Statement of Investment Principles

HSBC BANK (UK) PENSION SCHEME DEFINED BENEFITS

September 2023

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Section 1: Introduction

Background

1.1. Under Section 35 of the Pensions Act 1995 (Pensions Act) and as amended by the Pensions Act 2004 and the Occupational Pension Schemes (Investment) Regulations 2005 ('the Investment Regulations'), trustees of a pension fund are required to prepare a statement of principles governing their investment decisions. This is that statement for the Defined Benefits of the HSBC Bank (UK) Pension Scheme ('the Scheme'). The Trustee of the Scheme is HSBC Bank Pension Trust (UK) Limited ('the Trustee').

1.2. The Scheme operates for the exclusive purpose of providing retirement benefits and death benefits to eligible participants and beneficiaries. The Scheme consists of three sections; the HSBC UK Bank plc ('HBUK') Section, the HSBC Bank plc ('HBEU') Section and the HSBC Global Services (UK) Ltd ('HGSU') Section. Whilst Defined Benefit ('DB') and Defined Contribution ('DC') benefits are provided by each section, the Statement of Investment Principles for the Scheme's DC benefits is separate to this document.

1.3. In preparing this statement, the Trustee has consulted the persons performing the role of the Bank (as defined in the Scheme Rules) in relation to each of the three sections of the Scheme providing DB benefits and the Scheme Actuary and has sought written advice from the Trustee's investment advisors. At the date of this document,

- the Principal Employer in relation to the HBUK Section is HSBC UK Bank plc;
- the Principal Employer in relation to the HSBC Bank plc Section is HSBC Bank plc; and
- the Principal Employer in relation to the HGSU Section is HSBC Global Services (UK) Limited.

It is the intention of the Trustee to review this statement annually or sooner following any unscheduled actuarial valuation or any other material change in the asset or liability position of the Scheme. It will also be reviewed following any material change to the Scheme's investment strategy.

1.4. The Trustee will consult:

- the Principal Employer of the HBUK Section on changes to this statement that apply to the HBUK Section; and
- the Principal Employer of the HSBC Bank plc Section on changes to this statement that apply to the HSBC Bank plc Section; and
- the Principal Employer of the HGSU Section on changes to this statement that apply to the HGSU Section.

The ultimate power and responsibility for deciding investment policy, however, lies solely with the Trustee.

1.5. In accordance with the Financial Services and Markets Act 2000, the Trustee sets general investment policy, but delegates the responsibility for selection of specific assets to appointed investment managers. The investment managers shall provide the skill and expertise necessary to manage the assets of the Scheme competently.

1.6. In preparing this statement, the Trustee has had regard to the requirements of the Pensions Act 1995 (as amended) and the Occupational Pensions Schemes (Investment) Regulations 2005 concerning the exercise of its investment powers and, in particular, concerning diversification and the specified criteria to be applied in choosing assets. The Trustee will consider those requirements on any review of this statement or any change in its investment strategy. These requirements were also taken into account in determining the benchmark, permitted asset classes and the investment restrictions applicable to the DB fund and asset managers.

1.7. The Scheme is a Registered Pension Scheme for the purposes of Chapter 2 Part 4 of the Finance Act 2004.

Section 2: Governance

2.1. The Trustee has ultimate responsibility for decision-making on investment matters. The Trustee appoints an Asset and Liability Committee ('ALCo') to which it has delegated responsibility for certain investment functions such as developing investment strategy, assessing the quality of performance and processes of the asset and fund managers and identifying potential future asset classes and asset and fund managers. These delegations are set out in a Terms of Reference for each Committee.

2.2. The ALCo handles the majority of investment matters in relation to the assets. ALCo then makes recommendations to the Trustee where decisions are required to be taken by the Trustee.

2.3. When making decisions about the Scheme's investment arrangements, the Trustee takes advice as appropriate from its investment advisors, the Scheme Actuary and/or the Trustee's other advisors. To improve the efficiency of this decision-making process, the Trustee has appointed a Chief Investment Officer to the Pension Scheme Executive. It is the responsibility of the Chief Investment Officer to liaise with the Trustee's advisors 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. It is also the responsibility of the Pension Scheme Executive, and especially the Chief Investment Officer, to provide oversight to the Trustee's advisors and asset and fund managers, on behalf of the Trustee.

2.4. Only persons or organisations with the necessary skills, information and resources are actively involved in taking investment decisions affecting the Scheme. The Trustee draws on the skills and expertise of external advisors including the asset and fund managers, custodians, legal advisors, accountants, investment advisors and Scheme Actuary, as well as that of the Pension Scheme Executive, especially the Chief Investment Officer.

2.5. The Trustee has appointed asset and fund managers who are authorised under the Financial Services and Markets Act 2000 to undertake investment business. After gaining (and reconfirming, at least as frequently as annually) appropriate investment advice, the Trustee has specified asset allocation guidelines for each manager. Investment choice has been delegated to the managers subject to defined tolerances relative to their respective benchmarks. In this context, investment advice is defined by Section 36 of the Pensions Act 1995 (as amended).

2.6. Monitoring is carried out by having regular meetings with the asset and fund managers to ensure that they continue to carry out their work competently and have the appropriate knowledge and experience to manage the assets of the Scheme. The appointment of the asset and fund managers will be reviewed from time to time, based on the results of monitoring of performance and process and after gaining (and reconfirming, at least as frequently as annually) appropriate investment advice. This includes, where applicable, the asset and fund managers' compliance with the requirements of the Pensions Act 1995 (as amended) and the Occupational Pension Schemes (Investment) Regulations 2005.

Section 3: Objectives of the Scheme

3.1. There are three DB investment strategies, one for the HBUK Section, one for the HSBC Bank plc Section and one for the HGSU Section.

Objectives for HBUK Section assets

3.2. The objectives for the DB HBUK Section are:

a) maintain a strategy which will enable the Trustee to meet the cost of current and future benefits that the DB HBUK Section of the Scheme provides;

b) limit the Value-at-Risk ('VaR95')* measures of the assets to the levels specified in Appendix 7;

c) within the constraints of (b) above attain a funding level not less than the Scheme's Technical Provisions in accordance with the Scheme's Statement of Funding Principles.

* VAR_{95}: The *minimum* expected deterioration in the Scheme's surplus one year in twenty (compared with the expected position)

3.3. The Scheme Actuary is responsible for carrying out a full investigation into the financial position of the DB HBUK Section and certifying the Technical Provisions on a triennial basis. As an actuarial investigation could give rise to changes in investment policy, it is intended that this statement will be comprehensively reviewed within a reasonable timeframe of the date as at which any such triennial investigation is made. It would also be reviewed following an unscheduled actuarial investigation, or where the Trustee considers a review is needed for other reasons. The Trustee will consult the Scheme Actuary and the Bank when deciding upon the appropriate response to any shortfall identified by any actuarial investigation.

3.4. In order to achieve its objectives, the Trustee has agreed a General Framework ('GF') with the Bank. This includes the concept of a Cashflow Driven Investment approach ('CDI approach'), a low risk strategy consisting of UK Government bonds, high quality corporate bonds, and other secure income assets. As at the date of this document, the Trustee believes the Scheme has sufficient DB assets which, when invested, result in the DB HBUK Section being fully funded on a technical provisions basis. The Trustee has been transitioning towards its Target CDI strategy since 2017, and achieved this during 2020, excluding the run-off of a number of small portfolios and funds (including illiquid growth assets).

3.5. The Trustee considers that the investment policy and direction set out in this statement is consistent with it meeting its overall long-term investment objectives.

Policy for HBUK Section assets

3.6. The Trustee's policy is to seek to achieve the objectives through adopting a CDI approach, which is outlined in Appendix 2.

3.7. The CDI approach comprises of three strategies:

- a Liability Driven Investment ('LDI') portfolio consisting of gilts, swaps, other bond derivatives, and cash, and will act as a 'completion' portfolio to help the asset cashflows equate more closely to the liability cashflows.
- credit assets consisting of high quality corporate and government agency bonds, Asset Backed Securities and Mortgage Backed Securities ('ABS' and 'MBS') and global investment grade bonds across a range of durations. This provides a credit premium over and above the return on UK gilts with a level of diversification.
- illiquid matching assets which benefit from secure and/or inflation-linked cashflows, but whose value is not readily realisable. This provides an illiquidity premium over and above the return on UK gilts.

3.8. To the extent that the Scheme retains legacy exposure to return-seeking assets, these are likely to be more volatile relative to the liabilities of the Scheme than the cashflow driven investments, albeit with a higher expected return.

Objectives for the HSBC Bank plc Section assets

3.9. The objective for the DB HSBC Bank plc Section is to maintain a strategy which will enable the Trustee to meet the cost of current and future benefits that the HSBC Bank plc Section of the Scheme provides;

3.10. The Scheme Actuary is responsible for carrying out a full investigation into the financial position of the DB HSBC Bank plc Section and certifying the Technical Provisions on a triennial basis. As an actuarial investigation could give rise to changes in investment policy, it is intended that this statement will be comprehensively reviewed within a reasonable timeframe of the date as at which any such triennial investigation is made. It would also be reviewed following an unscheduled actuarial investigation, or where the Trustee considers a review is needed for other reasons. The Trustee will consult the Scheme Actuary and the Bank when deciding upon the appropriate response to any shortfall identified by any actuarial investigation.

3.11. The Trustee considers that the investment policy set out in this statement is consistent with it meeting its overall long-term investment objectives.

Policy for the HSBC Bank plc Section assets

3.12. Given the small size of the HSBC Bank plc Section relative to the HBUK Section, the Trustee's policy is to invest the assets in a strategy that:

- is easy to implement
- minimises costs
- utilises the scale from the HBUK Section
- is liquid.

3.13. The Trustee has decided that an investment strategy utilising an off-the-shelf diversified growth fund, off-the-shelf passively managed LDI funds and a sterling liquidity fund are appropriate for this Section.

Objectives for HGSU Section assets

3.14. The objective for the DB HGSU Section is to maintain a strategy which will enable the Trustee to meet the cost of current and future benefits that this Section of the Scheme provides;

3.15. The Scheme Actuary is responsible for carrying out a full investigation into the financial position of the DB HGSU Section and certifying the Technical Provisions on a triennial basis. As an actuarial investigation could give rise to changes in investment policy, it is intended that this statement will be comprehensively reviewed within a reasonable timeframe of the date as at which any such triennial investigation is made. It would also be reviewed following an unscheduled actuarial investigation, or where the Trustee considers a review is needed for other reasons. The Trustee will consult the Scheme Actuary and the Bank when deciding upon the appropriate response to any shortfall identified by any actuarial investigation.

3.16. The Trustee considers that the investment policy set out in this statement is consistent with it meeting its overall long-term investment objectives.

Policy for HGSU Section assets

3.17. Given the small size of the Section relative to the HBUK Section, the Trustee's policy is to invest the assets in a strategy that:

- is easy to implement
- minimises costs
- utilises the scale from the HBUK Section

- is liquid.

3.18. The Trustee has decided that an investment strategy utilising an off-the-shelf diversified growth fund, off-the-shelf passively managed LDI funds and a sterling liquidity fund are appropriate for this Section.

Suitability

3.19. The Trustee has taken advice that the strategic asset allocations for the HBUK, HSBC Bank plc and HGSU Sections are suitable, given their liability profile and the level of risk the Trustee is prepared to take. The Trustee will continue to monitor, and take advice on, the strategy, portfolios and funds used on an ongoing basis.

Realisation of Investments

3.20. The Trustee's policy is that there should be sufficient liquid or readily realisable assets to meet cashflow requirements in the majority of foreseeable circumstances so that realisation of assets will not disrupt the Trustee's overall investment policies where possible.

3.21. The Trustee has delegated responsibility for the selection, retention and realisation of assets to the fund and asset managers, within certain guidelines and restrictions.

3.22. The Trustee and fund and asset managers that have delegated discretion, are required to exercise their powers in a manner calculated to ensure the security, quality, liquidity and profitability of the Scheme. The Trustee invests the assets of the Scheme in a manner it believes to be appropriate to the nature and duration of the expected future retirement benefits payable under the Scheme. The Trustee aims to invest the majority of the assets of the Scheme in regulated markets and any allocation to unregulated markets is maintained at a prudent level.

Diversification

3.23. The need for adequate diversification is taken into account in the choice of asset allocation and investment manager structure in the HBUK, HSBC Bank plc and HGSU Sections.

Derivatives

3.24. The Trustee may use, or permit the fund and asset managers to use derivative instruments if they contribute to a reduction of risks or facilitate efficient asset management (including the reduction of cost or the generation of additional capital or income with an acceptable level of risk).

Borrowing

3.25. The Trustee does not borrow money and does not allow investment managers of its DB portfolios or funds to borrow money except for purposes of temporary liquidity.

Additional Voluntary Contributions

3.26. The Scheme provides a facility for the receipt of additional voluntary contributions by members to enhance member benefits at retirement. The Trustee has undertaken a large project to significantly reduce the number of legacy funds and portfolios available to DB members who pay voluntary contributions or bonus sacrifices and provide them with access to the fund range offered to members with DC benefits. The majority of members' assets held through the range of legacy funds have been transitioned to the DC fund range. With certain exceptions, all future voluntary contributions and bonus sacrifice payments will be directed to the Defined Contribution fund range. The ALCo will continue to monitor the remaining legacy funds.

Section 4: Strategic asset allocation and manager structure

HBUK Section

4.1. The Scheme's HBUK Section has now completed the transition to the CDI approach with the exception of a number of small residual holdings.

4.2. The Scheme's HBUK Section asset allocation has been set following an analysis of both assets and liabilities that has considered the full range of investment opportunities available to the Scheme. Asset allocation is regularly reviewed. The assets are detailed in Appendices 2 and 3.

4.3. The HBUK Section asset allocation is driven by the financial characteristics of the Scheme, in particular the Scheme liabilities and the risk tolerance of the Trustee and the Principal Employer of the HBUK Section. The allocation takes account of the need to adequately diversify the HBUK Section's assets and to avoid undue concentration of risk.

4.4. The Trustee appoints its asset and fund managers with an expectation of a long-term partnership, which encourages active ownership of the Scheme's assets, which is discussed further in Section 6. When assessing an asset or fund manager's performance, the focus is on longer-term outcomes, and the Trustee would not expect to terminate an asset or fund manager's appointment based purely on short term performance. However, an asset or fund 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.

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

- before investing, the Trustee will seek to understand the asset or fund manager's approach to sustainable investment (including engagement). When investing in a pooled investment vehicle, the Trustee will ensure the investment objectives and guidelines of the vehicle are consistent with its own objectives, set out in Section 6. Where segregated mandates are used, the Trustee will use its discretion, where appropriate, to set explicit guidelines within the Investment Management Agreement.
- to maintain alignment, asset and fund managers are provided with the most recent version of the Scheme's Statement of Investment Principles, which includes the Trustee's policy on sustainable investment, on an annual basis and are required to explicitly confirm that the Scheme's assets are managed in line with the Trustee's policies as outlined in those documents.
- should the Trustee's monitoring process reveal that an asset or fund manager's portfolio is not aligned with the Trustee's policies, the Trustee will engage with the asset or fund manager further to encourage alignment. This monitoring process includes specific consideration of the environmental, social and governance ('ESG') characteristics of the assets and the asset or fund managers' engagement activities. If, following engagement, it is the view of the Trustee that the degree of alignment remains unsatisfactory, the asset or fund manager will be considered for termination.

4.6. Asset and fund managers are paid an ad valorem fee and/or performance related 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 incurred in managing the Scheme's assets annually, which includes the costs associated with portfolio turnover. In assessing the appropriateness of the turnover costs at an individual asset or fund manager level, the Trustee will have regard to the actual turnover and how this compares with the expected turnover range for that mandate.

HSBC Bank plc Section

4.7. Given the nature of the liabilities within the HSBC Bank plc Section (largely covering the effects of salary increases), the Trustee believes that a diversified fund of growth assets plus LDI assets is appropriate. In the interest of simplicity and cost minimisation, the Trustee has invested these assets in a low-risk diversified growth pooled fund, pooled LDI funds and sterling liquidity funds. The HSBC Bank plc Section's asset allocation and fund manager structure are outlined in Appendix 4.

HGSU Section

4.8. Given the nature of the liabilities within the HGSU Section (largely covering the effects of salary increases), the Trustee believes that a diversified fund of growth assets plus LDI assets is appropriate. In the interest of simplicity and cost minimisation, the Trustee has invested these assets in a low-risk diversified growth pooled fund, pooled LDI funds and sterling liquidity funds. The HGSU Section's asset allocation and fund manager structure are outlined in Appendix 5.

General

4.9. The Trustee has considered the use of both passive and active management when reviewing the Scheme's strategy, in each of the sections of the Scheme. The resultant use of active and passive management is formed following consideration of the efficiency, liquidity and level of transaction costs likely to prevail within each market as well as the impact of the asset and fund manager fees on future expected returns.

Rates of return

4.10. In setting the strategic asset allocations, the Trustee has regard to the historical rates of return earned on the various classes of asset available for investment. The Trustee's expectations for the future long-term returns on the asset classes in which the Scheme's assets are principally invested are set out in Appendix 6.

Section 5: Investment beliefs

5.1. The Trustee holds the following set of DB investment beliefs which help to guide the Trustee's investment decision making so that it can fulfil its mission to pay DB benefits as they fall due.

Understanding the world on which we rely to deliver resilient retirement outcomes for members

- global systems, such as the planet, its climate, its people and societies have a material impact on the whole of the economic system, today and over the longer term.
- a robust global economy, society and planet are critical elements for stable and resilient retirement outcomes for members.
- ESG risks and opportunities are important factors to consider in investment decision making. Some ESG risks and opportunities may be specific to certain companies or assets, others can have a material impact on large parts of the global economy and are considered risks to the whole economic system.

Navigating the risks and opportunities over the long-term

- investment returns can be enhanced by investing over the long-term in equities, credit and illiquid assets (such as real estate and infrastructure) where appropriate.
- there can be a material benefit to members when the Trustee acts quickly to take advantage of new investment opportunities.
- good stewardship and engagement can protect or enhance member retirement outcomes in the long-term.
- liability risks (interest rate, inflation and life expectancy) should be removed where practicable and in a cost efficient manner.

5.2. The Trustee has adopted a set of investment principles to help guide investment implementation.

Practising Good Governance

- the Trustee will focus its time and effort towards investment decisions that will have the greatest positive effect on member outcomes.
- conflicts of interest between the Trustee and its advisors and stakeholders (such as investment advisors, investment managers, Pension Scheme Executive, the Banks and members) will be monitored and managed.

Building and implementing a robust investment strategy

- the amount of risk taken in the DB investment strategies will be directly related to the strength of the Banks' ongoing support to the Scheme.
- both quantitative and qualitative factors should be taken into account when evaluating and managing investment risk.
- for the HBUK section, the Trustee will focus on generating the required cashflows to pay members benefits as they fall due, using low risk assets. Short term market price changes can be tolerated provided the expected cashflows due from the assets are not permanently lost.
- the benefits of active management can only be harnessed by skilful managers in select asset classes, and where appropriately skilful managers can be identified by the Trustee, its Pension Scheme Executive and its advisors.
- asset and fund manager mandates that can replicate active management strategies in a cost effective manner are preferable solutions for some types of asset classes.

Section 6: Environmental, social and governance ('ESG') and other financially material considerations

6.1. Section 5 outlines the Trustee's investment beliefs in relation to ESG factors. In summary, the Trustee recognises that global systems, such as the planet, its climate, its people and societies have a material impact on the whole of the economic system, today and over the longer term. A robust global economy, society and planet are critical elements for stable and resilient retirement outcomes for members. ESG risks and opportunities are important factors to consider in investment decision making. Some ESG risks and opportunities may be specific to certain companies or assets, others can have a material impact on large parts of the global economy and are considered risks to the whole economic system.

6.2. The Trustee has chosen to prioritise a number of system-wide ESG risks which it believes are considered especially financially material to the Scheme, now and/or in the future. These priorities have been identified using evidence-based research and training and include:

- climate change
- biodiversity and nature related loss, including antimicrobial resistance
- diversity, equity and inclusion.

6.3. The Trustee anticipates evolving its approach on these system-wide ESG risks over a number of years. To date, the Trustee is most progressed in its integration and oversight of risks and opportunities related to climate change.

6.4. In setting the investment strategy for the HBUK Section, the HSBC Bank plc Section and the HGSU Section the Trustee's primary objective is to maintain a strategy appropriate to each Section which will enable the Trustee to meet the cost of current and future benefits that the Scheme provides. ESG factors can have a material financial impact on the value of the Scheme's assets over the time horizon applicable to each Section. 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.

6.5. The Trustee takes account of ESG factors when setting the asset allocation for each Section, and when selecting (and monitoring the performance of) its appointed asset and fund managers. For most of the Scheme's assets, the Trustee expects the asset and fund managers to invest with a long-time horizon, and to use their engagement activity to drive improved performance over these periods.

6.6. The Trustee adopts the following approach in relation to the selection (and monitoring) of asset and fund managers:

- in relation to mandates where the asset or fund manager is permitted to make active decisions about the selection, retention and realisation of assets the Trustee expects the asset or fund manager to take steps to ensure financially material considerations (including ESG considerations), are 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.
- in index-tracking (passive) mandates, the Trustee recognises that the choice of index dictates the assets held by the asset or fund manager and that the asset or fund manager has minimal freedom to take account of factors that may be deemed to be financially material. The Trustee accepts that the role of the passive asset or fund manager is to deliver returns in line with the index and this approach is in line with the basis on which their current strategy has been set. The Trustee periodically reviews the indices employed for this purpose and keeps up to date with other passive ESG fund options available in the market via updates from its investment advisors.

6.7. The Trustee applies these principles to all asset classes, although a greater emphasis is given to credit, listed and unlisted equities, property and infrastructure assets.

6.8. The Trustee recognises climate change as a systemic, long-term material financial risk to the value of the Scheme's assets. 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.

6.9. The Trustee has set a long-term objective for the Scheme's assets (across both its DB and DC assets) to emit 'net zero' Greenhouse Gas ('GHG') emissions by 2050 or sooner. The ambition will be to achieve this well in advance of this date.

6.10. An interim target date of 2030 has been set to ensure that sufficient progress is made towards the ultimate target of reaching net zero GHG emissions. The interim targets include:

- a real economy emissions reduction of 50% by 2030 or sooner for its equity and corporate bond funds and portfolios.
- having the ambition of achieving all of its corporate bond and equity funds and portfolios being fully aligned to the goals of the Paris Agreement by 2030 across its DB and DC assets.
- enhancing its engagement and stewardship efforts through working collaboratively with the Trustee's asset and fund managers.

6.11. The Trustee considers climate-related factors within its separately documented scheme-wide ESG risk management framework. In summary, the Trustee:

- has made ALCo responsible for ensuring that the Trustee'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 advisors 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 advisors' annual objectives to ensure its advisors 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;
- requires its appointed asset and fund managers to be cognisant of climate change risks and opportunities within their investment processes as applied to the Scheme assets. Asset and fund managers are further required 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 asset and fund 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 it provides to review material exposures to the world's largest emitters and inform impactful engagement strategies through its investment 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.

6.12. 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.
- informing government policy, market developments and pension funds with respect to Responsible Investment.
- improve the risk and return characteristics of investments to increase the likelihood of members receiving benefits as they fall due.
- improve transparency in reporting, being generous with knowledge and helping to shape new ideas within Responsible Investment.

6.13. 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 Asset Owner Group relating to universal ownership and global systemic risks
- a member of the Willis Towers Watson Thinking Ahead Institute ('TAI')
- a signatory to the Principles for Responsible Investment ('PRI')
- a signatory to the Asset Owner Diversity Charter
- a signatory to the UK Stewardship Code
- a supporter of the Transition Pathway Initiative ('TPI')
- a supporter of Climate Action 100+

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

6.15. The Trustee 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 asset and fund managers' report on an annual basis as to their exposure to controversial weapons manufacturers, if any.

6.16. The Trustee seeks to avoid investments which may present a legal risk and/or financial risk to the Trustee or the Scheme as a result of over-riding legislation or international sanctions. These currently include:

- companies that breach any sanction, prohibition or restriction under United Nations resolutions or the trade or economic sanctions, laws or regulations of the United Kingdom, European Union or United States of America; and
- companies with ties to the legal production and/or retail sale of cannabis products for recreational use.

This position has been taken on the grounds of protecting the Trustee and the Scheme from the legal and financial risks associated with such assets and is considered to be in the best financial interests of the Scheme and its members. The Trustee expects its appointed asset and fund managers to adhere to this position and monitor for any potential changes and regularly report back to the Trustee, as far as it is practical to do so.

Members' Views and Non-Financial Factors

6.17. The Trustee does not take into account any non-financial matters in setting the investment strategy for the HBUK Section, the HSBC Bank plc Section and the HGSU Section.

Stewardship

6.18. The Trustee has examined how rights, including voting rights, attached to assets 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 assets, protects and enhances asset owner value in the long-term.

6.19. The Trustee has delegated to its asset and fund managers the exercise of rights attaching to assets, 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 requires its asset and fund 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.

6.20. The Trustee seeks to appoint asset and fund managers that have strong stewardship policies and processes. While the Trustee chooses asset and fund 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 fund managers' policies on the exercise of investment rights where assets are held in funds; this is due to the collective nature of these investments.

6.21. The Trustee monitors and regularly reviews the ownership rights that it has delegated to its asset and fund managers as well as how the asset and fund 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.

6.22. The Trustee has a separate Stewardship Policy, which sets out how DB fund and asset managers are held to account for the use of their influence as owners or part-owners of assets. The Trustee considers DB fund and asset managers' voting policies and records and requires DB fund and asset managers to report significant votes as relevant. As active owners, the Trustee holds its DB fund and asset managers to account for their voting activities to ensure they are exercising voting rights in the members' best interests. The effective delivery of stewardship is one of the key factors the Trustee engage managers on.

6.23. To best channel stewardship efforts, three key priorities have been identified, described in more detail earlier in Section 6. These stewardship priorities are reflected in the Stewardship Policy described above and the Trustee monitors DB fund and asset managers' voting and engagement practices in the context of these priorities.

Section 7: Risk Management

7.1. The Trustee recognises a number of risks involved in the investment of the Scheme's DB assets:

- Funding risk:
  - is measured through a qualitative and quantitative assessment of the expected development of the liabilities relative to the current and alternative investment policies.
  - is managed through assessing the progress of actual growth of the assets relative to the amounts expected to be required to meet the projected liabilities by reference to various assumptions as to future investment returns.
- Cashflow risk:
  - is measured by assessing the size and timing of expected cashflows generated by the Scheme's assets relative to the expected cash outflows to meet the Scheme's liabilities.
  - is managed by annually assessing the expected cashflows of the asset relative to liabilities as part of the strategy review, and monitoring changes to expected future income as a result of changes in assumptions around credit defaults.
- Liquidity risk:
  - is measured by the level of cashflow required for the Scheme over a specific period and the amount of liquid assets available to cover cash requirements in stressed market conditions .
  - is managed by the Scheme administrators assessing the level of cash held in order to limit the impact of the cashflow requirements on the investment policy and ALCo monitoring the relative size of available liquid assets to required liquidity in stressed conditions.
- Credit risk:
  - is measured by assessing the characteristics (eg credit quality, issuer diversification, spread) of the credit portfolio in aggregate on a quarterly basis.
  - is managed by providing each of the Scheme's credit managers with a set of clear guidelines by which to manage to the assets.
- Liability hedging risk:
  - is measured by assessing the level of interest rate and inflation exposure within the Scheme's assets relative to the interest rate and inflation exposure within the Scheme's liabilities.
  - is managed by the Scheme's LDI manager being given clear guidelines by which to manage to assets, including consideration of assets that have interest rate and/or inflation sensitivity outside of the LDI portfolio. The sensitivities that they are required to match are updated at least every three years following each Actuarial valuation, or more frequently is there is a significant change in market conditions or assumptions.
  - The Trustee also hedges a proportion of the longevity risk within the pensioner population.
- Currency risk:
  - is measured by the level of concentration of assets denominated in any foreign currency and the translation effect of currencies leading to the risk of an adverse influence on investment values arising from unfavourable conditions affecting that particular currency.
  - is managed by reducing the translation risk of investing overseas by pursuing and monitoring an appropriate level of hedging of the overseas assets' currency translation risk for those overseas currencies that can be hedged efficiently.

- Sustainability risks:
  - are sources of risk to the Scheme's assets which could be financially material over both the short and longer-term. Climate change, specifically, is considered to be a systemic risk by the Trustee, though it is difficult to measure with a single number. 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.
  - the risks highlighted in this section are considered and monitored on a regular basis by the ALCo or Trustee, which includes a qualitative review of the factors as set out above as well as regular quantitative reviews of investment performance over various periods against benchmark, performance targets and the Scheme actuarial assumptions.
  - Climate risk, specifically, is managed through a combination of both positive and negative tilts where appropriate as well as a robust engagement policy via the Trustee's appointed fund and asset managers. (See detailed Climate Change Policy in Section 6)
- Inflation basis risk:
  - is measured by assessing the impact of changes in key inflation assumptions such as the RPI/CPI gap and the use of inflation delta assumptions within the liability proxy
  - Is managed through the comparison of these metrics to agreed limits and the update of the liability proxy should the limits be breached.
- Operational risk:
  - is measured by ongoing monitoring of managers actions relative to the guidelines that have been set.
  - is managed through the use of investment management agreements and clear guidelines being provided to the Scheme's asset managers
- Asset and fund manager risk:
  - is measured by the expected deviation of the prospective risk and return, as set out in the asset and fund manager objectives, relative to the agreed benchmark.
  - is managed by monitoring the actual deviation of returns relative to the objective as well as factors supporting the investment process for each asset and fund manager. It is further managed through the diversification of the Scheme's assets between active and passive asset and fund managers and negotiation of appropriate investment management agreements.
- Counterparty risk:
  - is measured through the monitoring of the activities of the asset managers and assessing the custodians and the ability of the organisations to settle trades on time and provide secure safekeeping of the DB assets
  - is managed through the use of standard ISDA documentation, appropriate Credit Support Annexes and collateral management and by monitoring the custodians' activities and discussing the performance of the custodians with the asset and fund managers where appropriate. In addition, restrictions are applied as to who can authorise transfers of cash and the accounts to which transfers can be made and the Trustee does not allow its custodian to engage in any stock lending with the Scheme's assets.
- Covenant risk:
  - is measured by the level, ability and willingness of the Bank to support the continuation of the Scheme and to make good any current or future deficit.
  - is managed by assessing the interaction between the Trustee and the Principal Employers (for the HBUK Section, the HSBC Bank plc Section and the HGSU Section) businesses, as measured by a number of factors including the creditworthiness of the Banks and the size of the pension liability relative to a number of metrics reflecting the financial strength of the Banks.

The ALCo endorsed the SIP on 7 September 2023 and the full Board approved the SIP on 29 September 2023. Document effective from 1 October 2023.

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 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 Banks;
- developing a mutual understanding of investment and risk issues with the Banks;
- 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)asset and fund managers, investment advisors and other service providers;
- monitoring the exercise of the investment powers that they have delegated to the asset and fund 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;
- 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 Banks when reviewing the SIP.

The Trustee has delegated responsibility for a number of investment matters to the ALCo. The ALCo is responsible for selecting, monitoring the performance of and, when required, replacing asset and fund 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 Trustee's advisors 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. Asset and fund managers

In broad terms, the asset and fund managers will be responsible for:

- managing 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 assets;
- exercising rights (including voting rights) attaching to assets and undertaking engagement activities in respect of assets;
- having regard to the provisions of Section 36 of the Act insofar as it is necessary to do so.

The custodians of the assets (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..

The Trustee, the CIO and its advisors will have regular meetings with the asset and fund managers to ensure they continue to carry out their work competently and have the appropriate knowledge and experience to manage the assets of the Scheme.

3. Investment advisors

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

- advising on a suitable investment strategy 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 asset and fund managers; and
- participating with the Trustee in reviews of this SIP.

4. Fee structures

The Trustee recognises that the provision of asset and fund management and advisory services to the Trustee results in a range of charges to be met. These charges are accounted for in the Trustee's investment decision making. The Trustee monitors the level of additional expenses charged by managers to ensure that they remain appropriate.

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

5. 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 assets and the Trustee's investment providers and professional advisors 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: HBUK Section – CDI approach

Based on advice from the investment advisors and Scheme Actuary, the Trustee has adopted a CDI approach to investment strategy and hedging of investment risks. These assets seek to generate cashflows which broadly match the expected benefit obligations arising from the Scheme's liabilities. As such, the asset class weights in the Scheme are expected to evolve over time as asset cashflows are released, reducing the value of the Scheme assets and impacting the relative proportions of remaining assets. Some legacy Illiquid assets held under the preceding strategy have been placed in run off and remain within the Scheme until the run-off is complete. The broad allocations as the last review are summarised in the table below:

1. CDI Portfolio

Asset class	**Allocation (%)**
Credit (inc legacy, ABS/MBS)	50.0
Gilts, US Treasury Inflation Protected Securities, swaps and Cash	40.0
Illiquid Matching	10.0
Total physical assets	**100.0**

The strategy is also designed to mitigate risk (some rewarded, some unrewarded), as follows:

- **Interest rate hedging**: It is the Trustee's policy to hedge interest rate risk in the liabilities. The credit and illiquid matching assets within the Scheme provide a level of interest rate sensitivity, with the remainder of the target exposure provided by a completion portfolio of derivatives and gilts.
- **Inflation hedging**: It is the Trustee's policy to hedge inflation risk in the liabilities. Modest inflation exposure is provided by the Scheme's illiquid matching assets, with the remained of the target exposure provided by a completion portfolio of derivatives and gilts.
- **Currency hedging** (and overseas interest rate exposure): The Trustee's policy is that a proportion of the Scheme's foreign currency exposure generated by its overseas assets should be hedged back to sterling. This is achieved across several channels utilising instruments such as cross currency swaps and currency forwards.
- **Longevity hedging**: The Trustee considers that longevity (members living longer than anticipated) is a significant risk and as such have entered into longevity swap contacts to hedge the longevity risk of around 75% of the pensioner liabilities (as at 31 December 2019).

Appendix 3: HBUK Section – Manager Structure

The table below identifies the current asset and fund managers appointed, indices used as a performance measurement benchmark for each asset class and each manager's target performance. The manager line-up will change as the Scheme moves towards the benchmark allocations shown above.

DB fund or portfolio	DB fund or asset manager	Benchmark/Index	Performance target (for active management)
Private equity	Pathway Capital Management[2]	30% FTSE 100, 70% S&P 500[1]	4.0% per year over the long-term
UK corporate bonds (screened)	BlackRock Investment Management (UK) Limited	N/A – Mandate in run-off	N/A
UK corporate bonds	M&G Investments	N/A – Mandate in run-off	N/A
Global credit	Schroder Pension Management Limited	Custom mandate	N/A
Global credit	AXA Investment Management	Custom mandate	N/A
Global credit	Legal & General Investment Management	Custom mandate	N/A
Global credit	Loomis, Sayles & Company	Barclays Capital Global Aggregate Credit Index, (Dev Mkt GBP hedged)	0.75% - 1.0% per year over rolling three years
Asset-backed securities (US)	Wellington Management	3-Month T-Bills	1.3% - 1.8% per year over rolling five years
US Treasury Inflation Protected Securities ('TIPS')	Insight Investments	Custom mandate	N/A
Liquid Matching Assets (index-linked gilts and swaps)	Insight Investments	Custom mandate	N/A
Liquid Matching Assets (USD and GBP Core Portfolio)	Insight Investments	Custom mandate	N/A
Cash – liquidity	HSBC Global Asset Management	Sterling Overnight Index Average (SONIA)	N/A
UK commercial property	LaSalle Investment Management	N/A – Mandate in run-off	N/A
Illiquid Matching Assets (index-linked corporates)	M&G Investments	Custom mandate	N/A
Illiquid Matching Assets (property)	LaSalle Investment Management	Custom mandate	N/A
Illiquid Matching Assets (renewables)	Greencoat Capital	Custom mandate	N/A
Illiquid Matching Assets (infrastructure debt)	Vantage Infrastructure	Custom mandate	Gilts + 175 bps net of fees and expenses for fixed rate assets; SONIA + 175 bps net of fees and expenses for floating rate assets
Illiquid Matching Assets (ground rents)	Alpha Real Capital	Custom mandate	N/A

1) Included only for performance measurement, the Manager being required to manage to a different agreed benchmark.

2) Pathway also manages (on a monitoring basis) the legacy HSBC and Montagu private equity investments.

Appendix 4: HSBC Bank plc Section – Asset allocation and structure

2. Asset allocation

Based on advice from the investment advisors and Scheme Actuary, the Trustee has agreed to invest the HSBC Bank plc Section assets in a low-risk Diversified Growth Fund, two LDI pooled funds and a sterling liquidity fund. The Trustee will undertake to review the asset allocation on a regular basis and at least once every three years taking account of prevailing market conditions, investment opportunities and feedback from the Bank.

DB fund	DB fund manager	Benchmark/Index	Performance target (for active management)
Diversified Fund	Legal & General Investment Management	Composite	N/A
Pooled LDI Fund (Fixed)	Legal & General Investment Management	N/A	N/A
Pooled LDI Fund (Real)	Legal & General Investment Management	N/A	N/A
Sterling Liquidity Fund	Legal & General Investment Management	N/A	N/A

Appendix 5: HGSU Section – Asset allocation and structure

3. Asset allocation

Based on advice from the investment advisors and Scheme Actuary, the Trustee has agreed to invest the HGSU Section assets in a low-risk Diversified Growth Fund, two LDI pooled funds and a sterling liquidity fund. The Trustee will undertake to review the asset allocation on a regular basis and at least once every three years taking account of prevailing market conditions, investment opportunities and feedback from the Bank.

DB fund	DB fund manager	Benchmark/Index	Performance target (for active management)
Diversified Fund	Legal & General Investment Management	Composite	N/A
Pooled LDI Fund (Fixed)	Legal & General Investment Management	N/A	N/A
Pooled LDI Fund (Real)	Legal & General Investment Management	N/A	N/A
Sterling Liquidity Fund	Legal & General Investment Management	N/A	N/A

Appendix 6: Risk and return assumptions

4. HBUK Section

The HBUK Section's strategy was constructed with reference the cashflows generated by the assets. The allocations were set such that, accounting for a prudent amount of defaults, the assets are expected to generate cashflows that are broadly aligned with those of the Scheme's liabilities. The expected yield over gilts of the assets was 91bps as at the date of the most recent cashflow analysis (December 2022).

5. Bank and HGSU Sections

The asset class assumptions utilised in the latest HBEU and HGSU Section strategy work are as follows (effective 31 March 2023)

Asset classes	10 year median real return	10 year median returns over Gilts	10 year standard deviation (relative to RPI)
	% pa	% pa	% pa
Return Seeking Assets			
DGF	2.6%	2.5%	2.8%
Matching Assets			
Liability matching portfolio	0.0%	-0.2%	0.7%
UK Cash	0.1%	0.0%	0.7%

Appendix 7: Value at Risk

A key means by which the Trustee controls the risk of the HBUK Section assets relative to liabilities is through the liability hedging programme. This involves using derivatives and physical bonds to hedge the interest rate and inflation risks inherent in the Scheme's liabilities.

The Trustee considers a range of different risk measures in the context of different liability valuation bases. The Trustee's medium-term objective is to ensure that the assets are managed such that the Solvency VaR95 does not exceed 7.0% of the Scheme's solvency liabilities. The Trustee recognises that, in the short-term, VaR95 may exceed this medium-term objective due to short-term market conditions, and may not warrant an immediate change to the strategy. Consequently, the Trustee will keep this objective under regular review.