

futurefocus

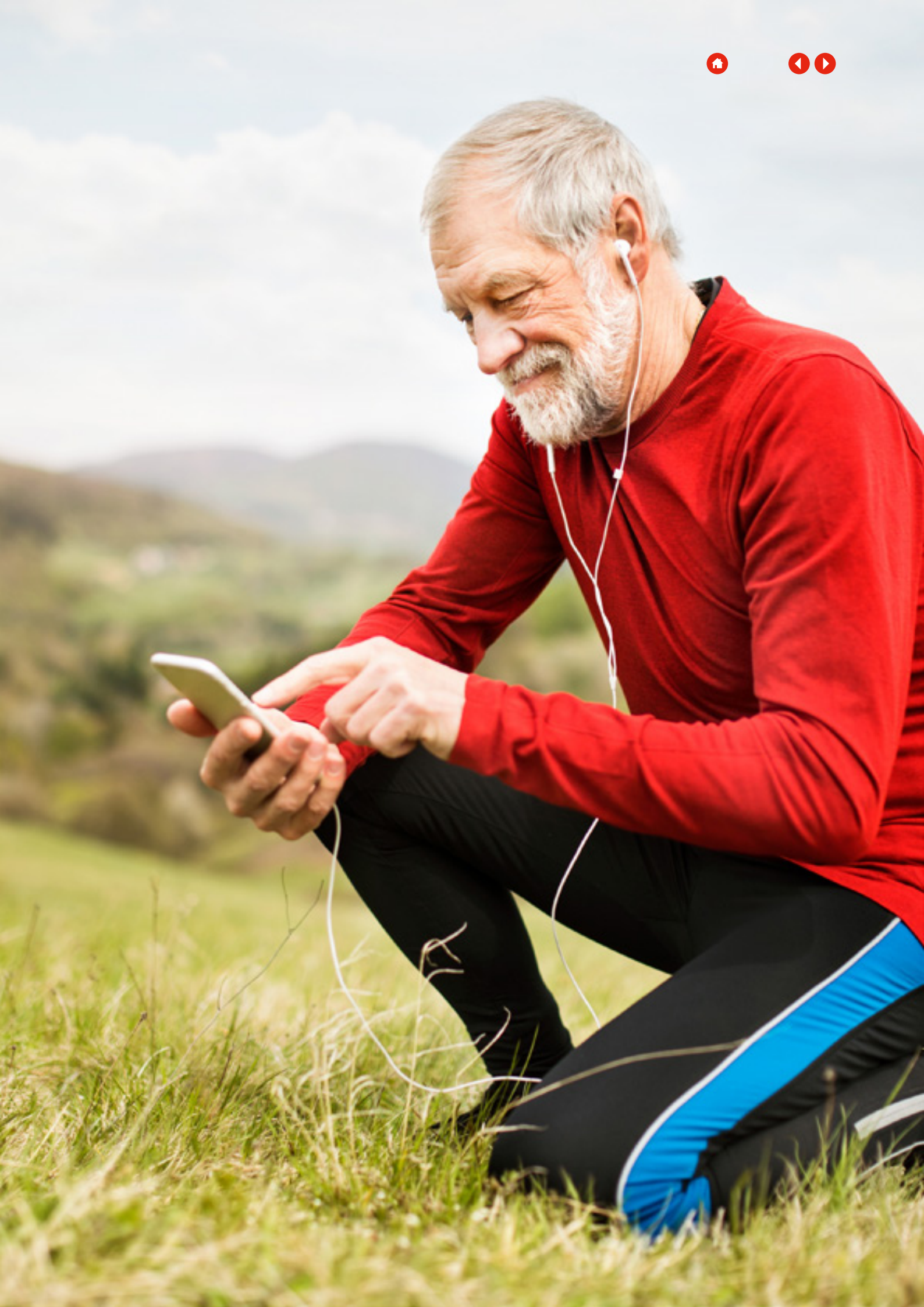


# Stewardship Report

## 2018



For members of the HSBC Bank (UK) Pension Scheme





# Contents

Introduction	4
Headlines from recent activity	5
Who we are	7
How we run your scheme	8
Meet the people who work on your behalf	10
How your scheme is managed – covenant and the Bank	12
Investments	14
What is ESG and why does it matter?	18
How we control the Scheme’s finances and manage risks	20
Services available to you	24



# Introduction

Welcome to our first Stewardship Report. It explains how we run your HSBC Bank (UK) Pension Scheme (the Scheme), and how we make sure we're doing right by you – our members.

As the Trustee of the Scheme, we're here to act in the best interests of you and your family.

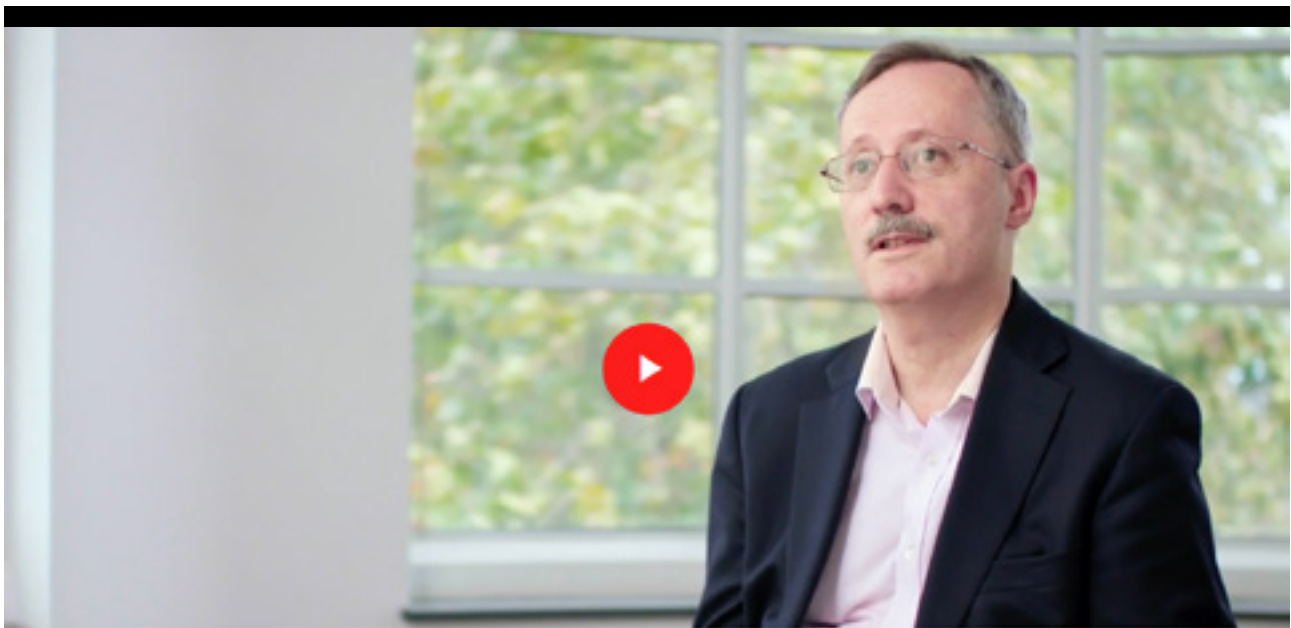
## Assurance Process

Prior to being approved by the Trustee Board, the Stewardship Report was reviewed by the Trustee's Asset & Liability Committee, the Audit & Risk Committee and the Communications & Engagement Committee.

### Our mission is:

- To make sure Defined Benefit (DB) members receive the full benefits they have been promised as they fall due.
- To help Defined Contribution (DC) members make well-informed decisions about their retirement savings.

Watch Russell Picot, Chair of the Trustee Board, talk about our mission and why it matters.



**Russell Picot**  
Chair of Trustee Board





Elizabeth Renshaw-Ames, the Scheme's Trustee Chief Executive Officer, talks about the recent activity in 2017 and 2018, how the Scheme is run and who runs your Scheme in more detail below.

**Elizabeth Renshaw-Ames**  
Trustee Chief Executive Officer

## Headlines from recent activity

The Trustee is very proud to have been awarded UK DC Scheme of the Year at the annual DC Insight awards on 16 November. This is the top award for all aspects of pension scheme design, governance, offering and value to members.

2017 and 2018 have been a very busy and challenging period for the Trustee and I am pleased to share some highlights with you. My team, the Pension Scheme Executive (PSE), have been working very hard, with our members and their needs front of mind.

### Banking Reform

Following extensive engagement with the Bank and our advisers, agreement was reached about a suitable structural solution to implement Banking Reform within the Scheme. These changes were then implemented by the Scheme Administrator. The Scheme is now made up of three separate sections for each of the employees of the ring-fenced entities, primarily the UK Bank (the HBUK section), the Service Companies (HSBC Global Services section) and another section for employees of the non-ringfenced entities, primarily Global Banking and Marketing and Group (HSBC Bank plc section). These changes were reported to all our members in a specific communication from Russell Picot, the Trustee Chair, together with an FAQ document in the summer. Our aim was to make sure that the administration of the Scheme was not affected by the structural changes and importantly that the security of members' Defined Benefits, after the implementation of Banking Reform, was maintained.

### Launch of our new member website, futurefocus

One aspect of the Trustee's mission is to help members make informed decisions. That's why we have been striving to improve technological access to information about the Scheme on the Trustee's website, futurefocus, as well as the Administrator's site, My Pension.

The structure and design of futurefocus was updated as well as the organisation of the library of content.

Enabling member decision-making through technology is an ongoing opportunity so it would be good to get your feedback about the updated site. Please email us your thoughts to [pensionschemeexecutive@hsbc.com](mailto:pensionschemeexecutive@hsbc.com).

We'd also like to encourage our active members (employees) to try the free **My Pension** app. Download it via the Apple App Store or Google Play Store. Or use the QR code below for IOS or Android apps.

Get hassle-free access to your DC pension pot any place and any time.

Apple App Store

Google Play Store





### **Funding position of the HBUK section (former HSBC Bank section) and the HSBC Global Services section**

A financial assessment of the funding status of the Defined Benefits provided by the Scheme is done every three years. The Trustee agreed with the Bank to perform an additional valuation as at 31 December 2016 to help inform the discussions about a suitable solution for Banking Reform. The results of this valuation on an ongoing basis for both the HBUK section (former HSBC Bank section) and the HSBC Global Services section are that there was an actuarial surplus of 5% when the value of the assets was compared to the actuarial value of the liabilities. The Trustee's aim is to build on this positive position while planning for the longer term. This will involve continuing to develop and implement a de-risked investment strategy, with the objective of generating income to meet the benefit payments as they fall due over the next 90 or so years. The next actuarial valuations will be as at 31 December 2019. If you are interested in reading the more formal statutory documents they are available on the information centre on the futurefocus website <https://futurefocus.staff.hsbc.co.uk>

### **Investment Review for our Defined Contribution members**

We have over 80,000 members with Defined Contribution benefits in the Scheme and over half of these members no longer work for the Bank. Every three years, the Trustee performs an investigation to consider whether the investment strategy in the Scheme together with the funds which are offered to members for investment are in the best interests of all our members as required by the Pension Regulator's Defined Contribution Code of Practice. We approached this review differently in 2017, recognising that since the Government's pension reforms in 2015, known as Freedom and Choice, most members are choosing to "cash out" or transfer out of the Scheme at the date of their choice and not buying an annuity with their pot in the Scheme when they retire. The Pension Scheme Executive (PSE) consulted with members by issuing a questionnaire to the active DC members and some 4,000 responses were received and reviewed. The Trustee had also reviewed the appointment of the DC adviser in 2016 and working with the new adviser, Lane Clark and Peacock (LCP), we concluded that some significant changes were required. These changes have now been communicated and implemented. If you are interested in finding out more about the new investment offerings, please review your Investment Guide which can be found in the information centre on the futurefocus website.

# Who we are



## The Members

You became part of the Scheme when you became an employee of HSBC – or one of the companies which has subsequently become part of the HSBC group in the UK.

More than 110,000 of our total membership of just over 190,000 are former employees who are either not yet old enough to be taking their retirement benefits, or have chosen to wait before taking their benefits from the Scheme. 40,000 of our members currently work for the Bank, and we have over 45,000 pensioners.



## The Trustee

The Trustee is responsible for making sure the Scheme is run well in accordance with the Scheme's constitution, the Trust Deed and Rules, as well as legislation and regulation. The Trustee comprises 13 Trustee Directors, 7 of which are appointed by the Bank and 6 are elected by the membership. The Trustee's responsibilities are wide ranging, from the collection of contributions to the investment of assets, the administration of membership records and the payment of benefits. The Trustee's role is to act in the best interest of the Scheme's beneficiaries – the members.



## The Bank

The Bank set up the Scheme to provide retirement benefits to its employees. There have been lots of changes to the benefits provided, and to the Scheme itself, over the last 50 years, in common with other long-standing pension schemes. The Bank partners with the Trustee and makes sure each party fulfils its responsibility under the law and more widely to support the Bank's benefit offering to its current employees. The Trustee aims to work collaboratively with the Bank while making independent decisions.



## The Pension Scheme Executive (PSE)

The PSE is a team of experienced pension scheme professionals which is employed by the Bank with the aim of supporting the Trustee in meeting its responsibilities. The PSE is led by the Trustee Chief Executive Officer and her Executive Committee, made up of the Trustee Chief Investment Officer and the Trustee Chief Operating Officer. The PSE is fully accountable to the Trustee, and the Trustee and the Bank have agreed a Memorandum of Understanding which sets out the role and responsibilities of the PSE.



# How we run your Scheme

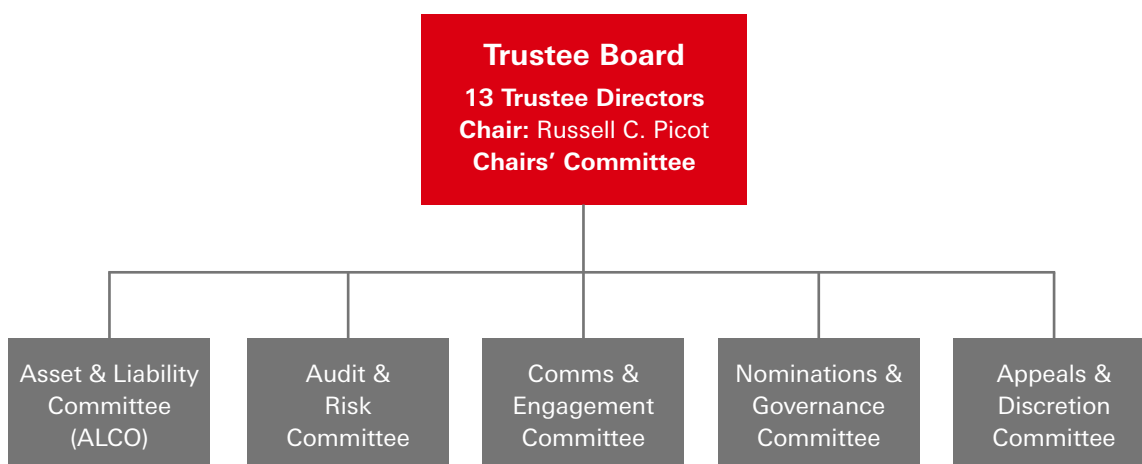
There are three main areas of activity in running this pension scheme.

1

## Governance and risk management

The Trustee is responsible for all aspects of running the Scheme and, to achieve this, it has set up a governance structure comprising the Board and its Committees, supported by a management structure comprising the PSE, who in turn oversee the investment and member operations of the Scheme. The Trustee Board has several committees which have specific areas of responsibility. The Nominations and Governance Committee oversees the appointment and election of Trustee Directors to the Board and its committees to make sure there is a balance of skills and experience. The Audit and Risk Committee is active in its oversight of the management of risk and also in the supervision of the annual external audit of the Scheme's financial statements. The PSE is responsible for day-to-day risk management and also has a small finance team which works with the Scheme Administrator to control the Trustee's bank account.

**HSBC Bank Pension Trust (UK) Limited**



2

## Member operations

This covers administration of member records, member contact with the Scheme, Trustee communications and how individual benefits are valued, recorded and paid. Much of this activity is delegated via a contract to Willis Towers Watson, the Scheme Administrator which the PSE oversees on behalf of the Trustee. The Trustee oversees the contract management and outsourced activity at the Appeals and Discretions, Audit and Risk, and the Communications and Engagement Committees and the Trustee Board takes an active interest in improving the effectiveness of scheme operations.

3

## Investment strategy and operations

As the Scheme has developed, the size of the assets has grown. We have a portfolio of around £32bn which is overseen in terms of the appropriateness of the strategy, the security of the assets and the performance of the managers in accordance with their mandates. The Board and the Asset and Liability Committee share responsibility for the oversight of this. The PSE manages the contracts with the investment managers.





## How we make decisions

Strategic and operational decision-making happens at Trustee Board and Committee level and is also, in some circumstances, delegated to the PSE and the Scheme Administrator. This is to make the running of the Scheme more effective, for example, when members' benefits need to be paid out. The Trustee is required by law to seek expert advice from qualified professionals, such as a lawyer, an actuary, or an investment consultant, before it makes certain decisions. The PSE manages the relationship with the relevant advisers, as well as making sure that the Trustee has access to the right advice for the decision it is taking.

Some decision-making is cyclical as required by law – for example, the three-yearly actuarial valuation – or to make sure there is effective oversight – for example, the three-yearly review of the DC investment strategy. Other decision-making is proactive, for example, in publishing this Stewardship Report and in seeking to appoint an internal auditor for the Scheme (an ongoing project in Q3/Q4 2018). There is of necessity some decision-making which is reactive to situations and circumstances – for example, in identifying and agreeing a solution to Banking Reform, and in accelerating the de-risking strategy for DB as the Scheme is well funded and supported by a strong covenant. Decision-making typically takes place at Board meetings, with detailed review and oversight performed at Committee meetings.



# Meet the people who work on your behalf

## Trustee Directors



**Alan Thomas**

Member of:  
Asset & Liability Committee  
Audit & Risk Committee



**Andrew Robinson**

Member of:  
Communications & Engagement Committee  
Asset & Liability Committee



**Ann Ling**

Member of:  
Audit & Risk Committee  
Appeals & Discretions Committee



**Anne Lonsdale**

Member of:  
Audit & Risk Committee  
Appeals & Discretions Committee



**Beverley Horler**

Member of:  
Communications & Engagement Committee  
Appeals & Discretions Committee



**Clare Beale**

Chair of:  
Audit & Risk Committee  
Member of:  
Member of Asset & Liability Committee



**Francis Sullivan**

Chair of:  
Communications & Engagement Committee



**Keith Plummer**

Member of:  
Communications & Engagement Committee  
Appeals & Discretions Committee



**Len Aspell**

Chair of:  
Asset & Liability Committee



## Trustee Directors



### **Richard Dixon**

**Member of:**

Asset & Liability Committee  
Communications & Engagement Committee



### **Russell Picot**

**Chair of:**

Trustee Board

**Member of:**

Nominations & Governance Committee



### **Stuart Walker**

**Chair of:**

Appeals & Discretions Committee

**Member of:**

Nominations & Governance Committee



### **Stuart White**

**Member of:**

Nominations & Governance Committee  
Asset & Liability Committee

## The Pension Scheme Executive (PSE)



### **Elizabeth Renshaw-Ames**

Trustee Chief Executive Officer



### **Ellen Kelleher**

Trustee Chief Operations Officer



### **Mark Thompson**

Trustee Chief Investment Office



# How your Scheme is managed – covenant and the Bank

## What is the covenant?

The term “covenant to the pension scheme” represents the employer’s legal obligation and financial ability to support the DB pension benefits, now and in the future. The UK regulatory framework requires that the Trustee assesses and monitors the strength of this covenant. The Trustee has appointed an independent covenant adviser (currently KPMG) to provide informed advice to support the Trustee’s objective conclusions which, in line with the Pension Regulator’s Code of Practice on Funding Defined Benefits, inform the assumptions which the Actuary uses to value the pension liabilities in the actuarial valuation.

At 31 December 2016 (before the Banking Reform changes were implemented) the Scheme had two formal covenants; HSBC Bank plc (and the other participating employers in the section) provided the covenant for the HSBC Bank section (now known as the HBUK section) – the vast majority of DB benefits within the Scheme – and HSBC Global Services UK Limited (and HSBC Group Management Services Limited) provided the covenant for the DB top-up benefits for our hybrid members in the HSBC Global Services section.

The outcome from our covenant reviews as at 31 December 2016 was that our independent covenant adviser confirmed that the covenants to the Scheme were ‘Strong’

This means that the Trustee has confidence in the sponsors’ ability to sustain their financial support for the Scheme over the long term.

## Why is the covenant important?

In Russell Picot’s introduction he talked about the likelihood that the Scheme will be providing benefits to

members and their families over the next 90 years or so. Inevitably over that long period of time into the future, there will be some uncertainty in the economy, some businesses will grow or change profoundly and others will be challenged and ultimately may fail. The financial markets will be volatile and unstable in some periods and of course it is an impossible task to estimate with certainty how long people will live. It is essential therefore that the covenant to the Scheme provides reliable financial support over the long term, until the Scheme has achieved a very strong funding basis known as “self-sufficiency” i.e. it is no longer dependent on the covenant of the employer.

It is pretty clear that the strength of the covenant to the Scheme is fundamentally important to DB members. There have been some recent high-profile covenant failures – such as BHS and Carillion – where pensioners and employees have been at risk of losing some of their benefits.

The Bank does financially support members of the Scheme with DC benefits in that the Bank pays the Annual Management Charge for both current employees and also the members who have left the Bank but who have chosen to leave their benefits in the Scheme. This is a distinct type of benefit which the Bank provides under the Scheme’s constitution (the trust deed and rules) and is separate from the Bank’s legal and regulatory responsibilities to provide a covenant to the DB.

One of the Trustee’s core values is that we work collaboratively with the Bank but we make independent decisions. This approach respects the different roles that both the Bank and the Trustee have to play in the long-term partnership required to ensure that the right amount is paid to the right member at the right time. The Bank is supportive of the Trustee’s approach to running the Scheme and has agreed via a formal Memorandum of



Understanding to provide the Trustee and its covenant advisers with the required information to enable the independent covenant assessment to take place. The interrelated nature of funding, investment and the support of the covenant in making sure that benefits can be paid when they fall due means that the Trustee requires multi-disciplinary and independent input from its team of advisers. The senior members of the PSE work with the advisers to make sure we achieve integrated risk management.

## **Banking reform**

### **What is banking reform?**

Following the global economic crisis, which began in 2007, the UK government passed legislation to change the structure of banking groups so that, in the event of severe financial stress, an institution can be recovered or, in financial failure, swiftly resolved. The Financial Services (Banking Reform) Act 2013 was passed in 2013 and enacted a legal requirement on all large UK banking groups such as HSBC, to separate, or ring-fence, their UK retail and commercial operations from any wholesale or investment banking activity. HSBC Group was therefore required to make certain structural changes to the Bank to implement ring-fencing in the UK by 1 January 2019.

### **Why does it matter for the Scheme?**

Changes needed to be made to the Scheme in line with Banking Reform legislation. This meant that benefits for employees of HSBC UK Bank plc and other ring-fenced entities needed to be ring-fenced from other entities in the UK which remained part of HSBC Bank plc or HSBC Holdings plc or other non-ring-fenced entities.

As explained above, before ring-fencing was executed, the covenant to the former HSBC Bank section (now HBUK section) was provided by HSBC Bank plc. Ring-fencing meant that a new ring-fenced entity was set up, HSBC UK Bank plc, which became the provider of the covenant to the HBUK section and the vast proportion of the Defined Benefit liabilities in the Scheme. The Trustee worked closely with its advisers and the Bank to make sure that the security of members' benefits

was maintained after the implementation of Banking Reform. Importantly, there is no impact on the level of your pension benefits; the administration of the Scheme continues as before and the Trustee considers that the financial backing for the DB benefits remains as strong as before the changes. So, from your perspective, there is no real change. For members with DC benefits, your contributions continued to be invested in your chosen investment strategy. The structural changes, as a result of Banking Reform, have had no impact on your DC benefits.

The Trustee wrote to you in August to ensure you were updated on the changes to the Scheme as a result of Banking Reform. You will find the member letter and FAQ hosted on the information centre on the futurefocus website. If you do have any feedback on this communication we would love to hear from you.

## **Valuation results**

A financial assessment of the funding status of the Defined Benefits provided by the Scheme is done every three years. The Trustee agreed with the Bank to perform an additional valuation as at 31 December 2016 to help inform the discussions about a suitable solution for Banking Reform. The results of this valuation on an ongoing basis for both the HSBC Bank section and the HSBC Global Services section are that there was an actuarial surplus of 5% when the value of the assets was compared to the actuarial value of the liabilities.

The Trustee's aim is to continue to build on this positive position while planning for the longer term by continuing to develop and implement a de-risked investment strategy with the objective of generating income to meet the benefit payments as they fall due over the next 90 or so years. The next actuarial valuations will be as at 31 December 2019. The Trustee wrote to you recently to explain more about this recent valuation. If you are interested in reading the more formal statutory documents they are available on the information centre on the futurefocus website

<https://futurefocus.staff.hsbc.co.uk>



# Investments

Some of our members have DB benefits, some have DC benefits, and some have both. Those two different types of benefits – DB and DC – work in different ways, so they need different investment strategies. This means we hold different investments for each type of benefits. The strategies and holdings are designed so that both investments serve our purpose which is to deliver the right benefits to the right people, at the right time.

In this section you'll find out about our strategies for both the DB and DC parts of the Scheme. In setting the investment strategies, the Trustee takes advice from its external investment advisers.

**To jump straight to DB, click here.**

**To jump straight to DC, click here.**

## Our DB investment strategy

In deciding our strategy for the DB part of the Scheme, we weigh up things like:

- the benefits we're committed to paying our members
- our funding level
- our current investments
- how things might change in the future
- interest rates, inflation, changes in currency values and other economic factors
- the sponsors' ability and willingness to help if, for some reason, we weren't able to pay all members' benefits out of the return on our investments ("the covenant", discussed earlier).

We formally review and update our DB strategy every three years to make sure it's still the right way to fulfil our purpose – paying your benefits as they fall due. And if something happens between reviews that might affect our ability to deliver, we consider whether we need to change strategy.

In the table below you'll see how we've decided to invest the Scheme's money at the moment. We settled on this 'asset allocation' strategy after the 2016 actuarial valuation.

Asset class	Target allocation (%)
<b>Return Seeking Assets</b> These are investments such as Global Developed Equities, Private Equity, Commercial Property and Corporate Bonds	45%
<b>Matching Assets</b> These are investments such as Index Linked UK Government Bonds, high quality long dated Corporate Bonds, long lease Property and other illiquid long dated assets with contractual cashflows	55%
<b>Total assets</b>	<b>100%</b>



## Our DC investment strategy

If you're a DC member, you're in control of how you invest your DC pension pot. Our mission is to help you make well-informed decisions, so that you get the best outcome for you.

We review and update our DC strategy formally every three years. We look at all the investment strategies we offer members and the investments they're made up of, to make sure they're still serving members' best interests.

In our latest review, in 2017, we had to consider the impact of the government's 'Freedom and Choice' pension reforms. These reforms gave people more options about what to do with their DC pension pots. For example, you can now take your DC pension pot as cash instead of buying an annuity. To reflect those options, we introduced more investment strategies for our members.

### For members who do make an investment choice

We've designed three strategies for the three different ways you can take your money. Or you can choose your own funds.

#### The three strategies we've designed for you are:

- the **'flexible income' strategy** – designed for members who want to take 'drawdown', where you keep your money invested, but take regular or one-off payments over time.
- the **'annuity purchase' strategy** – designed for members who want to buy an annuity, where you give your money to an insurer, and in return they pay you an income each year for the rest of your life.
- the **'lump sum' strategy** – designed for members who want to take their pension pot as cash.

You can find out more about these investment strategies in the investment guide located on the information centre on the **futurefocus website**.

To choose your own funds, go through 'Freechoice'. There you'll find 18 funds to choose from, so you can create a portfolio that suits you.

You can find out about each fund and how it's performing in the investment guide located on the information centre on the **futurefocus website**.

### For members who don't make an investment choice

We've designed two default strategies. Which one you're in depends on whether you have only a DC pension, or you have both a DB and a DC pension, with HSBC.

If you only have a DC pension, for most members, you'll be in the 'flexible income' strategy. Find out more about that in the DC investment guide located on the information centre on the **futurefocus website**.

If you are a 'hybrid' member (you were an active DB member when the Scheme closed to future accrual, and then became an active DC member), for most members, your DC pension pot will be invested in the 'lump sum' strategy. Find out more about that in the hybrid investment guide located on the information centre on the **futurefocus website**.



## How we work with our fund managers

Our fund managers are the people who put the DB and DC investment strategies into action. We watch what they're doing closely. The PSE works with our investment advisers to monitor the fund managers throughout the year.

Once a year we also look at:

- the stability of the fund manager's corporate structure
- how good the people are who work for the fund manager
- how robust the fund manager's operational procedures are
- how the performance of the investments compares to our targets
- how well the fund manager is sticking to their investment philosophy
- how the fund manager is handling environmental, social and governance (or 'ESG') risks.

We will replace a fund manager if we think that this is in the best interests of our members.

# Our awards

## 2018

**DC Pension Insight awards**  
Best DC scheme in the UK



**PQM plus award**



**Institutional Investor**  
DC Scheme of the Year



## 2017



**Professional Pensions**  
Best DC Investment Strategy



**IPE Awards**  
European Corporate Pension Fund of the Year

**IPE Awards**  
Themed Awards: Factor Investing



**Responsible Investor Awards**  
Asset Owners Demonstrating  
Innovation & Industry Leadership

## 2016

**Chief Investment Officer  
European Innovation Awards**  
Winner - Corporate / Industry Pension Above €5 million



**Chief Investment Officer  
European Innovation Awards**  
Winner - Defined Contribution Scheme

## 2015

**Portfolio Institutional Awards 2015**  
Best Portfolio Structure



**Financial News 2015  
Awards for excellence**  
Best Investment Strategy – DB Section

## 2014

**Financial News 2014  
Awards for excellence**  
Pension Scheme of the Year – DC Section









**Mark Thompson**  
Trustee Chief Investment Office

## What is ESG and why does it matter?

Mark Thompson, the Scheme's Chief Investment Officer, talks about the importance of ESG (Environmental, Social and Governance) in managing potential risks to the Scheme.

### **ESG means different things to different people. What does it mean to the Trustee of the HSBC Scheme?**

For the Trustee, ESG investment is all about risk management and a core part of the mainstream investment process.

If there are ESG issues that could have a negative effect on the 'value' of members' investments, then the Trustee expects its appointed fund managers to be mitigating those risks. This is the investment approach adopted by the Trustee across all investment types.

ESG investment is not the same as ethical investment. Ethical investment is about imposing a set of ethical 'values' or beliefs within a given investment process. For example, one form of ethical investing could be not investing in the shares and bonds of companies in the alcohol or gambling industries.

For the Trustee it is all about 'value' and not 'values', consistent with the Trustee's fiduciary responsibility to manage the Scheme's assets on behalf of the members.

### **Why is ESG important to the way the Trustee runs the Scheme?**

ESG is important because an unmanaged ESG issue could have the effect of reducing the value of a Scheme member's pension assets. It is as simple as that.

ESG issues can affect all asset classes from equities to fixed income securities and property investments. ESG issues can be very specific to one particular company, such as an inappropriate board structure (a governance

issue), or a global concern such as climate change (an environmental issue). They all need managing as best we can to protect the value of the Scheme's investments.

This is particularly important for the Defined Contribution or DC assets of the Scheme, because the value of the DC assets relate directly to the value of a member's DC pension pot.

### **What practical things are you doing around ESG?**

Let me give you three examples:

First, when the Trustee selects a new fund manager to manage investments for the Scheme, a key component of the selection process is how well the manager handles ESG risks as part of its normal investment process.

Second, every year as Chief Investment Officer I have an in-depth due diligence visit with each of the Trustee's fund managers in their offices. I'm often accompanied by one or two Trustee Directors as well. Before that visit, we send out a due diligence questionnaire for the manager to complete prior to the meeting. The manager's ESG policy is a core part of the questionnaire, just as discussing the ESG policy with the manager is at every meeting.

Third, the Trustee receives a quarterly Voting and Engagement report from all of the Scheme's equity fund managers that explains both how and why they have voted on the Scheme's investments. These individual reports are collated by my team and a consolidated report is produced for the Trustee to review. Any unusual activity reported is followed up with the relevant manager as necessary.

## **We hear a lot about climate change risk. Why is that risk singled out?**

Climate change is a global issue and therefore a systemic risk. Current estimates indicate that the world is on course to reach an average global temperature of 4 degrees warmer than its pre-industrial level by the end of the century. This is significantly above the target of 1.5 degrees that the United Nations has estimated is the maximum for a sustainable future.

As a result there will need to be a global transition towards a 2-degree world. The Paris Climate Agreement in 2015, where most countries around the world signed up to individual targets for themselves, was a significant step along that transition path.

Some industries, and the companies within them, will be threatened by this necessary transition and unless they evolve to a more sustainable business model, the value of their equities and bonds could be impacted negatively.

In contrast, the transition to a sustainable world will open up profitable opportunities for companies that provide products and services to help achieve these global targets.

It's important that in managing the Scheme's assets, the threats and opportunities from climate change are part of the Trustee's investment processes.

## **Can you give me a real example of what the Trustee has been doing around the risks posed by climate change?**

A good example is the DC Global Equities – passive fund. That fund has over £2bn invested in it and is the main component of the DC default investment strategies, where most members are invested. The fund tries to mitigate climate change risk in two ways.

First, its benchmark index – the FTSE Russell Index – has amongst other things climate change tilts built into it. It is a global equity index that tilts away from companies with high carbon reserves and carbon emissions, and tilts towards companies with higher green revenues.

Second, the fund manager wrote to the chair of the major companies in six industries globally that will be significantly affected by climate change, such as oil and gas, utilities, automotive, etc. The letter to the chair asked for a dialogue to understand what plans the company had to ensure it had a sustainable future. If after a year of such engagement no credible plans were being put in place, the fund manager would divest from that company, even though it remained part of the benchmark.

The first results of this second process happened in June 2018, when the fund manager announced that eight companies had been divested from the fund.

## **How does your approach affect how the Trustee works with fund managers?**

The Trustee, as an asset owner on behalf of the members of the Scheme, believes it is very important that they take its responsibility as the top of the investment chain very seriously. What this means in practice is that asset owners need to put pressure on their agents (typically fund managers), who in turn need to put pressure on the companies that issue equity and debt to take the management of ESG risks very seriously.

A recent example of this approach to working with fund managers was when the Trustee wrote to each of its fund managers to ask how they were going to incorporate the recommendations from the Taskforce on Climate-Related Financial Disclosures into their investment processes.

## **How are you working with the rest of the pensions industry in this area?**

When you're trying to mitigate systems risks, such as climate change risk, it's good to collaborate with like-minded investors not just in the pensions industry, but

in the wider investment industry. A good example of where the Trustee currently does this is through its membership of the Institutional

Investor Group on Climate Change (IIGCC). The IIGCC has both asset owners and asset managers as members and has two strategic objectives:

- To change market signals by encouraging the adoption of strong and credible policy solutions that ensure an orderly and efficient move to a low carbon economy, as well as measures for adoption.
- Informing investment practices that preserve and enhance long-term investment values.

## **What developments do you expect to see in the area of ESG and pensions?**

I think in the future it will increasingly become normal for all Trustees to consider the mitigation of ESG risks as a part of their mainstream investment process. From October next year all Trustees' Statements of Investment Principles documents will have to include a section on the Trustee's policy on financially material considerations for investment, which include ESG considerations – including climate change risks.

In my opinion this will be a very significant development for the future of ESG investment.

**“ESG is about ‘value’, not ‘values’. It’s part of our responsibility to our members.”**



# How we control the Scheme's finances and manage risks

## Managing the finances

One of the basic functions of a pension scheme is to invest assets in a way that generates money that it can pay out in benefits to members. The financial security of the Scheme depends on the balance between the value of our assets, the performance of our investments and the value of the benefits to be paid to members.

A key part of controlling the Scheme's finances is the ability to keep accurate financial records. This helps us make sure that:

- we know where the Scheme's money is
- we collect all contributions and income due to us
- we meet all our payment obligations, especially benefit payments to members.

Every year the Scheme is required to produce a full set of accounts and to make available to members details about how the Scheme's finances have changed, in a document called the Annual Report & Financial Statements.

Every year an independent company audits our annual report and financial statements. This is a legal requirement, but it's also another helpful tool for making sure we're controlling our finances. In 2017, PwC issued unmodified audit reports.

You can read the full **Annual Report & Financial Statement for 2017**, which includes PwC's audit reports.

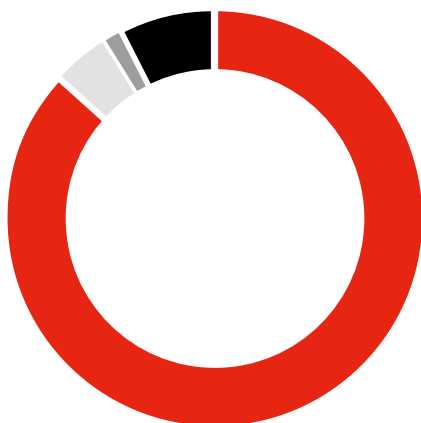
## Highlights

In 2017, the value of the Scheme's assets rose by nearly £2 billion, bringing it to £32 billion at the end of the year. In the same period, our membership went up by 296, bringing the total number of members to 190,455.

### Here's a summary of where money has come from and gone to in 2017

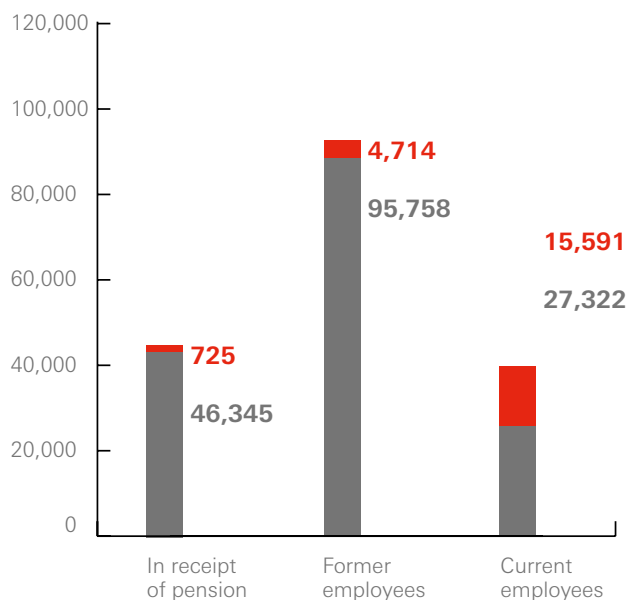
<b>Scheme assets at the start of 2017</b>	<b>£30,176m</b>
Money paid in:	
- by the Bank	£611m
- by members	£113m
Payments	
- to members	(£1,019m)
- to run the Scheme	(£16m)
Net investment returns	£2,182m
<b>Scheme assets at the end of 2017</b>	<b>£32,047m</b>

Here's a breakdown of the size of the Scheme's sections and split between DB and DC assets as at 31 December 2017



■ Bank DB £27.9bn    ■ HGSU DB £0.4bn  
■ Bank DC £2.4bn    ■ HGSU DC £1.4bn

Here's a breakdown of the Scheme's membership as at 31 December 2017



■ Bank Section    ■ HGSU Section

## Guarding against the risks that pension schemes face – so we can keep paying benefits

Our job is to make sure every member gets paid the right amount, on time, every time – not just this year, but for many years to come. This means a lot of work behind the scenes. And it means making sure we guard against anything that might make it harder to pay members benefits in full, on time, year after year.

There are certain risks that all pension schemes look out for and try to guard against. Usually these fall into the categories of 'operational' risk – such as errors in calculation payment amounts – and 'investment' risk – such as the ups and downs of the stock market.

We guard against operational and investment risks, of course, but we also guard against risks that don't

traditionally fall into those categories. For example, there are risks associated with the financial strength of the sponsors and its ability to continue to support the Scheme, or with the way we manage our actuarial liabilities. We also believe that keeping members well informed helps members guard against important risks in their decision-making. The way we communicate should help you make good decisions, which, in turn, protect your benefits.

This is the reason we have produced this Stewardship Report and have given you details of how we manage the Scheme to manage the risks to you receiving your benefits.



## **We have a robust system for handling risks**

There are, of course, regulatory demands on schemes to have systems in place for handling risk. We already meet these regulations, but we're always looking for ways to strengthen the Scheme, with training, expert advice, and robust systems.

There are five steps we take to deal with risks.

**1**

### **Identify risk**

We're always on the look-out for potential risks. If we find one, we continue to the rest of the steps.

**2**

### **Assess the risk**

We analyse how likely something is to happen and the size of the potential impact.

**3**

### **Control the risk**

We put in place controls and processes to give us the best chance of stopping these things from happening.

**4**

### **Monitor the risk and our response to it**

We keep an eye on the risk by gathering information on it and on the controls we operate.

**5**

### **Report the risk and our response to it**

Reporting a risk isn't just for keeping records. It helps us identify whether it's still a risk, and whether there might be other risks associated with it that we need to deal with. So step 5 leads us back to step 1, identifying risks.



## **We're always looking for ways to improve how we manage risks**

### **1. Experts training and advising us**

The Bank has security policies to safeguard its information systems. We already use these, where appropriate. But the Bank's policies naturally focus on financial products and systems, many of which are bespoke to the Bank. The Scheme faces its own risks and threats. So in 2017, we enlisted the help of KPMG who gave us advice and training specific to the cyber and information security risks and threats the Scheme faces. KPMG also checked our contracts with third-party suppliers to make sure we're protected, and they checked that these suppliers have given enough evidence that they also operate appropriate security measures. All this built on the work done by the Bank to review the security around using third-party suppliers.

### **2. Experts working with us**

The threat of cyber-crime changes all the time. So, following on from our training, we appointed a third-party cyber-security expert. This expert will continuously monitor threats to the Scheme and rigorously assess the measures put in place by us and our suppliers.

We'll continue to bring in more expert advice. For example, we're appointing an internal auditor for the Scheme, to give us a strong independent view on how well we manage risks to make sure we pay benefits in full, on time and to the right people.



## Services available to you

### Interacting with the Scheme

Employees' interaction with the Scheme will usually involve paying contributions to supplement the Bank's contributions as part of the employee benefit package, as well as visiting the Trustee's website, futurefocus, to find out information about their retirement savings. Pensioners receive their pension benefits monthly. Our deferred members (former employees) will be visiting futurefocus to find out information about the Scheme. These members can update their contact and dependants' details on My Pension, as well as plan for their retirement, by considering their benefits from this scheme, and other schemes as well.

#### Did you know that...

**You can find information about your pension benefits in a number of different ways:**

- Futurefocus is the Trustee website providing general information about the pension benefits and options available to you along with the latest news. <https://futurefocus.staff.hsbc.co.uk>
- My Pension is a secure member portal giving you access to details of your pension benefits from the Scheme and the ability to manage certain aspects, for example changing your address or investment choices. What you can do depends on the type of member you are. <https://epa.towerswatson.com/accounts/hsb/>
- Contacting the Scheme administrator, Willis Towers Watson. You can call, email or write to them with any questions about your benefits, including obtaining illustrations of your pension benefits.
- We will also send you periodic information about the Scheme, such as annual benefit statements for some members.



## It is up to you to decide how involved you want to be with managing your pension benefits.

- **Active members** – you can decide how much you want to put into the Scheme. Your employer puts money into your DC pension pot, even if you do nothing. Your employer gives you 10% of your first £21,200 pensionable salary then 9% of anything over £21,200 up to the Scheme earnings cap (currently £144,000). Your employer will also match anything you pay up to 7% of your pensionable salary (up to the scheme earnings cap). You can change the amount you put in to your DC pension pot at any time through My Choice, simply select an anytime event.
- **Members with DC benefits** – you can decide where you want your DC pension pot invested and your Target Retirement Age. You can change this at any time by logging into My Pension. If you decide to do nothing the Trustee will invest your DC pension pot using the default investment strategy and target age 65 as your default retirement age. More information about the different investment options is available in the DC investment guide on the information centre on the futurefocus website.
- **Members with DB benefits** – the pension you received is based on a pre-defined formula set out in the Scheme's Trust Deed and Rules. If you have left the Scheme you can consider transferring to an alternative pension arrangement. The decisions you need to make generally relate to when you would like to take your benefits and whether you would like to take part of your benefits as cash.

## Your feedback is important

The Trustee values your feedback to improve the services we offer to you.

- In 2017, to inform the DC investment strategy review, we gathered input from members through a series of member panels around the country, issuing an investment questionnaire to all active DC members to assess how they are using their pots at retirement.

This helped the Trustee to understand what you might do with your DC pot and your views on the DC investment offering.

- The Trustee recognises that the decisions DC members have to make about their options at retirement are now increasingly complex. As a result the Trustee has been considering what additional support it could offer to DC members to help them make better informed decisions about their retirement savings. The Trustee ran a series of member focus groups earlier this year to understand from members what support they believe they need to help them in their decision-making.

The Trustee is currently working on what this additional support will look like and how it will be made available to DC members in the near future.

Your feedback is important to the Trustee and does not need to be related to specific exercises or activities the Trustee is carrying out. Your feedback on the day-to-day service you receive is also important:

- Do our communications make sense? Are they clear and do you know when you need to take action and what you need to do?

**If you have any feedback, please send us an email on [pensionschemeexecutive@hsbc.com](mailto:pensionschemeexecutive@hsbc.com)**

- Are you getting what you need from Willis Towers Watson? Did you know that you can leave feedback:
  - After any call you make to them, and
  - On the My Pension website.

The Trustee appreciates that some of our members are currently experiencing an unsatisfactory service from Willis Towers Watson. Rest assured that the Trustee is taking this seriously and is working with Willis Towers Watson to understand the root causes of these issues and to take action to improve the quality of the services that all members receive.

## Stay up to date with details about your pension...

The Trustee will periodically send you news about the Scheme and your benefits, including notifying you when your benefits are due for payment. Therefore it is important that you keep us up to date with your contact details.

The Trustee aims to communicate with you in the quickest and most environmentally friendly way possible. If we don't already have an up-to-date email address for you then please log into **My Pension** – go to My Details, then Contact Details, to add your personal details, including your email address. The Trustee can then make sure that you are sent the important information you need about your pension.



## Did you enjoy reading this report?

We value our members' feedback and would love to hear what you thought of our first Stewardship Report. If you've got any feedback or any questions for us about this Report, please get in touch.

Send us an email at [pensionschemeexecutive@hsbc.com](mailto:pensionschemeexecutive@hsbc.com)

### Legal Note

This report is based on the Trustee's understanding of applicable law and regulations and does not confer any right to benefits. Members' benefits are governed by the trust deed and rules of the Scheme, as amended from time to time. In the event of any conflict between this Report and the trust deed and rules, the trust deed and rules will always override.

Issued by HSBC Bank Pension Trust (UK) Limited **November 2018**

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HSBC Bank Pension Trust (UK) Limited, 8 Canada Square, London, E145HQ Registration number: 489775