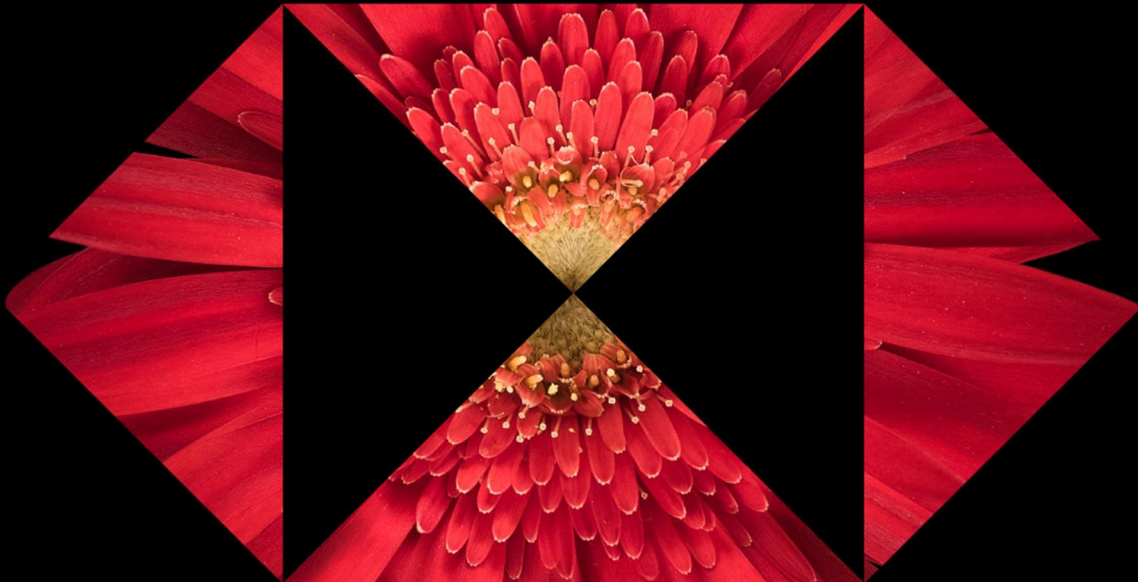


Asset Management

HSBC ASSET MANAGEMENT Remuneration Policy and Practice

January 2024



HSBC

Opening up a world of opportunity

Remuneration Policy and Practices (MIFIDPRU, AIFM and UCITS)

Background and purpose of the document

The purpose of this document is to set out the remuneration framework that HSBC Global Asset Management (UK) Limited ('AMEU'), HSBC Alternative Investments Limited ('HAIL'), and HSBC Asset Management (Fund Services UK) Limited (collectively known as 'the Companies' or 'the firms') operates for its employees, including employees who are identified as material risk takers ('MRTs') under the UK's Financial Conduct Authority's ('FCA') AIFM Remuneration Code (SYSC 19B part of the FCA Handbook) ('AIFM Code'), the UCITS Remuneration Code (SYSC 19E part of the FCA Handbook) ('UCITS Code') and MIFIDPRU Remuneration Code (SYSC 19G part of the FCA Handbook) ('MIFIDPRU Code').

Our reward proposition

Our workforce proposition is rooted in our purpose and values. Our commitment to reward colleagues fairly, along with the opportunity to do inspiring work, have impact and contribute within our international network make up our unique proposition. Our principles and supporting commitments articulate the experience for employees and provide a clear framework to creating a dynamic culture where the best talent is motivated to deliver high performance. These principles are:

- ◆ **We will reward you responsibly** through fixed pay security and protection through core benefits, a competitive total compensation opportunity, and pay equity with a more inclusive and sustainable benefits proposition over time
- ◆ **We will recognise your success** through our performance culture and routines, including feedback and recognition, pay for performance, and all employee share ownership opportunities
- ◆ **We will support you to grow** through our proposition beyond pay, with a focus on future skills and development, your mental, physical, social and financial well-being, and flexibility in working practices

Our remuneration structure

Total compensation, which comprises fixed and variable pay, is the key focus of our remuneration framework, with variable pay differentiated by performance and demonstration of values-aligned behaviours.

Our remuneration structure consists of the following key characteristics:

Remuneration components and objectives	Application
Fixed pay Attract and retain employees with market competitive pay for the role, skills and experience required.	<ul style="list-style-type: none"> ◆ May include salary, fixed pay allowance, cash in lieu of pension and other cash allowances in accordance with local market practices ◆ Based on predetermined criteria, non-discretionary, transparent and are not reduced based on performance ◆ Represents a higher proportion of total compensation for more junior employees ◆ May change to reflect an individual's position, role or grade, cost of living in the country, individual skills, capabilities and experience



Remuneration components and objectives

Application

	<ul style="list-style-type: none"> ◆ Fixed pay is generally delivered in cash on a monthly basis
<p>Benefits</p> <p>Support the physical, mental and financial health of a diverse workforce in accordance with local market practice.</p>	<ul style="list-style-type: none"> ◆ Benefits may include, but are not limited to, the provision of a pension, medical insurance, life insurance, health assessment and relocation support
<p>Variable pay</p> <p>Incentivise and reward performance based on annual financial and non-financial objectives/measures consistent with the medium-to long-term strategy, stakeholder interests and values-aligned behaviours.</p>	<ul style="list-style-type: none"> ◆ All employees are eligible to be considered for a discretionary variable pay award. Individual awards are determined against financial and non-financial goals set at the start of the year ◆ Represents a higher proportion of total compensation for more senior employees and will be more closely aligned to business performance as seniority increases ◆ Awards are generally paid in cash and shares. For Material Risk Takers ('MRTs'), at least 50% of the awards will be in shares. Where required by regulations, it will be paid in unit-linked asset management funds, along with a post-vesting retention period of up to one year
<p>Deferrals</p> <p>Align employee interests with the medium- to long-term strategy, stakeholder interests and values-aligned behaviours.</p>	<ul style="list-style-type: none"> ◆ A Group-wide deferral approach is applicable to all employees. A portion of annual incentive awards above a specified threshold is deferred in shares vesting annually over a three-year period (33% vesting on the first and second anniversaries of grant and 34% on the third) ◆ For individuals identified as an MRT, awards will generally be subject to a minimum 40% deferral (60% for awards of £500,000 or more) over a minimum period of four years ◆ The deferral requirement for MRTs identified under MIFIDPRU Code will not apply to individuals where their total variable pay is £167,000 or less and variable pay is not more than one-third of total compensation. For these individuals, the Group standard non-MRT deferral, as set out above, will apply ◆ The deferral requirement for MRTs identified under AIFM and/or UCITS Codes will not apply if total compensation is no more than £500,000 and variable pay is no more than 33% of total compensation. For these individuals, the Group standard non-MRT deferral, as set out above, will apply ◆ Individuals identified under the UK's Prudential Regulation Authority's ('PRA') remuneration rules, and those based outside the UK and identified as MRTs under local regulations would also be subject to PRA / local requirements where necessary ◆ For MRTs under MIFIDPRU, AIFM and/or UCITS Codes, a minimum of 50% of the upfront (non-deferred) and deferred awards will be either in HSBC shares or awards linked to relevant fund units. The balance will be in cash ◆ Where an employee is subject to more than one regulation, the requirement specific to the sector and/or country in which the individual is working will generally take priority and be applied in a manner to achieve compliance with all applicable regulations to the extent possible and taking into account operational considerations
<p>Target variable remuneration</p> <p>Support recruitment of key individuals.</p>	<ul style="list-style-type: none"> ◆ Target variable pay is an indicative value, which is awarded in exceptional circumstances for new hires, and is limited to the individual's first year of employment only, and is subject to a number of factors (such as the respective performance of the Group, business unit and individual), and the final value paid remains at the full discretion of HSBC

Remuneration components and objectives

Application

	<ul style="list-style-type: none"> ◆ The exceptional circumstances would typically involve a critical new hire and would also depend on the factors such as the seniority of the individual, where the new hire candidate is forfeiting any awards and the timing of the hire during the performance year
Severance payments Adhere to contractual agreements with involuntary leavers.	<ul style="list-style-type: none"> ◆ Where an individual's employment is terminated involuntarily for gross misconduct then, subject to compliance with local laws, the policy is not to make any severance payment in such cases and all outstanding unvested awards are forfeited ◆ For other cases of involuntary termination of employment, the determination of any severance will take into consideration the performance of the individual, contractual notice period, applicable local laws and circumstances of the case

Link between risk, performance and reward

Our remuneration practices promote sound and effective risk management while supporting our business objectives and the delivery of our strategy.

We set out below the key features of our framework, which help enable us to achieve alignment between risk, performance and reward, subject to compliance with local laws and regulations.

Framework elements

Application

Variable pay pool	<ul style="list-style-type: none"> ◆ The main quantitative and qualitative performance and risk metrics used for assessment of performance include: <ul style="list-style-type: none"> • Group and business unit financial performance, taking into account contextual factors driving performance, and capital requirements; • current and future risks, taking into consideration performance against the risk appetite, financial and resourcing plan and global conduct outcomes; and • fines, penalties and provisions for customer redress ◆ In the event that HSBC Holdings plc was unable to distribute dividends to shareholders for reasons such as capital adequacy, then it may determine that as a year of weak performance. In such a year, HSBC may withhold some, or all, variable pay for employees including unvested share awards, using the metrics outlined above as a basis for that determination
Individual performance scorecard	<ul style="list-style-type: none"> ◆ Assessment of individual performance is made with reference to clear and relevant financial and non-financial objectives ◆ Objectives for senior management take into account appropriate measures linked to sustainability risks, such as: reduction in carbon footprint; facilitating financing to help clients with their transition to net zero; employee diversity targets; and risk and compliance measures ◆ A mandatory global risk objective is included in the scorecard of all other employees ◆ All employees receive a behaviour rating as well as a performance rating, which ensures performance is assessed not only on what is achieved but also on how it is achieved
Variable pay adjustments and conduct recognition	<ul style="list-style-type: none"> ◆ Variable pay awards may be adjusted downwards in circumstances including: <ul style="list-style-type: none"> • detrimental conduct, including conduct that brings HSBC into disrepute; • involvement in events resulting in significant operational losses, or events that have caused or have the potential to cause significant harm to HSBC; and

Framework elements	Application
	<ul style="list-style-type: none"> • non-compliance with the values-aligned behaviours and other mandatory requirements or policies ◆ Rewarding positive conduct may take the form of use of our global recognition programme, At Our Best, or positive adjustments to variable pay awards
Malus	<p>Malus can be applied to unvested deferred awards granted in prior years in circumstances including:</p> <ul style="list-style-type: none"> ◆ detrimental conduct, including conduct that brings the business into disrepute; ◆ past performance being materially worse than originally reported; ◆ restatement, correction or amendment of any financial statements; and ◆ improper or inadequate risk management
Clawback	<p>Clawback can be applied to vested or paid awards over a period of up to 10 years in circumstances including:</p> <ul style="list-style-type: none"> ◆ participation in, or responsibility for, conduct that results in significant losses; ◆ failing to meet appropriate standards and propriety; ◆ reasonable evidence of misconduct or material error that would justify, or would have justified, summary termination of a contract of employment; and ◆ a material failure of risk management suffered by HSBC or a business unit in the context of Group risk-management standards, policies and procedures
Anti-hedging provisions	<ul style="list-style-type: none"> ◆ HSBC operates an anti-hedging policy for all employees, which prohibits employees from entering into any personal hedging strategies in respect of HSBC shares or other units/securities granted to them as part of their variable pay award which is subject to a vesting or post-vesting retention period

Application of malus and clawback

Risk events that have occurred across the Group are taken into consideration in assessing performance and variable pay of relevant individuals. Events are classified, investigated and reviewed per the Reportable Incidents and Notable Events process by representatives from Operational and Resilience Risk, Regulatory Compliance, Financial Crime Risk, Internal Audit and others as appropriate following which an individual's accountability for the event is established and consequence management actions are recommended, including any adjustments to variable pay. The level of adjustment to variable pay is based on the employee's proximity to the event given their role, as well as mitigating and aggravating factors relevant to the individual and is subject to the discretion of line / senior managers or, where appropriate, HSBC's Group Remuneration Committee. Adjustments may be applied to either in-year variable pay, or as a malus adjustment to unvested deferred remuneration. In the most serious cases, clawback can be used to recoup paid variable pay.

Our governance framework and oversight

The HSBC Group Remuneration Committee ('the Committee') is responsible for setting the overarching principles, parameters and governance of the Group's remuneration framework. The Committee regularly reviews the framework to ensure it supports the Group's purpose, values, culture and strategy, as well as promoting sound risk management. The Committee also reviews the framework to satisfy itself that it complies with the regulatory requirements of multiple jurisdictions.

The Committee receives input and advice from different advisers on specific topics during the year. Deloitte provided independent advice to the Committee during 2022.

The obligation for HSBC Global Asset Management (UK) Limited to establish a remuneration committee is satisfied by the HSBC Group Remuneration Committee based on the modification to rules MIFIDPRU 7.3.3 and 7.3.5 directed by the Financial Conduct Authority ('FCA'). A full description of the modification to these rules is available on the FCA register.

The Board of HSBC Global Asset Management (UK) Limited ('the Board') oversees the reward policy and its application to its businesses and functions, which is aligned to that of the Group. The Board's responsibilities include:

- ◆ reviewing the effectiveness of remuneration policies and practices to ensure compliance with regulations and business strategy;
- ◆ ensuring the approach taken to identify MRTs is appropriate and approving the identified MRT population;
- ◆ reviewing the pay review outcomes of each performance year, including the deferral and post-vesting retention period applied for variable pay awards; and
- ◆ reviewing variable pay awards granted to MRTs and their compliance with the requirements of the respective Remuneration Codes

To ensure there is no conflict of interest between the Board and the control functions of the entity, HSBC's Group Remuneration Committee is responsible for approving the remuneration for the position of the Asset Management Chief Risk and Compliance Officer and the Asset Management Head of Internal Audit.

Identification of Material Risk Takers

Individuals who are identified as MRTs under applicable regulatory rules are generally subject to specific remuneration rules prescribed in the relevant rules. The criteria to be used for identifying MRTs are prescribed in the relevant rules, and this generally involves taking into account the roles and responsibility of the individuals and the risk impact of their professional activities.

HSBC Global Asset Management (UK) Limited identifies MRTs under the criteria set out under the FCA's MIFIDPRU Remuneration Code (SYSC 19G.5), FCA's AIFM Remuneration Code (SYSC 19B) and FCA's Remuneration Code (SYSC 19E). The outcome of the MRT identification is also subject to review and approval by the Board and includes members of staff whose professional activities have a material impact on the risk profile of the firm or of the assets that the firm manages. For example:

- ◆ members of the management body and senior management at HSBC Global Asset Management (UK) Limited;
- ◆ employees that have managerial responsibility for a key business unit;
- ◆ individuals responsible for the activities of a control function, prevention of money laundering and terrorist financing, information technology and security; and
- ◆ voting members of the Product Approval Committee
- ◆ CEOs and CIOs of AM Group entities who have sub-delegated Investment Management Arrangements with AMEU.

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