds, which are expected to provide positive returns above inflation over the long term, have been made available to members and feature in the growth phase of the default strategies. To reduce the chance of a sharp deterioration in members' benefits close to retirement, the Trustee has made the default options in the form of lifecycle strategies that gradually reduce investment risk as the member approaches their target retirement date.

2. Inflation risk

There is a risk that a member's investments won't grow quickly enough to sufficiently outpace inflation (the cost of living). Even if they do grow in value, if they don't grow quicker than inflation then their real value goes down. This can happen with low capital risk funds, like a cash fund. It is measured by examining periodically the long-term performance of different assets relative to inflation.

It can be managed by investing in growth assets that are expected to produce returns that exceed long term inflation within both the default and Flexicycle arrangements and the range of funds available to members to choose

3. Risk from lack of diversification

This is the risk that failure of a particular investment, or the general poor performance of a given investment type, could materially adversely affect the Scheme's assets. The Trustee believes that the Scheme's default strategies are adequately diversified between different asset classes and within each asset class, and that the options provide a suitably diversified range for members to choose from. This was a key consideration when determining the Scheme's investment arrangements.

4. Investment manager risk

This is the risk that an investment manager fails to meet its investment objectives. Prior to appointing an investment manager, the Trustee receives written advice from a suitably qualified individual, and will typically undertake an investment manager selection exercise. The Trustee and its adviser monitor the investment managers on a regular basis.

5. Liquidity/marketability risk

This is the risk that core financial transactions, such as investing members' contributions, are not processed promptly due to lack of liquidity in the investments. The Trustee manages this risk by only using pooled funds with daily dealing within the default strategies and diversifying the strategy across different types of investment.

6. Risk from excessive charges

While the Employers cover the cost of management fees, members are still liable for the additional expenses charged by investment managers. If the additional expense charges together with other charges, for example transaction costs, are excessive, then the value of a member's account will be reduced unnecessarily. The Trustee is comfortable that the additional expenses and other charges payable by members are in line with market practice and assess regularly whether these represent good value for members.

7. Credit risk

This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Scheme is subject to credit risk because it invests in bonds via pooled funds. The Trustee manages its exposure to credit risk by only investing in pooled funds that have a diversified exposure to different credit issuers. The Scheme invests in some funds which invest in bonds that are classified as both "investment grade" and "non-investment grade"; the latter carrying greater credit risk but having a higher yield to compensate investors.

8. Market switching risk

The risk is that, where members choose to switch between investment funds, they are exposed to a cost of switching which is variable according to the conditions prevailing in the relevant markets at a particular point in time. It is measured by looking at the underlying spreads of the fund options. It is managed by the fund managers looking for best execution when implementing trades.

9. Currency risk

Whilst the majority of the currency exposure of the Scheme's assets is to Sterling, the Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets. The Trustee considers the overseas currency exposure in the context of the overall investment strategy, and believes that the currency exposure that exists diversifies the strategy and is appropriate. Furthermore, the Trustee manages the amount of currency risk by offering lifecycle strategies that invest in pooled funds with various levels of hedged currency exposure.

10. Annuity conversion risk

When a member retires, they may use their account to secure an annuity. The cost of buying an annuity varies from time to time and depends partly on the price of bonds. It is measured by examining periodically the correlation of different assets to annuity prices.

It is managed in the default strategies by the Income Lifecycle switching funds into Fixed Income Bonds as the member approaches retirement.

11. Securities lending risks

Through the act of securities lending, investors lend securities (such as stocks or bonds) to a third party (the borrower). The borrower gives the lender collateral in the form of cash, stocks, or bonds. In addition to providing the collateral plus a cash margin, the borrower pays the lender to borrow the securities. The process provides investment markets with liquidity, and allows security holders the chance to achieve additional returns on their portfolios, but incurs a number of risks.

- Counterparty risk – the risk that lenders or their lending agents may default on their loan and be unable to return the securities borrowed;
- Cash reinvestment risk – when the lender receives cash as collateral, this cash is often reinvested. The lender's objective is to generate income; however the lender is then also exposed to additional investment risks including the potential loss of principal;
- Non-cash collateral risk – the additional risk involved in receiving assets other than cash as collateral; and

- Operational risk – the risk of engaging in securities lending. For example, market or exchange problems, miscommunication between parties, incorrect records, etc.

The Trustee manages this risk by ensuring that, where possible, investment managers' policies toward securities lending are in line with the Trustee's beliefs.

12. Climate change risk

Climate change risk is considered to be a systemic risk by the Trustee, though it is difficult to measure with a simple number.

Climate change risk is managed through a combination of both positive and negative tilts where appropriate (Global Equities) as well as a robust engagement policy via the Trustee's appointed fund managers. See the detailed climate change policy in section 7 – Consideration of financially material and non-financial factors.

13. Other environmental, social and governance (ESG) risks

ESG factors are sources of risk to the Scheme's investments which could be financially material over both the short and longer term. The Trustee seeks to appoint investment managers who will manage these risks appropriately on its behalf and regularly reviews how these risks are being managed in practice.