The UK European referendum result and your HSBC pension pot

For members of the HSBC Bank (UK) Pension Scheme

HSBC Bank Pension Trust (UK) Limited, 8 Canada Square, London, E14 5HQ
Registration number: 489775

HSBC

HSBC Bank (UK) Pension Scheme (the Scheme) – our investments and the UK European Union referendum result to 'leave'

Your annual benefit statement for the Scheme year to 30th June 2016 (the 'statement date') is ready for you to look at on My Pension (go to www.futurefocus.staff.hsbc.co.uk and click on the My Pension red button). Your statement is provided to show you how much money you had in your DC pension pot on 30th June 2016 and gives an estimate of the income that your pot might buy at your target retirement age.

On 23rd June 2016, a week before your statement date, the UK European Union (EU) referendum took place and the majority of people voted to leave the EU.The investment markets had an initial reaction to this news which was reflected in the amount of money in your DC pension pot on 30 June 2016.

It could be that you didn't notice any change particularly if you don't go into My Pension regularly to check how the money in your DC pension pot is doing. If you did visit My Pension in this period, you might have seen the value of your DC pension pot going up and down.

The initial reaction in the investment markets to the leave vote was that Sterling fell, UK Government Bonds rallied (yields went down), domestic UK Equities performed badly and there were concerns over the liquidity in the Commercial Property market.

So how might leaving the EU affect investment markets in the short and long term and therefore your DC pension pot?

Investment markets react in different ways to news and events that happen all the time, sometimes positively and sometimes negatively which means your DC pension pot will change. What's important though is to keep reminding yourself that:

- In the main, your DC pension pot is invested for the long term to give it a chance to grow and provide you with some form of financial security when you come to retire. This means there's always the possibility that you could see your DC pension pot going down as well as up over the period it's invested. The longer you leave it invested the more likely it is to grow.
- The Trustee has a duty and responsibility to regularly monitor and consider the appropriateness of the Scheme's investment strategy and the funds it offers to members. This is an ongoing process and is performed in partnership with the Scheme's professional advisers who are constantly looking at the changes in market conditions.

Overview of the DC investment performance

For those of you who'd like to see how the 13 investment funds performed during Q2 2016, (the period in which the EU referendum took place), the chart below shows the returns achieved for the Scheme:

Fund	Return %
UK Equities – passive	2.6%
Global Equities – passive	3.0%
Fixed Income Bonds- passive	6.8%
Index-Linked Bonds – passive	8.1%
Shariah Law Equities – passive	9.5%
Diversified Assets – active	1.8%
Property – active	0.6%
UK Equities – active	-3.0%
Global Equities – active	5.0%
Emerging Market Equities – active	7.5%
Cash – active	0.1%
Sustainable & Responsible Equities – active	3.9%
Global Bonds – active	-0.9%

If you'd like more information about the DC funds you can find the guide '<u>Your DC pension pot – your investment choice</u>' and the 'DC fund factsheets' in the library on futurefocus.

Global Equities Fund – passive

This fund invests 100% in the shares of companies from all over the world. On the assumption that eventually members will decide to retire in the UK, a portion of the non-Sterling currency within the fund is converted back to Sterling to reduce risk. Over Q2 2016, a strong, positive performance was generated from non-domestic UK Equities and the fund returned 3%.

We'd like to make a few comments about the three main funds that make up the Scheme's Lifecycle investment options as this is what the majority of members have their DC pension pot invested in.

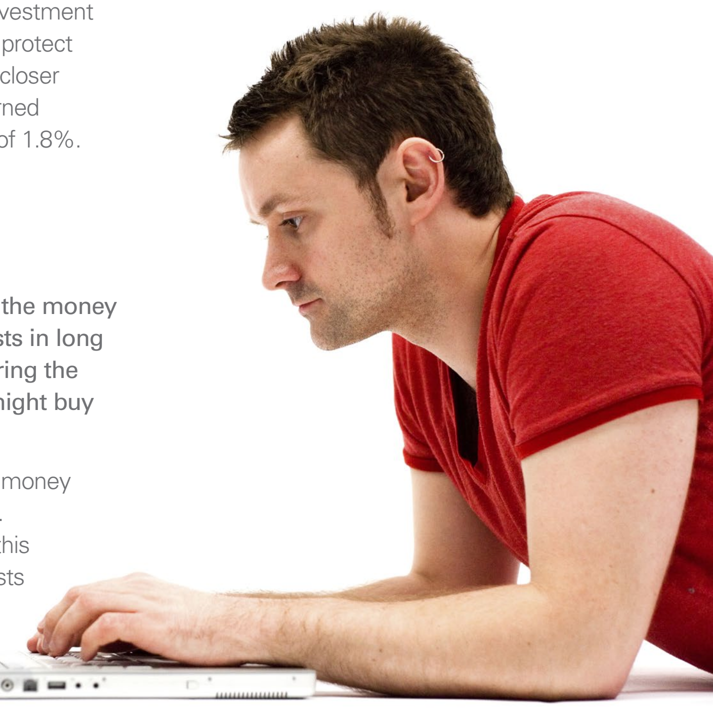
Diversified Assets Fund – active

This fund invests across a range of different assets including equities, bonds and property. It's an important part of the later stages of the Lifecycle investment options. It still tries to achieve a return above inflation but it also aims to protect members' DC pension pots from falls in the equity markets as they get closer to their target retirement age. As expected, over Q2 2016 the fund returned slightly less than the Global Equities – Passive fund with a positive return of 1.8%.

Fixed Income Bonds – passive

At the end stage of the Income Lifecycle investment option, a lot of the money that's in members' DC pension pots is moved into this fund. It invests in long dated UK Government and Corporate Bonds, with the aim of mirroring the investment strategy of an annuity provider (a company members might buy an income from at retirement).

This is designed to help reduce the risk of members not having enough money in their DC pension pots to buy an income when it's expensive to do so. Given the fall in Government bonds yields as a result of the leave vote, this fund returned a positive 6.8% over Q2 2016, helping to protect the interests of members who may be planning to buy an income.



Other funds

Following the referendum result, the UK Equities Fund – active performed negatively due to the amount of exposure to UK domestic companies. This is in contrast to the other equity funds that have significant overseas exposure which performed well, mainly due to the fall in the value of Sterling.

In addition, at the time of writing this note, it's important to reassure members who may have some of their DC pension pot in the Property Fund – active that all three of the underlying property funds that it invests in are open for business. Since the leave result, this is not the case for the retail property funds that the press reported on, which have closed to investor withdrawals.

The Trustee regularly monitors the effect investment markets are having on the DC funds. This is to make sure the funds continue to meet their objectives. It also reviews the Lifecycle, Flexicycle and Freechoice investment options (plus the DC funds that make up those options), to satisfy itself that what's on offer to members gives enough flexibility and choice to plan for retirement.

Remember, it's your responsibility to:

- **keep a check on how the money in your DC pension pot is doing, and**
- **think about whether your investment choice and target retirement age suit your retirement plans.**

Defined Benefit (DB) investment

Some of you have defined benefits in the Scheme and as a reminder, back in August 2016, you were told that the leaflet **'A Financial Health Check – Spring 2016 edition'** was available to read. This tells you the result of the triennial actuarial valuation of the Scheme as at 31 December 2014, which was:

Assets (money available)	£24.6bn
Liabilities (money needed to provide benefits)	£24.1bn
Funding level	102%

The 102% funding level compared well against the 2011 actuarial valuation when it stood at 100%. The DB assets are spread across a wide range of investments and have significant structures in place to protect the Scheme from any unexpected movements in interest rates, inflation and currencies.

After the EU result at the end of June 2016, the estimated funding level was still over 100%. The Trustee is moving ahead with the long term strategy to get to a more conservative funding position over time, while continuing to work collaboratively with the Sponsor.

The Trustee will continue to closely monitor the Scheme's investment strategy and the funds which are offered to you.

September 2016
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