

## REMUNERATION PRACTICES AND GOVERNANCE ARRANGEMENT FOR UCITS AND AIFMD AUTHORISED ENTITIES

Our remuneration strategy is designed to reward competitively the achievement of long-term sustainable performance and attract and motivate the very best people who are committed to maintaining a long-term career with the Group and performing their role in the long-term interests of our stakeholders.

### Remuneration strategy

HSBC's reward package consists of three key elements:



The purpose of the fixed pay is to attract and retain employees by paying market competitive pay for the role, skills and experience required for the business. This includes salary, fixed pay allowance, cash in lieu of pension and other cash allowances in accordance with local market practices. These payments are fixed and do not vary with performance.



The Group provides benefits in accordance with local market practice. This includes but is not limited to the provision of pensions, medical insurance, life insurance, health assessment, and relocation allowances.



Awards to drive and reward performance based on annual financial and non-financial measures consistent with the medium to long-term strategy, shareholder interests and adherence to HSBC values. Awards can be in the form of cash, shares and any other fund-linked instruments as appropriate. A portion of the annual incentive award is deferred and vests over a period of 3 to 7 years.

### Remuneration

The table below sets out the governance framework and remuneration principles, subject to compliance with any local laws and regulations; that will apply to the employees identified under

- each UCITS authorised entities within the Group in accordance with Article 14a(3) of the UCITS directive (UCITS Identified Staff); and/or
- each AIFM authorised entities within the Group in accordance with Article 13(1) of the AIFMD directive (AIFMD Identified Staff)

To the extent any Group remuneration principle is more stringent than these remuneration principles and any applicable local requirements then, all the relevant local regulations and requirements will be considered and the more specific/stringent rules applicable will be applied.

## REMUNERATION CODE PRINCIPLES

### **Principle 1: Remuneration policy promotes sound and effective risk management**

- ✓ Performance scorecards of senior executives align business objectives and risk objectives and are cascaded down through HSBC.
- ✓ Risk and compliance assessments are a critical part of the assessment process in determining the performance and remuneration of all employees.

### **Principle 2: Remuneration policy supports business strategy, objectives, values and long-term interests of the management company/AIFM, the UCITS/AIF it manages and the investors of the UCITS/AIF**

- ✓ Remuneration decisions are based on a combination of performance against business objectives, performance of the UCITS/AIF and general individual performance in the role.
- ✓ Adherence to the HSBC values, business principles, Group risk-related policies and procedures and Global Standards are key considerations that are taken into account for determining variable pay pool and awards.

### **Principle 3: Remuneration policy includes measures to avoid conflicts of interest**

- ✓ All variable pay and incentive schemes are required to adhere to a set of policy principles and require approval of Finance, Risk, Legal, Compliance and HR Functions.
- ✓ The executives of the management company/AIFM cannot be involved in deciding their own remuneration.
- ✓ No executive or line manager can approve the remuneration for a direct report.

### **Principle 4: Governance of remuneration policy**

- ✓ Taking into account proportionality rules and guidance provided by local regulators, where required by applicable local law and regulations, the management companies/AIFMs should set up a Remuneration Committee ('RemCo'). In the absence of a RemCo, the management companies/AIFMs should adopt the principle set out in this document, subject to compliance with any applicable local law and regulations.
- ✓ The RemCo should periodically review the adequacy and effectiveness of the remuneration policy.
- ✓ Implementation of the remuneration principles should be subject to an independent internal review at least annually.

### **Principle 5: Employees in control functions are independent, have appropriate authority and are remunerated adequately and based on functional objectives**

- ✓ Individuals in control functions must have a direct reporting line through the functions rather than through the business to ensure that conflicts of interest are avoided.
- ✓ Control functions must be represented at the most senior levels within the management companies/AIFMs.

- ✓ Senior individuals in control functions, including risk and compliance must provide inputs for remuneration decisions, specifically in relation to individuals involved in any reportable incident or notable events.
- ✓ The performance and remuneration of control function staff is determined according to a balanced scorecard of objectives specific to the functional role they undertake.
- ✓ Remuneration is carefully benchmarked with the market and internally to ensure that it is set at an appropriate level.

**Principle 6: Pension policy is in line with business strategy, objectives, values and long term interests**

- ✓ Pensions policies must be reviewed to ensure they are in line with market practice and sustainable.
- ✓ No discretionary pension benefits can be awarded without prior approval of the Group Remuneration Committee.

**Principle 7: Employees undertake not to use personal investment strategies to undermine the risk alignment effects of remuneration arrangements**

- ✓ The Group Standards Manual requires employees not to use personal hedging strategies or remuneration or liability related contracts of insurance in connection with any unvested deferred remuneration awards or any vested awards subject to a retention period.
- ✓ Employees are required to make an annual declaration of compliance with this requirement.

**Principle 8: Variable remuneration is not paid through vehicles that facilitate non-compliance with any applicable regulations**

- ✓ The principles of any applicable local regulation must be applied taking into account group policies and proportionality principles that apply.
- ✓ All variable pay awards must be delivered in the form of cash, HSBC shares and/or, if required, awards linked to value of any applicable fund units, taking into account local laws, regulation and any regulator guidance that may apply.

**Principle 9: Remuneration structure is consistent with and promotes effective risk management**

- ✓ Remuneration decisions are based on a combination of business results, performance against objectives set out in performance scorecards, general individual performance of the role and adherence to the HSBC values, business principles, Group risk-related policies and procedures and Global Standards.
- ✓ Guaranteed bonuses are paid exceptionally and limited to the first year of employment.
- ✓ Fixed and variable components of total remuneration are appropriately balanced and the fixed component represents a sufficiently high proportion of the total remuneration to allow the operation of a fully flexible policy on variable remuneration components.

- ✓ The variable pay awards for UCITS/AIFMD Identified Staff are structured as follows, subject to any applicable local law, regulations, regulatory guidance and proportionality rules:
  - The higher of any regulatory deferral requirement and the group deferral requirement is applied for all variable pay awards.
  - In general, 40% of a variable pay award is deferred for a minimum period of 3 years and vests pro-rata on each anniversary of the award date. This increases to 60% for a variable pay award of USD 750,000 or more.
  - 50% of an annual incentive award (both deferred and non-deferred component) is delivered in shares and/or, where required, awards linked to applicable fund units and where required subject to an appropriate retention period on vesting.
  - Variable pay awards are subject to malus provisions and can be reduced or cancelled in appropriate circumstances.
  - Where applicable under local law, all variable pay awards are subject to clawback.
- ✓ Where delegating investment management activities, the management companies/AIFMs must ensure that the entities to which investment management activities have been delegated are subject to requirements on remuneration that are equally as effective as those applicable under these principles.