HSBC Bank (UK) Pension Scheme

DC governance statement for the year ended 31 December 2023

HSBC

1. Chair's foreword

Russell Picot
Chair of the Trustee Board

"Good governance helps our members to achieve a better retirement outcome from their Defined Contribution benefits."

As Trustee of the HSBC Bank (UK) Pension Scheme ('Scheme'), we play a key role in ensuring that the Scheme is well managed. I am pleased to introduce this update that explains more about our work over the year.

We are committed to maintaining effective governance processes that support good decision making, manage risks and safeguard our members' benefits. Very importantly, good governance helps our members to achieve a better retirement outcome from their Defined Contribution ('DC') benefits.

We regularly review our governance processes and once a year we produce a statement to describe how we have managed the Scheme. This annual statement is required by pensions law for schemes that provide DC benefits. It is signed by me, on behalf of the Trustee Board, and is called the DC Governance Statement ('Statement').

The aim of this Statement is to provide more information for our members with DC benefits about the governance processes that we have in place and how these have met the legal requirements.

For our Scheme, this Statement covers the DC benefits of members with only a DC pension pot, members with Hybrid benefits that include a DC pension pot and members with Additional Voluntary Contributions ('AVCs').

Why is good governance important?

We spend a lot of time on the design and oversight of the Scheme's DC investment options, charges and member services. This is because they are very important for the retirement outcomes of over 96,000 of our members.

A short summary (see right) sets out why good governance is important with references to the relevant section so that you can find out more about each topic later in this Statement.

We hope that you find this Statement interesting and helpful.

Providing a good range of investment options

The majority of our members have their DC pension pots invested in the default investment arrangements. That's why we regularly review their design, suitability and performance. Over the year, we completed a comprehensive review and decided to update the targeted investment strategies in 2024. We also aim to make sure that you have a broad range of appropriate investment options for your DC pension pot.

See sections 2 and 6

Delivering the services you need

It's essential that your DC pension pot or AVCs are properly looked after and that financial transactions are accurate and timely. That's why we regularly review the service standards you receive from the Scheme's administrators and AVC providers. We also check to make sure they have appropriate processes in place to manage risks.

See section 3

Ensuring you get value for money

To help you get the most out of your DC pension pot, the Bank pays the Scheme's administration costs, investment management fees and the platform expenses. The charges paid by members with a DC pension pot are limited to the fund managers' small additional expenses and transaction costs. We review these member charges to make sure they remain highly competitive. We also check to make sure all member charges continue to represent good value for your money for the wide range of services and options provided for DC benefits.

See sections 4 and 6

Helping your DC pension pot to grow

We set targets for each DC investment fund and regularly monitor both performance and risk over the short and long term. When necessary, we make changes to the investment options.

See section 5

Looking after your interests

Our role as Trustee Directors is to look after the Scheme and the interests of our members. We obtain advice from advisors and ensure that all the Trustee Directors have up to date knowledge. The Trustee Directors bring a diverse range of skills and experience to make sure the Scheme is well run.

See section 7

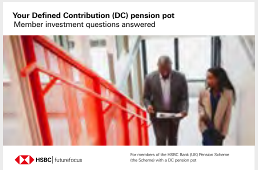
£7.2 billion
combined value of DC pension pots at 31 December 2023

More about some of the services we provided to our members with a DC pension pot in 2023

New services to meet members' needs

Asked members for their DC investment questions. Following a great response, we added a guide and video to futurefocus (see page iii) to explain more about the basics of DC investment:

Member investment questions answered

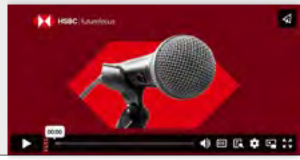


How the Targeted Investment Strategies work

Ran a campaign to encourage members to save for their retirement. We highlighted what members needed to know and published a myth-busting podcast on futurefocus (see page iii):

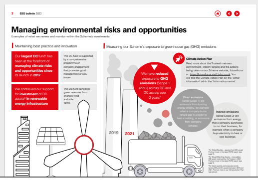
Savings campaign

Myth-busting podcast



Published the first annual bulletin on futurefocus (see page iii) about our work managing Environmental, Social and Governance (ESG) risks and opportunities across the Scheme's assets:

ESG bulletin



Fully updated our annual benefit statements to provide members with clear information about their investments and both current and projected DC pension pot:

Updated benefit statements

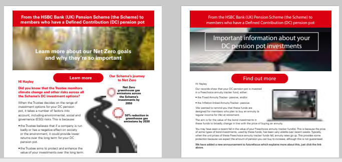
Keeping members up to date

Every year we produce a newsletter to keep members up to date with developments and news about the Scheme:

Member newsletter

Over 15 targeted email campaigns were run to raise awareness and support members' decision making:

Email campaigns



Who helps to run the Scheme?

Trustee	The Trustee is responsible for making sure the Scheme is run well and in accordance with the Scheme's Rules and legislation. There are 11 Trustee Directors on the Trustee Board. The Trustee responsibilities are wide ranging, from the collection of contributions to the investment of assets, the administration of membership records and the payment of benefits. In broad terms, the Trustee's role is to act in the best interests of the Scheme's members.
Pension Scheme Executive ('PSE')	The PSE is a team of experienced pension professionals who are employed by the Bank and support the Trustee to meet its responsibilities and with the day-to-day oversight of the Scheme. The PSE is fully accountable to the Trustee.
Scheme administrators	The administration and record keeping for the Scheme is outsourced to specialist pension service providers appointed by the Trustee.
Scheme advisors	The Trustee appoints advisors including the actuarial, legal and investment advisors as well as the auditor. The Trustee has full access to their expertise and for certain activities and decisions, is required by law to obtain their advice.

Where can you get more information?

If you want to read more, you can find the following Scheme documents in the information centre on the Scheme's website, futurefocus. Go to https://futurefocus.staff.hsbc.co.uk:

DC investment guide

Explains the range of investment options available for your DC pension pot.

Member guide

Explains how the Scheme works including your benefits and options (please refer to the relevant guide for your benefits).

Statements of Investment Principles - Defined Contribution ('SIP')

Sets out how the Trustee invests the Scheme's DC assets. This has an accompanying document called the Annual Implementation Statement (DC) that explains how the SIP has been followed during the year.

Trustee's Annual Report and Financial Statements

Shows the money coming into and paid out of the Scheme during the year.

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1. What this Statement covers

This Statement describes how the Scheme has met its legal governance requirements in relation to:

- the Scheme's default investment options (including the Flexible Income Strategy and the Lump Sum Strategy in which members are invested, other legacy strategies and funds also classed as default arrangements);
- the requirements for processing financial transactions;
- the charges and transaction costs borne by members;
- an illustration of the cumulative effect of these costs and charges;
- investment returns;
- a 'value for members' assessment; and
- Trustee knowledge and understanding.

The Trustee must monitor these areas and produce this Statement to fulfil its regulatory requirements. The Trustee also believes that good governance, including appropriate systems and controls, support the delivery of important goals set out in the Trustee mission statement, which include "providing high quality investment options" to members and "helping members to make well informed decisions about their retirement savings".

The Scheme is used as a Qualifying Scheme for automatic enrolment purposes.

This Statement covers the period from 1 January 2023 to 31 December 2023 (the 'Scheme year') and relates only to the DC benefits of members with a DC pension pot, members with Hybrid benefits that include a DC pension pot and members with AVCs in the Scheme.

2. Default investment arrangements

The Trustee has made available a range of investment options for members. Each member is responsible for specifying one or more options for the investment of their account, having regard to their attitude to the risks involved. If a member does not choose an investment option, from the range available in the Scheme, their DC pension pot and any future contributions are automatically invested in the Scheme's default arrangement applicable to them. This is managed as a 'targeted' strategy (i.e. it automatically combines assets in proportions that vary according to the time to retirement age). The targeted strategies are 100% invested in equities until twenty years from a member's target retirement age from which time they switch gradually into lower risk assets appropriate to the type of retirement income targeted.

2.1. Main default investment arrangements

The Scheme has different default arrangements for members, depending on the type of benefits they have. The default options have been designed, with support from the Scheme's advisors, to be in what the Trustee believes to be the best interests of the majority of the members based on the demographics of the Scheme's membership.

The Scheme has two main default arrangements which are targeted strategies: the Flexible Income Strategy and the Lump Sum Strategy. These targeted strategies were set as the default investment arrangement for two different groups of members, those with only a DC pension pot and those who are members with Hybrid benefits (former active members with DB benefits on 30 June 2015 who became active members with DC benefits from 1 July 2015), respectively.

For members with only a DC pension pot, the Flexible Income Strategy is the default arrangement. It is designed for members, at their retirement or beyond, to take 25% of their DC pension pot as a cash lump sum and the balance to provide a flexible income (e.g. income drawdown), spreading the amount and timing of withdrawals. Members can do this by transferring their DC pension pot out of the Scheme. This strategy works by switching the investment mix of members' DC pension pots from the Global Equities – passive Fund into the Diversified Assets – active Fund and then de-risks into the Global Bonds – active Fund and the Cash – active Fund whilst continuing to hold an allocation to the Diversified Assets – active Fund as the members near retirement. This design is based on the demographic profile of the membership and the generous contribution structure combined with the belief that members are likely to both accrue large pots and choose to take a flexible income. Market trends and Scheme experience since the introduction of Pension Freedoms in 2015 also indicate that members with larger DC pension pots are moving away from purchasing annuities and are choosing flexible income instead.

For members with Hybrid benefits, the Lump Sum Strategy is the default arrangement. It is designed for members to use their DC pension pot for a cash lump sum at their target retirement age or beyond. This strategy works by switching the investment mix of members' DC pension pots from the Global Equities – passive Fund into the Diversified Assets – active Fund and the Global Bonds – active Fund and then partially (50%) de-risks into the Cash – active Fund as the member nears retirement. The rationale for this design is the belief that many members with Hybrid benefits are expected to use their DC pension pot as part of their overall Scheme tax-free cash lump sum at retirement.

As a material proportion of members continue to leave their DC pension pots invested past retirement, the Trustee has ensured that both the Flexible Income Strategy and the Lump Sum Strategy continue to de-risk after members' target retirement age. This was introduced following the triennial investment strategy and performance review in 2017 and confirmed as remaining appropriate as part of the triennial investment strategy review that took place on 3 March 2023 which concluded that the Trustee continues to support this view.

2.2. Legacy default investment arrangements

There are two additional legacy default arrangements: the Annuity Purchase Strategy and the Cash Lifecycle. These strategies are no longer used as default arrangements for new members. A number of members who were within one year of their target retirement age at the time of the asset transition to the current Flexible Income Strategy and the Lump Sum Strategy were allowed to remain invested in these legacy default targeted strategies.

The Annuity Purchase Strategy is designed for members to take 25% of their DC pension pot as a cash lump sum and the balance to buy an annuity (a regular income for life) at their target retirement age. This strategy works by switching the investment mix of members' DC pension pots from the Global Equities – passive Fund into the Diversified Assets – active Fund and then de-risks into the Fixed Annuity Tracker – passive Fund and Cash – active Fund as the member nears retirement. The objective of the Annuity Purchase Strategy is to be appropriate for members intending to take their benefits in the form of an annuity at retirement.

The Cash Lifecycle is designed for members to use all of their DC pension pot for a cash lump sum at their target retirement age. This strategy works by switching the investment mix of members' DC pension pots from the Global Equities – passive Fund into the Diversified Assets – active Fund and then de-risks into the Cash – active Fund as the member nears retirement. The objective of the Cash Lifecycle is to be appropriate for members seeking to take their entire pot as a cash lump sum at retirement. All members invested in the Cash Lifecycle are at or within 5 years to or beyond target retirement age.

Additional default investment arrangement

The Scheme also makes use of an additional default fund called the Cash - active (default) Fund (previously named the Cash – active (ex-Property) Fund). This fund was introduced in March 2020 (and held a small amount of assets from March 2020 to early December 2020) as a result of a decision taken to ensure that there was a fund where members' contributions could be allocated if their selected fund closed (as was the case for the Property – active Fund in 2020). This fund invests in the same underlying fund as the Cash - active Fund. As members' contributions can be directed into this fund without them making an active selection, this fund will continue to be treated as a default for the purpose of fulfilling legislative requirements.

The objective of the Cash – active (default) Fund is to protect the absolute value of the investment by investing in deposits and other short-term money market instruments. The fund aims to perform in line with its benchmark.

2.3. Asset allocation breakdown

The Trustee is required to calculate the percentage of the Scheme's assets within the default arrangements allocated to each of the following asset classes. In line with the DWP's guidance the Trustee has also shown this asset allocation for different ages as at the Scheme year end.

Flexible Income Strategy (main default for members with only a DC pension pot)

Asset class	Allocation 25 y/o %	Allocation 45 y/o %	Allocation 55 y/o %	Allocation at retirement %
Cash	0.0	0.0	1.0	29.5
Corporate bonds (UK and overseas)	0.0	0.0	13.6	30.2
UK government bonds	0.0	0.0	2.8	2.8
Overseas government bonds	0.0	0.0	3.8	14.0
Listed equities	100.0	100.0	69.7	15.7
Private equity	0.0	0.0	0.0	0.0
Infrastructure (direct)	0.0	0.0	0.0	0.0
Property (direct)	0.0	0.0	0.8	0.6
Private debt	0.0	0.0	1.7	1.3
Other[1]	0.0	0.0	6.9	5.8
Total[2]	100.0	100.0	100.0	100.0

[1]Other includes gold, emerging market climate bonds, sustainable convertible bonds, insurance linked securities and derivatives. [2]Figures may not sum due to rounding.

Lump Sum Strategy (main default for members with Hybrid benefits)

Asset class	Allocation 25 y/o %	Allocation 45 y/o %	Allocation 55 y/o %	Allocation at retirement %
Cash	0.0	0.0	1.0	33.1
Corporate bonds (UK and overseas)	0.0	0.0	13.6	41.4
UK government bonds	0.0	0.0	2.8	1.3
Overseas government bonds	0.0	0.0	3.8	23.5
Listed equities	100.0	100.0	69.7	0.0
Private equity	0.0	0.0	0.0	0.0

Infrastructure (direct)	0.0	0.0	0.0	0.0
Property (direct)	0.0	0.0	0.8	0.0
Private debt	0.0	0.0	1.7	0.0
Other[1]	0.0	0.0	6.9	0.8
Total[2]	100.0	100.0	100.0	100.0

[1]Other includes gold, emerging market climate bonds, sustainable convertible bonds, insurance linked securities and derivatives. [2]Figures may not sum due to rounding.

Annuity Purchase Strategy (legacy default and current self-select ("Freechoice" option)

Asset class	Allocation 25 y/o %	Allocation 45 y/o %	Allocation 55 y/o %	Allocation at retirement %
Cash	0.0	0.0	1.0	25.0
Corporate bonds (UK and overseas)	0.0	0.0	13.6	27.0
UK government bonds	0.0	0.0	2.8	48.0
Overseas government bonds	0.0	0.0	3.8	0.0
Listed equities	100.0	100.0	69.7	0.0
Private equity	0.0	0.0	0.0	0.0
Infrastructure (direct)	0.0	0.0	0.0	0.0
Property (direct)	0.0	0.0	0.8	0.0
Private debt	0.0	0.0	1.7	0.0
Other[1]	0.0	0.0	6.9	0.0
Total[2]	100.0	100.0	100.0	100.0

[1]Other includes gold, emerging market climate bonds, sustainable convertible bonds, insurance linked securities and derivatives. [2]Figures may not sum due to rounding.

Cash Lifecycle (legacy default arrangement)

Asset class	Allocation 25 y/o %	Allocation 45 y/o %	Allocation 55 y/o %	Allocation at retirement %
Cash	0.0	0.0	1.0	100.0
Corporate bonds (UK and overseas)	0.0	0.0	13.6	0.0
UK government bonds	0.0	0.0	2.8	0.0
Overseas government bonds	0.0	0.0	3.8	0.0
Listed equities	100.0	100.0	69.7	0.0

Private equity	0.0	0.0	0.0	0.0
Infrastructure (direct)	0.0	0.0	0.0	0.0
Property (direct)	0.0	0.0	0.8	0.0
Private debt	0.0	0.0	1.7	0.0
Other[1]	0.0	0.0	6.9	0.0
Total[2]	100.0	100.0	100.0	100.0

[1]Other includes gold, emerging market climate bonds, sustainable convertible bonds, insurance linked securities and derivatives. [2]Figures may not sum due to rounding.

Cash active (default) Fund (additional default arrangement)

Asset class	Allocation 25 y/o %	Allocation 45 y/o %	Allocation 55 y/o %	Allocation at retirement %
Cash	100.0	100.0	100.0	100.0
Corporate bonds (UK and overseas)	0.0	0.0	0.0	0.0
UK government bonds	0.0	0.0	0.0	0.0
Overseas government bonds	0.0	0.0	0.0	0.0
Listed equities	0.0	0.0	0.0	0.0
Private equity	0.0	0.0	0.0	0.0
Infrastructure (direct)	0.0	0.0	0.0	0.0
Property (direct)	0.0	0.0	0.0	0.0
Private debt	0.0	0.0	0.0	0.0
Other[1]	0.0	0.0	0.0	0.0
Total[2]	100.0	100.0	100.0	100.0

[1]Other includes gold, emerging market climate bonds, sustainable convertible bonds, insurance linked securities and derivatives. [2]Figures may not sum due to rounding.

There are no performance fees attached to the default arrangements and therefore performance fees make up 0% of the of the average value of the assets held by that default arrangement.

2.4. Statement of Investment Principles

The Trustee is responsible for the Scheme's investment governance, which includes setting and monitoring the investment strategy for the Scheme's default arrangements.

Details of the objectives and the Trustee's policies regarding the default arrangements can be found in a document called the 'Statement of Investment Principles - Defined Contribution' ('SIP'). The Scheme's most recent DC SIP covering the default arrangements is attached to this Statement.

As stated in the SIP, the Trustee aims to provide default arrangements that the Trustee believes to be in the best interests for those members who do not wish to make their own investment decisions. As at the end of the Scheme Year, the Scheme's Flexible Income Strategy and the Lump Sum Strategy's objectives were to generate returns significantly above inflation whilst members are some distance from retirement, but then to switch automatically and gradually into less risky assets as the member nears retirement, with the asset allocation at retirement being designed to be appropriate for members who wish to flexibly take their benefits through an income drawdown arrangement or remain invested in the Scheme or, in the case of the Lump Sum Strategy take their retirement pot as cash.

The objectives of the Scheme's other default arrangements are noted in the applicable sections above.

2.5. Monitoring and review

The Trustee formally reviews the strategy and performance of the default arrangements (and other investments) in detail at least every three years or immediately following any significant change in investment policy or the Scheme's member profile. The last formal triennial investment strategy and performance review took place on 3 March 2023.

As part of the triennial strategy review, the Trustee has agreed to update the structure of the three targeted strategies: Flexible Income, Lump Sum and Annuity Purchase strategies. The current approach of these targeted strategies is for members to be invested in white-labelled funds, split by asset class. The newly agreed approach is to begin using four new funds; the Early Growth fund, the Late Growth fund, the Approaching Retirement fund and the Through Retirement fund. Over the time to target retirement age, members' DC pension pots (or AVCs) will automatically switch between the four new funds. Members will be invested in the 'Early Growth Fund' before de-risking into the 'Late Growth Fund' beginning from 20 years to retirement. Members are further de-risked into the 'Approaching Retirement Fund', of which there are three versions dependent on the targeted strategy members are invested in. When members are close to target retirement age, their investments begin switching into the 'Through Retirement Fund', of which there are three versions dependent on the targeted strategy.

As part of an ongoing project to investigate how the Scheme can access private markets, the Trustee agreed in the strategy review to allocate 15% of the Early Growth Fund to private markets. This will be accessed via a bespoke multi-asset private markets fund. This will be implemented over the next Scheme year in conjunction with the changes to the structure of the Flexible Income, Lump Sum and Annuity Purchase strategies with the percentage invested in private markets planned to gradually build up over 2024 and reach 15% in 2025.

The Trustee concluded that taking a flexible income (e.g. income drawdown) remains an appropriate retirement income target. The growth phase of the default arrangement outperformed inflation over the last 5 years to 31 December 2023. As part of this review the Trustee confirmed that the Scheme's targeted strategies were adequately and appropriately diversified between different asset classes and that the self-select options provide a suitably diversified range to choose from. Members also have the choice to invest into any of the 18 DC funds available in the self-select range (known as 'Freechoice'). These options were also included in the latest review.

In the previous Scheme year, the Trustee agreed to restructure the Property – active Fund, which is available as a Freechoice option. This involved replacing the LGIM Managed Property Fund with the Invesco Global Real Estate Fund and adjusting the strategic allocations to the underlying component funds. An allocation to the Invesco Global Real Estate Fund began being built up in April 2022. The LGIM Managed Property Fund was removed from the Property – active Fund in November 2023. The Trustee continues to use cashflows to meet the target strategic allocation for this Fund.

At the Investment Day in April 2023, the Trustee revisited its specific investment belief related to factor investing. As part of this, the Trustee reviewed the underlying funds of the Global Equity – active Fund. The review considered the broad factor exposure of the underlying funds and the resulting exposure of the white-labelled fund in addition to firmwide considerations of the fund managers. The Trustee concluded that the River Global (previously known as 'River and Mercantile') Global Alpha Fund should be removed, the allocation of the MFS Global Equity Fund be reduced and both the Royal London Global Equity Diversified Fund and Schroders Global Sustainable Value Equity Fund be introduced to the Fund. This change will be implemented in 2024.

Following significant outflows and staff departures from one of the managers for an underlying fund of the Emerging Market Equity – active Fund, the Trustee conducted a selection exercise for a replacement underlying manager for this Fund. Resulting from this exercise, the Trustee replaced the GW&K Emerging Markets Fund (which formed 50% of the Emerging Market Equities – active Fund and 7.5% of the Global Equity – active Fund) with the Robeco

Emerging Stars Equity Fund in Q4 2023, with a significant contributing factor being the better alignment of the Fund with the Trustee's beliefs on ESG risk management.

On 10 June 2021, the Trustee reviewed all legacy lifecycles and agreed to automatically switch the investments of all members from Lifecyle 2 into either the Flexible Income or Lump-Sum strategies based on whether members held only a DC pension pot or Hybrid benefits, unless they elected to stay where they were. Given market conditions in 2022 and 2023, the Trustee agreed in June 2023 to retain members within 5 years of their target retirement in Lifecycle 2 due to their exposure to Fixed Annuity Tracker - passive Fund. This investment transfer was implemented over two tranches between 15 and 17 November 2023.

The Trustee also reviews the performance of the default arrangements against their aims, objectives and policies on a quarterly basis, through a performance report provided by their investment advisors. This review includes an analysis of DC fund performance and member activity to check that the risk and return levels meet expectations. The Trustee monitors both short- and long-term performance on a quarterly basis. The Trustee reviews that took place during the Scheme year concluded that over the long-term the default arrangements were performing broadly as expected given the market backdrop and the assets held and that the performance of the default arrangements remains broadly consistent with their stated aims and objectives.

3. Requirements for processing core financial transactions

The Trustee has appointed WTW Outsourcing GB to administer the Scheme's DC benefits (including processing of core financial transactions), as well as the providers of the Scheme's current AVC arrangements. Equiniti has been appointed to administer the Scheme's DB and Hybrid member benefits, though WTW continues to be responsible for maintaining the DC recordkeeping for DB and Hybrid members with AVCs and DC pension pots respectively. Core financial transactions include (but are not limited to): the investment of contributions, processing of transfers in and out of the Scheme, transfers of assets between different investments within the Scheme, and payments to members or beneficiaries.

3.1. DC benefits (including current AVC arrangements)

3.1.1. Service level agreement

The Trustee has a service level agreement ("SLA") in place with WTW Outsourcing GB which covers the accuracy and timeliness of all core financial transactions. The SLA includes (but is not limited to):

- The processing of monthly contributions, including resolution of queries with the Bank, and payment reconciliation with the asset manager within 9 days of receipt of the payroll contribution file (around the 16th of the month). In addition to this the Scheme also targets the investment of contributions within 5 days following deduction from pay, and this target is also monitored quarterly.
- The processing of DC fund switches within 2 days of receipt of member written request. Members also have the facility to do this online, in which case, the request will be actioned within 24 hours.
- The processing of transfer requests (both in and out of the Scheme) within 5 days from receipt of request. Some members also have the facility to run transfer out quotes online.
- The processing of retirement requests and payments within 4 days from receipt of request.
- The production of annual benefit statements and Statutory Money Purchase Illustration statements within 2 months following the receipt of full, accurate data.
- The answering of 80% of member calls within 30 seconds.
- Quarterly reporting on the completeness and accuracy of common and conditional data.
- Management of member records and financial data.

- The provision and management of member online access.

Equiniti has been appointed to administer the Scheme's DB and Hybrid member benefits, though WTW continues to be responsible for maintaining the DC recordkeeping for DB and Hybrid members with AVCs and DC pension pots respectively. Equiniti are responsible for processing core transactions for members with Hybrid benefits, although Equiniti has no role in the processing of monthly DC contributions, DC fund switches, processing of transfer in requests and production of annual benefit statements and Statutory Money Purchase Illustration statements, this remains with WTW Outsourcing GB. The Trustee has an SLA in place with Equiniti which covers the accuracy and timeliness of all core financial transactions. The SLA includes (but is not limited to):

- The processing of transfer requests out of the Scheme within 5 days from receipt of request and all necessary information and authorisations.
- The processing of retirement requests and payments within 4 days from receipt of request and all necessary information and authorisations.
- Provide agreed DB benefit data to the DC administrator for use in Annual Benefit Statements within 6 weeks of receipt of full data.
- The answering of 80% of member calls within 20 seconds.
- The provision and management of member online access.

3.1.2. WTW Outsourcing GB internal controls

The Trustee has received assurance from WTW Outsourcing GB that there are adequate internal controls to ensure that core financial transactions for the Scheme were processed promptly and accurately during the Scheme year. The key activities undertaken by WTW Outsourcing GB to help it ensure that core financial transactions were processed promptly and accurately included:

- Recording all member monetary transactions and benefit processing activities, that form part of core financial transactions, in a work management system which automatically assigns the correct SLA for each activity. Work activity is monitored, with tasks allocated on a daily basis.
- Preparing monthly and quarterly reporting which is presented and discussed with the PSE on no less than a monthly basis.
- Monthly bank, unit and fund reconciliations are performed, which are provided to the PSE.
- Peer review of all monetary transactions with different levels of payment authorisation required depending on the value of the payment.

WTW Outsourcing GB provided its own annual assurance report (AAF 01/06) during the Scheme year in order to confirm the adequacy of its internal controls and the application of those controls in ensuring that core financial transactions were processed promptly and accurately. No significant issues were raised in the report.

In addition, analysis was undertaken over the Scheme year by WTW Outsourcing GB in respect of any issues, errors or breaches arising to understand the cause, with rectification plans implemented where necessary, which were monitored on a monthly or more frequent basis.

3.1.3. Equiniti internal controls

Equiniti has controls that apply to the processing of members with Hybrid benefits as outlined below:

- All member transactions and benefit processing activities which form part of core financial transactions are recorded and managed through the workflow and work management system which assigns SLAs to each activity. The activity is monitored on a daily basis.
- Monthly and quarterly reporting is presented and discussed with the PSE on at least a monthly basis.

- Weekly and monthly bank reconciliations are performed and shared with the PSE.
- Monetary transactions are peer reviewed by senior members of staff, with various authorisation layers required (which are enforced by the system) according to the transaction value. The authorisation process is controlled using an external software workflow and work management system.

Equiniti also provided its own assurance report (AAF 01/06) in June 2024 covering the Scheme year 2023 to demonstrate the adequacy of its internal controls and the application of those controls when processing core financial transactions. No significant issues were raised in the report.

When issues and errors have occurred over the scheme year, analysis has been undertaken by Equiniti to understand the cause of the issue and implement corrective actions where necessary. These are monitored on behalf of the Trustee by the PSE on a monthly or more frequent basis.

3.1.4. Trustee monitoring

The Trustee recognises that delays and errors can cause significant issues for members and may cause them to lose trust in the Scheme. This could impact their decisions to save more into the Scheme and affect their future retirement outcomes. The Trustee has taken steps to ensure that there were adequate internal controls maintained so that core financial transactions relating to the Scheme were processed promptly and accurately during the Scheme year. The Trustee, working with the PSE, regularly monitored the timeliness and accuracy of core financial transactions as follows:

- Reviewed monthly performance reporting on key processes, core financial transactions and complaints. Any issues and anomalies identified were followed up with the administrator for explanation.
- Held ad hoc meetings to monitor project specific progress.
- Reviewed quarterly reporting, which included, but was not limited to membership statistics, member transaction levels, service performance, financial reporting, complaints, errors and breaches, member online usage.

As part of these review processes, the PSE reviewed whether core financial transactions were accurate, up to date and completed within statutory timeframes and within the service levels agreed with WTW Outsourcing GB and Equiniti. Any issues identified by the PSE as part of its oversight were raised with WTW Outsourcing GB or Equiniti immediately and steps were taken to resolve the issue (see below for details).

The accuracy and quality of Scheme data is assessed and monitored on a quarterly basis by the Trustee. No significant issues/exceptions were identified during the Scheme year in relation to the accuracy and quality of DC related data.

3.1.5. Performance over the Scheme year

In each quarter of the Scheme year, core financial transactions were completed within the agreed timescale for the following percentage of cases:

Members with:	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Only a DC pension pot	98%	94%	94%	98%
Hybrid benefits	98%	97%	96%	97%

For members with Hybrid benefits, overall, the Scheme administrators performed ahead of agreed service levels, with an average of 97% in 2023 which is above the agreed target of 95%. There was a slight short-term drop-in administrator performance levels in respect of members with DC only benefits for two quarters. This was caused by some resourcing challenges during quarter 2 which led to a small backlog in member casework. The drop in performance continued into quarter 3 as the backlog was being cleared. The backlog of member casework was cleared by the end of October 2023, with SLAs returning to target levels or higher through quarter 4 2023. A review of the resourcing model was undertaken, including how to better leverage WTW's global operating model to provide more operational resilience to help better manage future work volumes and short-term resource challenges. Overall, the average performance over 2023 was 96% which is above the agreed target.

The Trustee, working with the PSE, required additional reporting in respect of any monetary transactions and benefit processing activity that were not completed within the agreed timescales, including the cause of the delay, the extent to which agreed timescales were breached and whether the cause of the delay was a systemic issue. The issues resulting in delays and the proposed remedial activities were closely monitored by the PSE, on behalf of the Trustee, to minimise the risk of the issues re-occurring.

The volume of avoidable complaints remained low over 2023, and primarily centred around individual delays and procedural issues. A large proportion were due in part to the continued member frustrations with the transfer out process following the introduction of the Occupational and Personal Pension Schemes (Conditions for Transfer) Regulations 2021 which came into force on 30 November 2021. These require the administrators to perform an increased number of checks when completing a transfer out and in most situations, extending the time taken to complete a transfer.

The Bank is responsible for calculating contributions and paying them to the Scheme within the timeframes set out in each sections' Schedule of Contributions. While this is out of the control of the Trustee and WTW Outsourcing GB, WTW Outsourcing GB perform validation checks based on information that is available to them. The Trustee is also required to obtain an audit opinion as to whether contributions are paid in accordance with the Schedules of Contributions, which can be found in the Scheme's Annual Report & Financial Statements.

No other issues or anomalies were identified during the Scheme year in relation to the processing of core financial transactions of DC and Hybrid benefits.

Overall, based on the processes operated and information provided as described above, the Trustee is satisfied that over the Scheme year (in relation to DC and Hybrid benefits), other than the exceptions noted above:

- the administrators were operating appropriate procedures, checks and controls and operating within the agreed SLAs;
- there have been no known material administration errors in relation to processing core financial transactions; and
- core financial transactions were processed promptly and accurately during the Scheme year.

3.2. Legacy AVCs

There are a small number of members invested in a relatively large number of legacy AVC arrangements. These legacy AVCs only account for a small proportion (less than 0.1%) of the total DC assets within the Scheme and are no longer open to contributions. Therefore, the Trustee has taken a proportionate approach to collecting information on and reviewing them, compared to the other DC benefits within the Scheme.

The Scheme's legacy AVC providers are:

- Standard Life*
- Scottish Widows
- Prudential
- Phoenix Life*
- Aviva (Ex Friends Life policy)
- Aegon

*On 27 October 2023, all Phoenix Life Assurance Limited, Standard Life Assurance Limited and Standard Life Pension Funds Limited policies were transferred to Phoenix Life Limited following approval from the Court of Session on 3

October 2023 and the High Court on 10 October 2023. The brand name Standard Life is already fully owned by the Phoenix Group and this will continue to be used.

The Trustee's investment advisor has sought to obtain information from these AVC providers on the processing of core financial transactions for the AVC assets they hold and the internal controls in place to ensure that core financial transactions relating to the Scheme are processed promptly and accurately. As these products are largely standardised insurance products, some of the information that has been provided reflect the provider's standard processes rather than Scheme specific processes.

3.2.1. Standard Life

There is a standard SLA covering the accuracy and timeliness of all core financial transactions which targets completion within 10 working days for core financial transactions and has an internal controls statement which outlines information about the processing of these core financial transactions and achieving the stated SLA targets and also how this is managed through controlled systems including, but not limited to, the following actions:

- automated systems are designed to ensure consistent, timely and accurate receipt and allocation to the correct funds for regular and single payments;
- regular monitoring of process and people performance, including control self-assessment reviews;
- reconciliations are carried out between Finance and Customer Operations to ensure contributions are accurately recorded;
- documented business procedures are in place for contributions processes;
- compliance with processes is supported by an automated workflow system that ensures work is enabled, tracked and managed;
- a dedicated control team actively manages manual payments (including automation failures) and the reporting of missed contributions to the Pensions Regulator; and
- an automated quotes system, which ensures the consistent application of calculations.

A quality assurance framework is in place to ensure that payments are processed in line with the defined processes and service levels.

Standard Life has confirmed that there have been no material administration issues, errors or unreasonable delays over the Scheme year.

3.2.2. Scottish Widows

Scottish Widows has confirmed it has effective quality controls in place to assess the accuracy of the transactions processed and information provided to customers. This includes full end to end monthly quality checking across all areas of the business. Scottish Widows aims to ensure all core transactions are completed within 5 working days of receiving all the information they require. Scottish Widows has confirmed that there have been no material administration issues, errors or unreasonable delays over the Scheme year. An Annual Disclosure Statement is issued each year to the Trustee shortly after the Reporting Date, 28 March.

3.2.3. Prudential

Prudential uses "End to End" working and reporting. This aims to join up all of the current transactional activities together with the 'journey time' calculated from the member's first point of contact to the point of closure where no other activity is required to deliver the customer outcome.

It sets out four main work areas including bereavements, claims, new business and servicing, and provides an upper, lower and tail target for the number of days they aim for a case to be completed.

Prudential monitors service performance on a weekly basis with senior management oversight, against a variety of metrics. Prudential aims for 75% of cases to be completed within the upper targets. Over the year 82.4% of cases were completed within the upper target. Prudential has confirmed that there have been no material administration issues, errors or unreasonable delays over the Scheme year.

3.2.4. Phoenix Life

Phoenix Life has a range of internal controls to ensure arrangements and procedures are being followed in the administration and management of the Scheme and monitored. Below are some examples of key controls Phoenix Life operates on behalf of the Trustee:

- specialist training provided to specific business units;
- Internal Audit (regularly monitoring systems and controls);
- IT security polices to protect customer and Phoenix Life's data; and
- data protection procedures, policies including annual staff training and testing.

The Trustee has not received confirmation from Phoenix on administration activity over the Scheme year but continues to regularly request this information. At this time the Trustee is not aware of any material administration issues, errors or unreasonable delays over the Scheme year.

3.2.5. Aviva (Ex Friends Life)

Aviva has a wide range of policies, internal controls, and practices in place to manage their investment administration activities. It aims to deal with servicing requests within 5 working days and claims within 3 working days.

Aviva has confirmed that there have been no material administration issues, errors or unreasonable delays over the Scheme year.

The Trustee receives an Annual Short Investment Report as and when requested, in addition to a Quarterly Investment Report which is provided each quarter.

3.2.6. Aegon

Aegon operates different SLAs based on the type of query, these range from 1 day (investigating death claims) and 10 days (providing Scheme valuations). The SLA for the majority of tasks is between 5 and 8 days. Aegon can produce an SLA report specific for the Scheme on request. Tasks completed during the Scheme year included providing Scheme valuations and retirement quotes. 100% of tasks (6 over the course of the year) were completed within the SLA. Aegon can supply quarterly reports on a request basis to the Trustee. There were no financial transactions over the Scheme year.

Aegon has confirmed there have been no complaints, no material administration issues, errors or unreasonable delays over the Scheme year.

3.3. Trustee monitoring

The Trustee carries out regular reviews (at least every 3 years) of its legacy AVC arrangements with the last review undertaken on 10 June 2021. This review highlighted no material concerns with the legacy AVC arrangements. The next review is due to be carried out in 2024.

4. Member-borne charges and transaction costs

The Trustee is required to set out the charges incurred by members during the Scheme year in this Statement. As the Bank pays the DC fund annual management charges, platform expenses and all other administration expenses, the member borne charges are limited to the additional fund expenses incurred by the underlying fund managers in the day-to-day running of the funds for example, custodian fees, with the exception of some legacy AVCs funds (see below).

The Trustee endeavours to ensure that the additional fund expenses are below 0.20% per annum on each DC fund. As at 31 December 2023, the highest additional expenses of all DC funds that were available to members was for the Emerging Market Equities – active Fund, at 0.12% per annum (p.a.).

The Trustee is also required to disclose transaction cost figures. In the context of this statement, the transaction costs shown are those incurred when the Scheme's fund managers buy and sell DC assets but are exclusive of any costs incurred when members invest in and switch between funds.

The transaction costs are borne by members. The charges and transaction costs have been supplied by Fidelity (the Scheme's platform provider) and the legacy AVC providers. The charges and transaction cost information has been provided for the Scheme year for the default arrangements and self-select options (but not all of the legacy AVC funds – further details below).

When preparing this section of the Statement, including the illustrations, the Trustee has taken account of statutory guidance. All additional DC and AVC fund expenses and transaction cost figures shown in this section are over the Scheme year. Under the prescribed way in which transaction costs have been calculated it is possible for figures to be negative, where market movements are favourable between the time a trade is placed and it is executed. The Trustee has shown any negative figures in the tables for the year as provided, but for the costs and charges illustrations have used zero where a transaction cost is negative to give a more realistic projection (i.e. the Trustee would not expect transaction costs to be negative over the long-term).

4.1. Default arrangements charges and transaction costs

The default arrangement for most members with only a DC pension pot is the Flexible Income Strategy and for most members with Hybrid benefits the default arrangement is the Lump Sum Strategy. These default arrangements have been set up as targeted strategies (i.e. they automatically combine DC funds in proportions that vary according to the time to retirement age). This means that the level of charges and transaction costs will vary depending on how close members are to retirement and in which DC funds they are invested. Statutory guidance has been taken into account in the calculation of these numbers.

The Trustee notes there are no performance fees (charges based on fund's return) attached to the default arrangements and therefore performance fees make up 0% of the of the average value of the assets held by that default arrangement. For the Scheme year, annualised charges and transaction costs are set out in the following tables.

Flexible Income Strategy (main default for members with only a DC pension pot)

Years to retirement	Additional fund expenses (p.a.)	Transaction costs
20 or more years to retirement	0.00%	0.05%
15 years to retirement	0.02%	0.14%
10 years to retirement	0.03%	0.23%
5 years to retirement	0.04%	0.28%
At retirement	0.03%	0.28%

Lump Sum Strategy (main default for members with Hybrid benefits)

Years to retirement	Additional fund expenses (p.a.)	Transaction costs
20 or more years to retirement	0.00%	0.05%
15 years to retirement	0.02%	0.14%
10 years to retirement	0.03%	0.23%
5 years to retirement	0.04%	0.28%
At retirement	0.02%	0.23%

For the Scheme year, annualised charges and transaction costs for the legacy default arrangements are set out in the following tables. Charges are only shown at retirement and 5 years to retirement for the Cash Lifecycle as the strategy is closed to new members and all members invested are within 5 years of their target retirement age.

Annuity Purchase Strategy (legacy default and current Freechoice option)

Years to retirement	Additional fund expenses (p.a.)	Transaction costs
20 or more years to retirement	0.00%	0.05%
15 years to retirement	0.02%	0.14%
10 years to retirement	0.03%	0.23%
5 years to retirement	0.02%	0.08%
At retirement	0.00%	-0.02%

Cash Lifecycle (legacy default arrangement)

Years to retirement	Additional fund expenses (p.a.)	Transaction costs
5 years to retirement	0.05%	0.31%
At retirement	0.00%	0.11%

Cash active (default) fund (additional default arrangement)

Years to retirement	Additional fund expenses (p.a.)	Transaction costs
Cash - active (default)	0.00%	0.11%

4.2. Self-select options charges and transaction costs

With the exception of the legacy Cash Lifecycle Strategy, the default arrangements are also available as self-select options for members who want to use them. Members also have the choice to invest into any of the 18 DC funds available in the self-select range (known as “Freechoice”).

The level of charges for each self-select DC fund and the transaction costs over the Scheme year are set out in the following table. The underlying DC funds used within the Flexible Income Strategy are shown in bold.

Fund name	Additional fund expenses (p.a.)	Transaction costs
UK Equities - active	0.02%	0.14%
Diversified Assets - active	**0.06%**	**0.40%**
Shariah Law Equities - passive	0.00%	0.01%
Sustainable and Responsible Equities - active	0.00%	0.10%
Global Bonds - active	**0.03%**	**0.27%**
UK Equities - passive	0.00%	0.00%
Global Equities - passive	**0.00%**	**0.05%**
Property - active[2]	0.05%	0.17%
Fixed Annuity Tracker - passive	0.00%	-0.06%
Inflation Linked Annuity Tracker - passive	0.00%	0.04%
Cash - active	**0.00%**	**0.11%**
European (ex UK) Equities - passive	0.00%	0.24%
North American Equities - passive	0.00%	0.00%
Japanese Equities - passive	0.00%	0.03%
Asia Pacific (ex-Japan) Equities - passive	0.00%	0.01%
Global Equities - active[1]	0.08%	0.06%
Sterling Corporate Bonds - active	0.01%	0.00%
Emerging Markets Equities - active [1]	0.12%	0.05%

[1]The Trustee replaced the GW&K Emerging Markets Fund with the Robeco Emerging Stars Equity Fund within the Emerging Market Equities – active Fund. This fund also forms part of the Global Equities – active Fund. This change happened in Q4 2023.

[2]The Trustee agreed to restructure the Property – active Fund, which involved replacing the LGIM Managed Property Fund with the Invesco Global Real Estate Fund and adjusting the strategic allocations to the underlying component funds. An allocation to the Invesco Global Real Estate Fund began being built up in April 2022 and the LGIM Managed Property Fund was removed in November 2023. The Trustee continues to use cashflows to meet the target strategic allocation for the fund.

4.3. Legacy lifecycle strategies

The Scheme also has two legacy lifecycle strategies which were previously available for members to select: Lifecycle 2 and Flexicycle. These strategies are closed to new members, but existing members have been permitted to remain invested. The Scheme previously had a further legacy lifecycle strategy, Capital Lifecycle, however no members remained invested over the Scheme year.

For the Scheme year, annualised charges and transaction costs are set out below.

Lifecycle 2 (legacy lifecycle strategy)

Years to retirement	Additional fund expenses (p.a.)	Transaction costs
20 or more years to retirement	0.07%	0.15%
15 years to retirement	0.07%	0.15%
10 years to retirement	0.07%	0.15%

5 years to retirement	0.07%	0.15%
At retirement	0.00%	-0.02%

Members in Lifecycle 2 who are 20 or more years from retirement are invested in 60% Global Equities – active, 20% Property – active and 20% Diversified Assets – active. Members who are five years from retirement are then de-risked gradually so that at target retirement age, members are invested in 75% Fixed Annuity Tracker – passive and 25% Cash – active. As part of the annual Lifecyle review over the previous Scheme year, the Trustee agreed that members in Lifecycle 2 were to be automatically moved to a more appropriate default arrangement, unless they actively choose to opt out of the automatic switch and stay in Lifecycle 2. Given market conditions in 2022 and 2023, the Trustee agreed in June 2023 to retain members within 5 years of their target retirement in Lifecycle 2 due to their exposure to Fixed Annuity Tracker passive. This investment transfer was implemented in November 2023.

Flexicycle (legacy lifecycle strategy)

Flexicycle is a lifecycle strategy that allowed members to create an investment strategy by selecting their preferred growth and consolidation phase funds and the point at which their DC pension pot would switch between them. There was also a choice of switching periods between these phases and a choice of at retirement DC fund allocation. The Trustee is therefore not able to disclose annualised charges and transaction costs for each possible combination in this Statement. The relevant charges and costs can be seen for the possible underlying funds with the options for the growth phase being the Global Equities – active, Global Equities – passive, Diversified Assets – active, Sustainable and Responsible Equities – active and Emerging Markets Equities – active Funds and the options for the consolidation phase being the Fixed Annuity Tracker – passive, Inflation Linked Annuity Tracker – passive, Diversified Assets – active and Cash – active Funds.

4.4. Additional Voluntary Contribution fund charges and transaction costs

As well as the DC funds noted above, which contain the majority of the Scheme's AVC assets, some members also had assets in one or more legacy AVC funds during the Scheme year.

The majority of the Scheme's legacy AVC assets are invested in 'With-Profits' funds. With-Profits returns are delivered through guaranteed annual and non-guaranteed terminal bonuses (guarantees only apply at contractual events, e.g. retirement) and these can be influenced by the asset allocation within the fund which is itself reflective of the strength of the provider, and therefore affects investment returns and bonus rates.

The Trustee, with its investment advisors, has sought to obtain details of the charges and transaction costs from the Scheme's legacy AVC providers for the Scheme year. At the time of producing this statement, that process is still ongoing. Some data is currently outstanding from Phoenix Life and Aviva. The Trustee will continue to ask its legacy AVC providers on a regular basis to disclose details of the charges and transaction cost data with the intention of adding this into the next annual DC governance statement. In last year's Statement, the following information was missing:

- Phoenix Life With-Profits Fund the Net returns, Total Expense Ratio and transaction costs were not available.

The Trustee, with its investment advisors, continued to follow up with Phoenix Life but were unable to obtain the outstanding data. The Trustee continues to work with its investment advisors to collect outstanding data.

The charges shown for the AVC arrangements are the Total Expense Ratios ('TER') for the Scheme year (except where otherwise shown), which includes the annual AVC fund fees as these are not met by the Bank, unlike for the DC funds.

Aviva (Ex Friends Life) AVC funds	**TER[1]**	**Transaction costs**
GM UK Equity Fund	0.38%	0.00%
GM Overseas Equity Fund	0.45%	0.07%
GM Property Fund	0.60%	0.14%
With-profits Fund	1.02%[4]	TBC
Standard Life AVC funds[2]	**TER[1]**	**Transaction costs**
Pension Millennium With Profits Fund	1.00%[3]	0.04%
Pension Millennium With Profits 2006 Fund	1.05%[3]	0.04%
Pension With Profits Fund	1.00%[3]	0.08%
Standard Life Managed Pension Fund	1.03%	0.15%
Prudential	**TER[1]**	**Transaction costs**
Prudential With-Profits Cash Accumulation Fund	n/a[5]	0.17%[6]
Prudential Global Equity	0.75%	0.18%[6]
Prudential Deposit	n/a[6]	0.00%[6]
Prudential Discretionary	0.75%	0.16%[6]
Prudential UK Equity	0.75%	0.28%[6]
Other AVC providers	**TER[1]**	**Transaction costs**
Aegon Cash Fund	0.61%	0.00%
Phoenix Life With-Profits Fund [7]	TBC	TBC
Scottish Widows With-Profit Fund	0.9%-1.5%[8]	0.34%

[1]TER = Total Expense Ratio. The TER encompasses charges made to / by funds, typically including the Annual Management Charge, custody fees and other expenses.

[2]A Scheme-specific discount of 0.40% is applied annually.

[3]The Fund has no explicit fund management charge. The charge shown includes an allowance for the cost of guarantees and is the deduction Standard Life currently use, for illustrative purposes, in quotations.

[4]As at 31 December 2022.

[5]Charges on the Prudential With Profits and Deposit Fund are not explicit, they are accounted for in the bonus declared on the Fund.

[6]As at 30 June 2023.

[7]The Scheme's investment advisors are working with the provider to confirm this cost over the Scheme year with the aim of including in next year's statement.

[8]Scottish Widows has confirmed expenses do apply to the With-Profits fund, but that these vary based on regular premiums or single premiums and based on term length. The figure provided are for policies reaching maturity in 2019, however it is expected that impact for policies maturing in 2024 would be of a similar value.

4.5. Illustration of charges and transaction costs

Over a period of time, the charges and transaction costs that are taken out of members' DC pension pots can reduce the amount available to them at retirement. The following table sets out an illustration of the impact of charges and transaction costs on the projected value of an example member's DC pension pot. In preparing this illustrative example, the Trustee has had regard to the relevant statutory guidance.

As each member has a different amount in their DC pension pot within the Scheme and the amount of any future investment returns and future costs and charges cannot be known in advance, the Trustee has had to make a number of assumptions about what these might be. The assumptions are explained below:

- The "before costs" figures represent the savings projection assuming an investment return with no deduction of member borne charges (i.e. the additional expenses) or transaction costs. The "after costs" figures represent the savings projection using the same assumed investment return but after deducting member-borne charges and an allowance for transaction costs.
- The transaction cost figures used in the illustration are those provided by the DC fund managers over the past three years, subject to a floor of zero (so the illustration does not assume a negative cost over the long term). The Trustee has used the average annualised transaction costs over the past five years as this is the longest period over which figures were available and should be more indicative of longer-term costs compared to only using figures over the Scheme year.

Illustrations are provided for the default arrangement for members with only a DC pension pot (the Flexible Income Strategy) since this is the arrangement that most members have assets in, the Lump Sum Strategy (which is the default for most members with Hybrid benefits), the Annuity Purchase Strategy, the Cash Lifecycle and the Cash – active Fund as these strategies are also classified as default arrangements as well as two DC funds from the Freechoice DC fund range. The two Freechoice DC funds shown in the illustration are:

- the DC fund with the highest charges; Diversified Assets - active
- the DC fund with the lowest charges; Fixed Annuity Tracker - passive

The charges illustration table is shown below.

Years invested	**Flexible Income Strategy**		**Lump Sum Strategy**		**Annuity Purchase Strategy**		**Cash Lifecycle**		**Cash – active (default)**	
	Before costs	**After costs**	**Before costs**	**After costs**	**Before costs**	**After costs**	**Before costs**	**After costs**	**Before costs**	**After costs**
1	£5,000	£4,900	£5,000	£4,900	£5,000	£4,900	£5,000	£4,900	£4,800	£4,800
3	£10,800	£10,700	£10,800	£10,700	£10,800	£10,700	£10,800	£10,700	£9,800	£9,800
5	£17,000	£17,000	£17,000	£17,000	£17,000	£17,000	£17,000	£17,000	£14,700	£14,600
10	£34,900	£34,600	£34,900	£34,600	£34,900	£34,600	£34,900	£34,600	£26,200	£26,200
15	£56,300	£55,800	£56,300	£55,800	£56,300	£55,800	£56,300	£55,800	£36,900	£36,800
20	£82,000	£81,000	£82,000	£81,000	£82,000	£81,000	£82,000	£81,000	£46,800	£46,700
25	£112,000	£110,000	£112,000	£110,000	£112,000	£110,000	£112,000	£110,000	£56,100	£55,800
30	£145,600	£141,500	£145,600	£141,500	£145,600	£141,500	£145,600	£141,500	£64,600	£64,200
35	£181,800	£174,500	£181,800	£174,500	£178,500	£172,300	£182,400	£174,800	£72,500	£72,000
40	£214,900	£203,800	£213,600	£203,200	£201,500	£194,200	£205,000	£194,500	£79,800	£79,300
Percentage Difference		**5.4%**		**5.1%**		**3.8%**		**5.4%**		**0.6%**

Years invested	Diversified Assets - active		Fixed Annuity Tracker - passive	
	Before costs	After costs	Before costs	After costs
1	£4,900	£4,900	£4,900	£4,900
3	£10,500	£10,400	£10,200	£10,200
5	£16,400	£16,200	£15,700	£15,700
10	£32,500	£31,700	£30,000	£30,000
15	£50,800	£48,800	£44,900	£44,900
20	£71,400	£67,700	£60,700	£60,700
25	£94,700	£88,600	£77,200	£77,200
30	£121,100	£111,700	£94,600	£94,600
35	£150,900	£137,200	£112,800	£112,800
40	£184,700	£165,400	£132,000	£132,000
Percentage Difference		**11.7%**		**0.0%**

Notes

- Values shown are estimates and are not guaranteed. The illustration does not indicate the likely variance and volatility in the possible outcomes from each DC fund. The numbers shown in the illustration are rounded to the nearest £100 for simplicity.
- Projected DC pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
- Annual salary growth and inflation is assumed to be 2.5%. Salaries could be expected to increase above inflation to reflect members becoming more experienced and being promoted. However, the projections assume salaries increase in line with inflation to allow for prudence in the projected values.
- The starting account (DC pension pot) size used is £2,200. This is the average (median) DC pension pot size for Scheme members aged 25 years and younger (the Trustee has used the average of the under 25s rather than the average of the whole Scheme to allow for a more representative 40-year projection rather than using a median member who will not be invested in the Scheme for 40 years). This assumption, and others mentioned, are as at 31 December 2023, the Scheme year end.
- The projection is for 40 years, being the approximate duration that the youngest Scheme member has until they reach the Scheme Normal Pension Age.
- The starting salary is assumed to be £26,200. This is the median salary for Scheme members aged 25 years and younger.
- The contribution rate is assumed to be 10% (includes employee and employer contributions). This is the median contribution rate for Scheme members aged 25 years and younger (for the purposes of the illustration this rate is assumed to remain constant over time).
- None of the investments modelled have a performance fee attached.
- The projected before charges annual returns used are as follows:

- Flexible Income Strategy: 3.8% above inflation for the initial years, gradually reducing to a return of 1.3% above inflation at the ending point of the lifestyle.
- Lump Sum Strategy: 3.8% above inflation for the initial years, gradually reducing to a return of 1.1% above inflation at the ending point of the lifestyle.
- Annuity Purchase Strategy: 3.8% above inflation for the initial years, gradually reducing to a return of 0.4% above inflation at the ending point of the lifestyle.
- Cash Lifecycle: 3.8% above inflation for the initial years, gradually reducing to a return of 1.5% below inflation at the ending point of the lifestyle. The Trustee has shown projections over 40 years however the strategy is closed to new members and all members in this strategy are at least at their Target Retirement Age.
- Cash – active (default) Fund: 1.5% below inflation
- Diversified Assets – active: 2.5% above inflation
- Fixed Annuity Tracker – passive: 1.0% above inflation

No allowance for active management has been made in the return assumptions (e.g. assumed return for a passive and active global equity fund is equal). Expected returns are consistent with those used in the Scheme's Statutory Money Purchase Illustrations during the Scheme year and were produced taking account of AS TM1.

5. Investment returns

This section states the annual return, after the deduction of member borne charges and transaction costs, for all investment options that members can select or could select during the Scheme year, and in which assets relating to members were invested during the Scheme year. The return on investments has been calculated in accordance with the statutory guidance and takes the form of the geometric average annual return.

For the arrangements where returns vary with age, such as for the DC default arrangements and the other current and legacy targeted strategies, returns are shown over various periods for a member aged 25, 45 and 55 at the start of the period the returns are shown over. The majority of members have a target retirement age of 65. To calculate the investment returns at different ages for the targeted strategies, the Trustee has used the mix of DC funds that apply to a member with a target retirement age of 65 i.e. for a member aged 55 they have assumed they are 10 years from their target retirement age. Performance below reflects any changes made to underlying DC fund managers over the periods shown.

Flexible Income Strategy (main default for members with only a DC pension pot) net returns over periods to Scheme year end

Age of member at the start of the period	1 year (%)	5 years (% p.a.)
25	16.7	10.8
45	16.2	9.8
55	10.9	6.4

Lump Sum Strategy (main default for members with Hybrid benefits) net returns over periods to Scheme year end

Age of member at the start of the period	1 year (%)	5 years (% p.a.)
25	16.7	10.8
45	16.2	9.8
55	10.9	6.4

Annuity Purchase Strategy (legacy default and current Freechoice option) net returns over periods to Scheme year end

Age of member at the start of the period	1 year (%)	5 years (% p.a.)
25	16.7	10.8
45	16.2	9.8
55	11.0	4.1

Cash Lifecycle (legacy default arrangement) net returns over periods to Scheme year end

Age of member at the start of the period	1 year (%)	5 years (% p.a.)
25	16.7	10.8
45	16.2	9.8
55	10.9	6.2

Net returns have been shown for the Cash Lifecycle at ages 25, 45 and 55, however, the strategy is closed to new members and all members invested are within 5 years to target retirement age.

Cash - active (default) Fund (additional default arrangement) net returns over periods to Scheme year end

Age of member at the start of the period	1 year (%)	5 years (% p.a.)
25	4.7	1.4
45	4.7	1.4
55	4.7	1.4

Self-select DC fund net returns over periods to Scheme year end

DC Fund name	1 year (%)	5 years (% p.a.)
UK Equities - active	12.0	6.2
Diversified Assets - active	**6.1**	**3.5**
Shariah Law Equities - passive	27.8	17.0
Sustainable and Responsible Equities - active	5.0	8.7
Global Bonds - active	**7.1**	**3.2**
UK Equities - passive	7.8	6.8
Global Equities - passive	**16.7**	**10.8**
Property - active	-1.3	2.0

Fixed Annuity Tracker - passive	7.5	-1.9
Inflation Linked Annuity Tracker - passive	5.0	-3.4
Cash - active	**4.7**	**1.4**
European (ex UK) Equities - passive	15.0	10.4
North American Equities - passive	19.6	15.8
Japanese Equities - passive	12.7	7.1
Asia Pacific (ex-Japan) Equities - passive	4.1	6.4
Global Equities - active	8.5	9.8
Sterling Corporate Bonds - active	9.6	1.4
Emerging Markets Equities - active	2.7	4.4

The underlying DC funds used within the current Flexible Income Strategy are shown in bold.

Flexicycle is a targeted strategy that allowed members to create an investment strategy by selecting their preferred growth and consolidation phase funds and the point at which their DC pension pot would switch between them. There was also a choice of switching periods between these phases and a choice of at retirement allocation. The Trustee is therefore not able to display net returns for each possible combination in this Statement. The relevant charges and costs can be seen for the possible underlying DC funds in the table above with the options for the growth phase being the Global Equities – active, Global Equities – passive, Diversified Assets – active, Sustainable and Responsible Equities – active and Emerging Markets Equities – active Funds and the options for the consolidation phase being the Fixed Annuity Tracker – passive, Inflation Linked Annuity Tracker – passive, Diversified Assets – active and Cash – active Funds.

Lifecycle 2 (legacy Freechoice targeted strategy) net returns over periods to Scheme year end

Age of member at the start of the period	1 year (%)	5 years (% p.a.)
25	6.1	7.1
45	6.1	7.1
55	6.1	7.1

Net returns have been shown for Lifecycle 2 at ages 25, 45 and 55, however, the strategy is closed to new members.

AVC fund net returns over periods to Scheme year end

Fund name	1 year (%)	5 years (% p.a.)
GM UK Equity Fund	8.2	7.4
GM Overseas Equity Fund	17.2	11.1
GM Property Fund	1.2	1.5

Aviva (ex Friends Life) With-profits Fund	TBC	TBC
Standard Life Pension Millennium With Profits Fund	9.4	4.8
Standard Life Pension Millennium With Profits 2006 Fund	9.4	4.8
Standard Life Pension With Profits Fund	6.9	1.5
Standard Life Managed Pension Fund	6.9	5.3
Aegon Cash Fund	4.2	0.9
Phoenix Life With-Profits Fund	TBC	TBC
Prudential Global Equity Pension Fund	8.7	7.0
Prudential Deposit Fund	4.6	1.4
Prudential Discretionary Pension Fund	9.3	5.8
Prudential UK Equity Pension Fund	8.4	6.5
Prudential With-Profits Cash Accumulation Fund[1]	3.6	4.7
Scottish Widows With-Profit Fund	1.3	3.9

The With-Profits fund returns stated above are that of the underlying investments, which are the only figures that can be quoted. With Profits Funds are designed to smooth the returns members receive over their investment term and underlying investment returns are not the only factor determining the return members receive.

The Trustee, with its investment advisors, has sought to obtain details of the net returns from the Scheme's legacy AVC providers for the Scheme year. At the time of producing this statement, that process is still ongoing. Some data is currently outstanding from Phoenix Life and Aviva. The Trustee will continue to ask its legacy AVC providers on a regular basis to disclose details of the net returns data with the intention of adding this into the next annual DC governance statement.

6. Value for members assessment

The Trustee is required to assess the extent to which member-borne charges and transaction costs for the Scheme year represent good value for members.

6.1. DC benefits (including current AVC arrangements)

The Trustee reviews all member-borne charges annually (including transaction costs where available), with the aim of ensuring that members are obtaining value for money given the circumstances of the Scheme. The most recent value for members review took place on 25 May 2023. The assessment was completed taking account of the Pensions Regulator's Code of Practice No.13 (Governance and administration of occupational trust-based schemes providing money purchase benefits) and accompanying guidance. Because there is no legal definition of 'good value', determination is subjective. The Trustee notes that value for money does not necessarily mean the lowest fee, and the overall quality of the benefit received by members was also considered in this assessment. The assessment was undertaken with assistance from the Trustee's DC advisor and involved a wide assessment of value considering the key elements of the Scheme and agreeing relevant value ratings for each area, in addition to looking at the value attributable to member-borne costs and charges.

6.1.1. Assessment of value relating to member-borne charges and transaction costs

The Bank pays the administration and DC fund management charges, so the member-borne charges are limited to additional DC fund expenses and transaction costs for the DC funds, which the assessment found compares very favourably to other DC schemes.

The Trustee's investment advisors have confirmed that the additional expenses paid by members for the DC funds are competitive for the types of funds available to members. Members pay significantly less than members in other schemes as they only pay the additional expenses element for the DC funds. The Trustee also assesses the value of the total charges of the investment options (including charges met by the Bank) and found these to also be very competitive compared to other DC schemes.

6.1.2. Wider value assessment

In carrying out the value assessment, the Trustee also considered the wider benefits members receive from the Scheme, which include:

- the oversight and governance of the Trustee, including ensuring the Scheme is compliant with relevant legislation, and holding regular meetings to monitor the Scheme and address any material issues that may impact members;
- the design of the default arrangements and how this reflects the interests of the membership as a whole;
- the range of investment options and strategies;
- the quality of communications delivered to members;
- the quality of support services such as the Scheme website where members can access DC fund information online; and
- the efficiency of administration processes and the extent to which the administrator met or exceeded its service level standards.

The following table sets out the summary of how the Trustee has assessed value.

Area	**Assessment**	**Commentary**
Charges	Very good	The costs borne by members for investment are very competitive compared to similar schemes. Fees are considered as part of any investment changes, with discounts negotiated where possible. Members benefit from only paying additional expenses and other costs being covered by the Bank.
Scheme Administration	Good	The agreed service levels for achieving a task are generally shorter than the standard levels in the market place, and these are achieved in the majority of cases for members with DC benefits. The Trustee reviewed monthly performance reporting on key processes, transactions and complaints. Any issues and anomalies identified were followed up with the administrator for explanation. The Trustee held weekly service meetings as well as monthly meetings with the administrator to review and assess service performance, discuss issues, and progress on project related activity. Any issues identified by the PSE as part of its oversight were raised with the administrators immediately and steps were taken to resolve the issue. From May 2022, Equiniti replaced WTW as the Scheme administrator for members with Hybrid and DB benefits. The move to Equiniti is expected to lead to improvements in the quality of service received by members with Hybrid benefits over the longer term. Average performance against SLAs by Equiniti has improved considerably and remained consistently above the agreed target over 2023. For DC only members, SLAs dipped just below the target level (95%) over Q2 and Q3, but the overall average for 2023 was 96%.

Scheme management and Governance	Very good	The Trustee demonstrated a high level of commitment to the effective operation of the Scheme through ongoing training. The Board regularly monitors member outcomes and activities through the quarterly dashboard, and regularly communicates with members on key relevant issues. The Board meets on a regular basis, with training undertaken ahead of meetings, and attends away days to focus more specifically on key areas of the Scheme. During 2023, the Trustee reviewed all governance documents for the Scheme to help bring them to life for members and create a consistent look and feel, including the 2022 Annual Chair's Statement and a Summary of the 2022 TCFD report, both of which were published in 2023.
Communications	Very good	Communications are of a very good standard. Over the Scheme year the Trustee has issued over 400,000 nudges to members, in addition to the annual newsletter, a mid-career MOT and a mini survey to understand how the Trustee could provide more support to help members to understand their investment options. The new Myth-busting podcast and Savings campaigns were well received by members, and have been further promoted by the Bank to employees.
At Retirement	Very good	The Trustee has progressed with developing its offering for members who wish to drawdown their benefits and has chosen LifeSight as the post-retirement master trust provider. Members continue to be signposted to their retirement options, with support available in the form of retirement seminars/webinars. The Trustee monitors member behaviour at retirement regularly, to review when DC only members are retiring relative to their Target Retirement Age and their benefit choices.
Default arrangement	Very good	Different defaults are available to different cohorts of members, recognising their different requirements. The triennial investment strategy review was carried out in March 2023, and the Trustee concluded that the default strategies remain appropriate and well positioned to meet their objectives. The Trustee agreed in the strategy review to allocate 15% of the Early Growth Fund to illiquid assets. This will be accessed via a bespoke LTAF and will be implemented over the next Scheme Year. The Trustee has also agreed to implement a four phased approach for the Flexible Income, Lump Sum and Annuity Purchase strategies, using white-labelled funds.
Self-select investment range	Very good	The Scheme offers a good range of DC funds covering all the main asset classes with active and passive options and the option to invest in targeted strategies designed for members who plan to use their DC pension pot to provide a flexible income (e.g. income drawdown), or for annuity purchase or a cash lump sum (reflecting the three broad choices members have at retirement).
Scheme design	Very good	The Scheme's employer contributions are generous compared to the UK market generally, and the banking sector. In October 2023 members received a targeted communication reminding them of the matching communications available to them. The Scheme also has relatively high assets under management for its level of membership resulting in an average pot size that is considerably large, pointing to the importance of the Scheme's bespoke design for your members' retirement outcomes

6.1.3. Conclusion

Overall, the Trustee believes that members of the Scheme are receiving good value for the charges and transaction costs that they incur as the assessment showed that members benefited from well-designed default investment strategies and a range of investment options as well as very low charges, amongst other benefits as summarised above.

6.2. Legacy AVC arrangements

There are a small number of members invested in a relatively large number of legacy AVC arrangements. These legacy AVCs only account for a small proportion (less than 0.1%) of the total DC assets within the Scheme and these investment options are no longer open to contributions. Therefore, the Trustee has taken a proportionate approach to reviewing them, compared to the other DC benefits within the Scheme.

The Trustee carries out regular reviews (at least every 3 years) of its legacy AVC arrangements with the last review undertaken on 10 June 2021. This review highlighted no material concerns with the AVC arrangements and confirmed it would be in members' best interests to remain with these providers rather than be transferred into an alternative arrangement as this would result in a loss of guarantees or high exit charges.

The Trustee continues to close 'empty' legacy AVC policies and remove funds with no remaining members as and when these are identified. As members in these AVC arrangements have fewer investment choices and pay higher fees in comparison to the main DC assets, the Trustee will continue to communicate with members to make them aware that they might benefit from moving their AVC assets to funds in the main DC investment platform with Fidelity.

7. Trustee knowledge and understanding

7.1. General

The Trustee Directors are required to develop and maintain appropriate levels of knowledge and understanding. Considering the knowledge and experience of the Trustee Directors with the specialist advice received from the appointed professional advisors (e.g. investment advisors, legal advisors), the Trustee believes it is well placed to properly exercise its functions as Trustee of the Scheme.

The Trustee ensures that the appropriate level of Trustee Knowledge & Understanding ('TKU') is achieved and maintained in the following ways.

The Scheme invests considerable support in the design and provision of a Trustee training curriculum to ensure that all Trustee Directors develop the necessary knowledge, understanding and skills to manage and govern the Scheme effectively. The training is designed to help the Trustee Directors to learn about and discuss current legislative and regulatory requirements concerning pensions law and the principles relating to funding and investment. This is underpinned by the Trustee's policy on knowledge and understanding which was applied during the Scheme year and ensures that:

- Every member-nominated Trustee Director candidate must complete the Pensions Regulator's Trustee Toolkit prior to being interviewed for selection. Bank-nominated Trustee Directors are required to comply with the TKU Regulations by completing the Trustee Toolkit within six months of becoming a Trustee Director. The Trustee Toolkit is an online learning programme from the Pensions Regulator aimed at trustees of occupational pension schemes and designed to help trustees meet the minimum level of knowledge and understanding required by law.

Newly appointed Trustee Directors have meetings with key advisors and PSE executive committee members covering a variety of topics. Two Trustee Directors were appointed during the Scheme year.

- Trustee training is provided to support the Trustee Directors in advance of specific decisions and topics which are particularly complex.
- Training logs are completed for each module of training undertaken, with the Trustee documenting what they learnt from the module, how it has improved their skills and knowledge and how they will use it in their role as Trustee.
- Trustee meeting attendance is recorded to ensure that all Trustee Directors regularly attend meetings and are informed of Scheme specific and regulatory updates.

- All Trustee Directors have access to previous years' training modules via recordings and files retained in the Trustee Reading Room (an online resource available to Trustee Directors).
- Trustee Directors have performance conversations with the Board Chair and complete periodic self-assessments to help identify training needs.
- Two of the Trustee Directors are independent trustees, defined as professional trustees who represent independent trustee firms.

There is a formal annual review of the balance of skills and competencies on the Trustee and on the committees. The Trustee considered the extent to which the current committee structure provided sufficient oversight of DC matters and concluded that it did.

Further, a formal Trustee effectiveness review was carried out in 2022. The review assessed the extent to which the Trustee operated effectively, both as a full Trustee and per committee. This was done by a combination of psychometric testing supported by individual interviews and group observations. The outcome of the review was positive.

7.2. Activities during the Scheme year

During the Scheme year, the Trustee Directors undertook the following Trustee training relevant to the Scheme's DC benefits:

- Three Trustee training away days took place, namely a strategy day, investment day, and governance day, to update all Trustee Directors with relevant developments. Topics covered included revisiting investment beliefs, illiquid growth assets, biodiversity and nature loss, stewardship and engagement, cyber risk management and upcoming regulatory changes. Further, a DC deep dive session was held in February 2023, which took the form of a walkthrough of each step in the DC investment process from contribution to investment. Attendance is documented and in 2023, all Trustee Directors attended at least two training days.

In addition, the following steps were taken in respect of TKU:

- The PSE in consultation with the Governance and Nominations Committee reviewed the training logs mentioned above and devised a training plan for the Trustee as a whole.
- Training needs for individual Trustee Directors were identified by each individual and agreed in the annual reviews held with the Trustee Chair.
- There was a continual focus on DC governance and investment strategies, as well as training on, amongst other things, Investment beliefs (including ESG and social impact) and administration processes. This approach to Trustee training, in conjunction with the external support received from advisors (described below), enables the Trustee to have the relevant knowledge and understanding of the Scheme documentation (e.g. Trust Deed and Rules, Trustee policies, SIP etc.), the relevant principles relating to funding and investment, and the law and regulations relating to pensions and trusts, as well as market developments at the appropriate times to effectively run the Scheme and make decisions.
- The Trustee continued to build on its expertise in relation to ESG and climate change risks through a number of training sessions. The frequency and level of training that Trustee Directors receive depends on their role and their membership of specific committees. Climate change has been a focus of several interim meetings, investment away days and strategy days over the year. At these sessions the Trustee Directors receive training from its advisors or on occasion by external experts in a given field. In addition, the transition to a more digital way of working has allowed Trustee advisors to deliver shorter and more targeted training sessions in the form of pre-recorded videos. This allowed Trustee Directors to be better informed and to ask more meaningful questions during quarterly meetings when making decisions.

In particular, during the Scheme year, in addition to the ongoing training outlined above, the Trustee has met the knowledge and understanding requirements by:

- receiving updates on topical issues each quarter from its legal and investment advisors to keep up to date with pensions law and the principles of DC investing;
- obtaining advice from its relevant professional advisors. For example, the Trustee received appropriate advice when reviewing and adopting a revised SIP during the Scheme year, helping the Trustee Directors ensure they have a working knowledge of the current SIP. All Trustee decisions are supported by advice where required, which includes the attendance of professional advisors at Trustee meetings;
- receiving legal advice on the Scheme's trust deed and rules and any amendments required to it, such that the Trustee Directors have a working knowledge of this document;
- the Trustee Directors considering and applying their knowledge of the Trust Deed and Rules, SIP and Trustee policies where relevant to Trustee decisions; and
- attending external events, such as training provided by advisors, topic specific conferences and seminars. As well as learning opportunities, this provides an external perspective of what other schemes are doing and insights relevant to the Scheme.

The Trustee Governance and Nominations Committee appraises the balance of skills and competencies on the Trustee, and Trustee Director succession is planned to address any gaps which are identified in this process.

For the reasons set out above, considering the collective knowledge and experience of the Trustee with the specialist advice (both in writing and whilst attending meetings) received from the appointed professional advisors, the Trustee believes it is well placed to exercise its functions as the Trustee of the Scheme properly.

R Picot ________________________________ Date: 28 June 2024

R Picot, Chair of the Trustee of the HSBC Bank (UK) Pension Scheme For and on behalf of HSBC Bank Pension Trust (UK) Limited

Statement of Investment Principles

HSBC BANK (UK) PENSION SCHEME DEFINED CONTRIBUTIONS

September 2023

HSBC

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Statement of Investment Principles for the HSBC Bank (UK) Pension Scheme – Defined Contributions

Section 1: Introduction

This Statement of Investment Principles ('SIP') sets out the policy of the HSBC Bank Pension Trust (UK) Limited ('the Trustee') on various matters governing decisions about the investments of the HSBC Bank (UK) Pension Scheme ('the Scheme'). The Scheme consists of three sections; the HBUK Section, the HSBC Global Services Section and the HSBC Bank plc Section. Each section provides Defined Benefit ('DB') and Defined Contribution ('DC') benefits. This SIP covers all the DC benefits of all three sections, including default arrangements and self-select options, and replaces the previous SIP dated September 2022. For details on the Scheme's DC investment arrangements, please see the separate Investment Policy Implementation Document ('IPID').

The SIP is designed to meet the requirements of Section 35 (as amended) of the Pensions Act 1995 ('the Act'), the Occupational Pension Schemes (Investment) Regulations 2005, and the Occupational Pension Schemes (Charges and Governance) Regulations 2015.

This SIP has been prepared after obtaining and considering written professional advice from LCP, the Scheme's DC advisor, whom the Trustee considers to be suitably qualified and experienced to provide such advice. The advice takes into account the suitability of investments, including the need for diversification, given the circumstances of the Scheme, and the principles contained in this SIP. The Trustee has consulted with the Principal Employers in producing this SIP.

The Trustee will review this SIP from time to time and, with the help of its advisors, will amend it as appropriate. These reviews will take place as soon as practicable after any significant change in investment policy, or in the demographic profile of the relevant members, and at least once every three years.

Appendix 1 sets out details of the respective key responsibilities of the Trustee, platform provider, advisor and DC fund managers. It also contains a description of the basis of remuneration of the advisor and the DC fund managers.

Appendix 2 sets out the Trustee's policy towards risk measurement and management.

Section 2: Investment objectives

The Trustee's primary objectives are to provide members with access to:

- an appropriate range of investment options, reflecting the membership profile and the variety of ways that members can draw their benefits in retirement; and
- default investment arrangements that the Trustee believes to be reasonable for those members that do not wish to make their own investment decisions. The Scheme's default arrangements' objectives are to generate returns above inflation whilst members are some distance from retirement, but then to switch automatically and gradually to lower risk investments as members near the taking of their DC pension pot.

Section 3: Investment strategy

The Trustee has made available a range of DC investment funds ('DC funds') for members. Each member is responsible for specifying one or more DC funds for the investment of their DC pension pot, having regard to their attitude to the risks involved. If a member does not choose an investment option, their DC pension pot will be invested into a default arrangement, deemed most appropriate to them, which is managed as a 'targeted' strategy (ie it automatically combines investments in proportions that vary according to the time to retirement age).

The Scheme has different default arrangements for members, depending on the type of benefits they have. The default arrangements have been designed to be in line with what the Trustee believes to be the best interests of the majority of the members based on the demographics of the Scheme's membership.

For members with only DC benefits, the main default arrangement targets flexible income drawdown at retirement, since the Trustee believes that most of these members will wish to take their benefits in this form. Therefore, the initial growth phase is invested to target a return above inflation, and then in the 20 years before retirement, it switches gradually into less risky assets, with the asset allocation at retirement being designed to be appropriate for members who wish to flexibly take their benefits through an income drawdown arrangement or remain invested in the Scheme. This default targeted strategy continues to move into less risky assets in the 5 years following a member's target retirement age; providing further gradual de-risking for members who may not have updated their target retirement age despite deciding to retire at an older age.

For members with both a DC pension pot and DB benefits in the Scheme, called Hybrid benefits, the main default arrangement targets a cash lump sum at retirement, because the Trustee believes that most of these members will wish to take their DC benefits in this form. Similar to the main default for DC members, the initial growth phase targets a return above inflation, and then in the 20 years before retirement, it switches gradually into less risky assets, into an asset allocation at retirement designed to be appropriate for member taking a cash lump sum. This default targeted strategy for members with Hybrid benefits also continues to move into less risky assets in the 5 years following a member's target retirement age; providing further gradual de-risking for members who may not have updated their target retirement age despite deciding to retire at an older age.

In addition to the two main default arrangements, the Scheme also currently offers an alternative targeted strategy; one designed to be appropriate for members who wish to purchase an annuity at retirement. This strategy was the previous main default arrangement for members of the Scheme with DC benefits and, as members did not make a choice to invest in this strategy, this targeted strategy continues to be considered a default by the Trustee for the purpose of fulfilling legislative requirements. This targeted strategy does not change its asset allocation following a member's target retirement age.

As well as the three targeted strategies noted above, the Scheme also makes use of an additional default arrangements called the Cash - active (default). This fund was introduced as a result of a decision taken to ensure a separate fund (ie one which members could not self-select into) was available to allocate members' contributions in the event of a DC fund closure in the future (such as one similar to that of the Property – active Fund in 2020). This fund invests in the same underlying fund as the Cash - active fund. As members' contributions can be directed into this fund without them making an active selection, this fund will be treated as a default for the purpose of fulfilling legislative requirements. The objective of the fund is 'To protect the absolute value of the investment by investing in deposits and other short term money market instruments. The fund aims to perform in line with the benchmark.'

The Trustee also operates three legacy lifecycle strategies known as Cash Lifecycle, Flexicycle and Lifecycle 2. Whilst closed to new member investment, members invested at the time of closure are able to continue to contribute to these strategies. The Cash Lifecycle is a legacy version of the existing main default arrangement for members with Hybrid benefits and, as these members did not make a choice to invest in this strategy, this lifecycle also continues to be considered a default by the Trustee for the purpose of fulfilling legislative requirements. Flexicycle uses a similar strategy structure to the lifecycles but allowed members some flexibility to choose between a number of funds to invest in during the growth phase and the de-risking phase, and decide when to switch between the phases. Members invested in Flexicycle when it was closed to new member investments are no longer able to amend their fund selections within the strategy. Lifecycle 2 makes greater use of active management and has an asset allocation at retirement suitable for members planning to purchase an annuity at retirement.

The Trustee will monitor the relevant members' behaviour to check whether assumptions made about how members will access their benefits are borne out in practice.

Section 4: Considerations made in determining the investment arrangements

When deciding how to invest the DC assets, the Trustee considers a number of risks, including, but not limited to, those set out in Appendix 2. Some of these risks are more quantifiable than others, but the Trustee has tried to allow for the relative importance and magnitude of each risk.

The Trustee considered a wide range of asset classes for investment, and the expected returns and risks associated with those asset classes.

In determining the investment arrangements, the Trustee also takes into account:

- the best interests of all members and beneficiaries;
- the profile of the membership and what this is likely to mean for the choices members might make upon reaching retirement;
- the risks, rewards and suitability of a number of possible asset classes and targeted strategies and whether the return expected for taking any given investment risk is considered sufficient given the risk being taken;
- the need for appropriate diversification within the default arrangements and other targeted options to ensure that, for each such option, both the overall level of investment risk and the balance of individual asset risks are appropriate;
- the need for appropriate diversification within the other investment options offered to members;
- the Trustee's investment beliefs about how investment markets work and which factors are most likely to impact investment outcomes;
- the level of liquidity and the liquidity management process; and
- the expected and actual investment return, to ensure it reflects the aims and objectives of the investment arrangements, on an ongoing basis.

The Trustee's key investment beliefs are set out below:

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.
- Environmental, social and governance ('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. Some ESG risks 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 new investment opportunities.
- good stewardship and engagement can protect or enhance member retirement outcomes in the long term.

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 stakeholders (such as advisors, DC fund managers, Pension Scheme Executive, the Principal Employers and members) will be monitored and managed.
- DC communications should be tailored to support members in making well-informed investment decisions;

Building and implementing a robust investment strategy

- both quantitative and qualitative factors should be taken into account when evaluating and managing investment risk.
- the benefits of active management can only be harnessed by skilful DC fund managers in select asset classes, and where appropriately skilful DC fund managers can be identified by the Trustee, its Pension Scheme Executive and its advisors.
- DC fund manager mandates that can replicate active management strategies in a cost effective manner are preferable solutions for some types of asset classes.
- investment management costs and fees, including transaction costs, should be transparent; and
- the Trustee aims to accommodate DC members who wish to invest in active funds.

The Trustee’s key investment beliefs and understanding of the Scheme’s membership are reflected in the design of the default and other targeted options, and in the range of other funds made available to members.

Section 5: Implementation of the investment arrangements

Before investing in any manner, the Trustee obtains and considers proper written advice from its advisor on the question of whether the investment is satisfactory, having regard to the need for suitable and appropriately diversified investments.

Details of the DC fund managers are set out in the separate IPID.

The Trustee has entered into a contract with a platform provider, who makes available to members a range of eighteen different DC funds that can be accessed through three distinct structures; targeted strategy, Freechoice or Flexicycle on a legacy basis. There is no direct relationship between the Scheme and the underlying DC fund managers.

The DC fund managers’ primary role is the day-to-day investment management of the Scheme’s DC assets. The DC fund managers are authorised under the Financial Services and Markets Act 2000 (as amended) to carry out such activities.

The Trustee and DC fund managers to whom discretion has been delegated exercise their powers to giving effect to the principles in this SIP, so far as is reasonably practicable.

The Trustee selects the DC fund managers with an expectation of a long-term arrangement, which encourages active ownership of the underlying assets, which is discussed further in Section 7. When assessing a DC fund manager’s performance, the focus is on longer-term outcomes, and the Trustee would not expect to terminate a DC fund manager’s appointment based purely on short term performance. However, a DC 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.

Alignment between a DC fund manager’s management of each pooled fund’s assets and the Trustee’s policies and objectives are a fundamental part of the appointment process of a new DC fund manager. The following steps are taken to encourage alignment between the Scheme and the DC fund managers:

Before investing, the Trustee will seek to understand the DC fund manager’s approach to sustainable investment (including engagement).

The Trustee has a separate Stewardship Policy, which sets out how DC fund managers are held to account for the use of their influence as owners or part-owners of assets. The Trustee considers DC fund managers’ voting policies and records and requires DC fund managers to report significant votes as relevant. As active owners, the Trustee holds its DC fund 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.

To best channel stewardship efforts, three key priorities have been identified, described in more detail in Section 7. These stewardship priorities are reflected in the Stewardship Policy described above and the Trustee monitors DC fund managers' voting and engagement practices in the context of these priorities.

To maintain alignment, DC fund managers are provided with the most recent version of the Scheme's SIP which includes the Trustee's policy on sustainable investment, on an annual basis and are required to explicitly confirm that the DC assets are managed in line with the Trustee's policies as outlined in those documents.

Should the Trustee's monitoring process reveal that a DC fund manager's portfolio is not aligned with the Trustee's policies, the Trustee will engage with the DC fund manager further to encourage alignment. This monitoring process includes specific consideration of the sustainable investment/ESG characteristics of the portfolio and DC fund managers' engagement activities. If, following engagement, it is the view of the Trustee that the degree of alignment remains unsatisfactory, the DC fund manager will be terminated and replaced.

Managers are paid an ad valorem 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 and value for money incurred in managing the DC assets annually, which includes the costs associated with portfolio turnover. In assessing the appropriateness of the portfolio turnover costs at an individual DC fund manager level, the Trustee will have regard to the actual portfolio turnover and how this compares with the expected turnover range for that mandate.

Section 6: Realisation of investments

The DC fund managers have discretion over the timing of realisation of DC assets within the portfolios that they manage, and in considerations relating to the liquidity of investments.

The Trustee's policy is to invest in DC funds that offer daily dealing to enable members to readily realise and change their investments.

The three main targeted strategies (Flexible Income Strategy, Lump Sum Strategy and Annuity Strategy) that are default arrangements include an allocation to the Diversified Assets – active Fund. This is a diversified growth fund ('DGF') via pooled fund of one, that may include an allocation to illiquid assets if the DGF manager chooses to do so. As at 30 June 2023 the exposure to the illiquid assets included microfinance, insurance-linked securities, direct property and infrastructure debt, which together constituted around 8.4% of the DGF allocation. Members invested in the main default arrangements from 20 years to their target retirement age (ie aged between 45 and 70, assuming a target retirement age of 65), have exposure to illiquid assets via the DGF allocation.

Our policy is to have exposure to DGFs with discretion to invest in illiquid assets within the default arrangements because our assessment is that this offers members a potentially greater level of diversification and hence better risk management in the overall asset allocation. As a result, we believe long-term net risk-adjusted investment returns of the default arrangements may be improved by investing in illiquid assets.

The Cash Lifecycle and the Cash - active (default) are both considered default arrangements for governance purposes by the Trustee. The Cash Lifecycle also has an allocation to the Diversified Assets – active Fund and therefore members have exposure to illiquid assets from 20 years to their target retirement age (ie aged between 45 and 65, assuming a target retirement age of 65). The Cash - active (default) does not have an allocation to illiquid assets.

With the support of our advisors, we are currently considering increased investment in illiquid assets within the main default arrangements.

Section 7: Environmental, social and governance ('ESG') and other financially material considerations

Section 4 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. Some ESG risks can have a material impact on large parts of the global economy and are considered risks to the whole economic system.

In setting the investment strategy for the Scheme's default arrangements, targeted strategies and the alternative lifecycle strategies, the Trustee's primary objective is to generate returns above inflation whilst members are some distance from retirement and to switch gradually to lower risk investments as members approach their target retirement date.

ESG factors can have a material financial impact on the value of the default arrangements, and the alternative lifecycle strategies, over the time horizon applicable to members invested in them. 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.

The Trustee takes account of ESG factors when setting the asset allocation for the default arrangements, targeted strategies and the alternative lifecycle strategies, and when selecting (and monitoring the performance of) its appointed DC fund managers. For most of the DC assets, the Trustee expects the DC fund managers to invest with a long time horizon, and to use their engagement activity to drive improved performance over these periods.

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

In relation to funds where the DC fund manager is permitted to make active decisions about the selection, retention and realisation of investments the Trustee expects the DC fund managers to take steps to ensure financially material considerations (including ESG considerations) are implicitly 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. Within some asset classes, where it is possible in the context of DC operational constraints, the Trustee considers investment options that give increased weight to ESG considerations. An investment fund that explicitly combines investment return with climate factors in the selection, retention and realisation of DC assets is included in the targeted strategies provided to the DC members of the Scheme (with the exception of Lifecycle 2 and some members within Flexicycle) and is also available as a Freechoice option. The Trustee regularly monitors the performance and ESG risk mitigation offered by this investment option and would consider replacing the fund should either the performance or ESG-related objectives of the fund become misaligned with Trustee beliefs or expectations.

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

- Climate Change
- Biodiversity and nature related loss, including antimicrobial resistance; and
- Diversity, Equity and Inclusion.

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.

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

The Trustee has set a long-term objective across the Scheme's 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.

An interim target date of 2030 has been set to ensure that sufficient progress is made towards the ultimate target of reaching net zero greenhouse gas 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 the Scheme's DB and DC assets.
- enhancing its engagement and stewardship efforts through working collaboratively with the Trustee's asset and fund managers.

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 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;
- expects its appointed DC fund managers to be cognisant of the potential ESG risks and opportunities embedded in DC assets. DC fund managers are further expected 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 DC 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 to review material exposures to the world's largest emitters and to inform impactful engagement strategies through its DC fund 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.

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 improve the financial outcomes for members;
- improve transparency in reporting, being generous with knowledge and helping to shape new ideas within Responsible Investment.

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+

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.

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 DC fund managers' report on an annual basis as to their exposure to controversial weapons manufacturers, if any.

The Trustee will avoid Investments in companies with ties to the legal production and/or retail of cannabis products for recreational use. This position has been taken on the grounds of risk, as it believes this is in the best financial interests of its members. The Trustee expects its appointed DC 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.

The Trustee seeks to avoid investments 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. This position has been taken on the grounds of risk, as it believes this is in the best financial interests of its members. The Trustee expects its appointed DC fund managers to adhere to this position, as far as it is practical to do so.

Section 8: Members' Views and Non-Financial Factors

The Trustee does not take into account any non-financial matters (ie matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in setting the investment strategy for the Scheme's default arrangements. However, it recognises the importance of offering a suitable range of investment options for members who wish to express an ethical preference in their pension saving.

The Trustee has made the following Freechoice options available to members who would like to invest in funds with specific non-financial considerations:

- Sustainable & Responsible Equities – Active

- Shariah Law Equities – Passive

The Trustee keeps up to date with other fund options available in the market via updates from its advisors.

Section 9. Stewardship

The Trustee has examined how rights, including voting rights, attached to investments should be exercised. The Trustee recognises its responsibilities as a shareholder, being the owner of capital, and believes that good stewardship practices including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protects and enhances asset owner value in the long term.

The Trustee has delegated to its DC fund managers the exercise of rights attaching to investments, 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 expects its DC fund managers to exercise ownership rights and undertake monitoring and engagement in line with the DC fund 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.

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

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

The Asset and Liability Committee endorsed this 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 expert 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 employers;
- developing a mutual understanding of investment and risk issues with the employers;
- 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) DC fund managers, advisors and other service providers;
- monitoring the exercise of the investment powers that they have delegated to the DC 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;
- communicating with members as appropriate on investment matters, such as the Trustee's assessment of its effectiveness as a decision-making body, the policies regarding responsible investment and how such responsibilities have been discharged;
- 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 employers when reviewing the SIP.

The Trustee has delegated responsibility for a number of investment matters to an Asset and Liability Committee ('ALCo'). This committee is responsible for selecting, monitoring the performance of and, when required, replacing DC 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 Scheme'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. Platform provider

The investment platform provider will be responsible for:

- providing access to a range of funds managed by various DC fund managers; and
- providing the Trustee with regular information concerning the management and performance of the DC assets.

3. DC fund managers

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

- managing the portfolios of assets according to their stated objectives, and within the guidelines and restrictions set out in their respective DC fund 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 the portfolios of assets;
- exercising rights (including voting rights) attaching to investments and undertaking engagement activities in respect of investments;
- providing the investment platform provider with regular information concerning the management and performance of their respective portfolios; and
- having regard to the provisions of Section 36 of the Act insofar as it is necessary to do so.

The custodians of the portfolios (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 within the portfolios.

The Trustee, the CIO and its advisor will have regular meetings with the DC fund managers and platform provider to ensure they continue to carry out their work competently and have the appropriate knowledge and experience to manage the investments of the Scheme.

4. Investment advisor

In broad terms, the advisor is responsible, in respect of investment matters, as requested by the Trustee, for:

- advising on a suitable fund range and default arrangements 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 DC fund managers; and
- participating with the Trustee in reviews of this SIP.

5. Fee structures

The Trustee recognises that the provision of investment management and advisory services to the Scheme results in a range of charges to be met. These platform, investment management and advisory charges are met entirely by the Employers and are not deducted from members' DC assets. Depending on the fund invested in, members are liable for paying the additional expenses charged by the DC fund managers. The Trustee monitors the level of additional expenses charged by DC fund managers to ensure that they remain appropriate.

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

6. 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 DC assets, 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: Policy towards risk, risk measurement and risk management

The Trustee considers that there are a number of different types of investment risk that are important for the Scheme. These include, but are not limited to:

1. Volatility and the risk of inadequate returns

As members' benefits are dependent on the investment returns achieved, it is important that investment options are available which can be expected to produce adequate real returns over the longer term. It is also important that members are offered a range of funds with varying levels of return and consequent volatility to allow members to invest according to their individual risk tolerances and circumstances. Members are offered targeted strategies that reduce risk by moving to less volatile assets as they approach retirement age.

On this basis, equity and equity-based funds, which are expected to provide positive returns above inflation over the long term, have been made available to members and feature in the growth phase of the default arrangements. To reduce the chance of a sharp deterioration in members' benefits close to retirement, the Trustee has made the default arrangements in the form of targeted strategies that gradually reduce investment risk as the member approaches their target retirement age.

2. Inflation risk

There is a risk that a member's investments won't grow quickly enough to sufficiently outpace inflation (the cost of living). Even if they do grow in value, if they don't grow quicker than inflation then their real value goes down. This can happen with low capital risk funds, like a cash fund. It is measured by examining periodically the long-term performance of different assets relative to inflation.

It can be managed by investing in growth assets that are expected to produce returns that exceed long term inflation within both the default arrangements and Flexicycle arrangements and the range of funds available to members to choose.

3. Risk from lack of diversification

This is the risk that failure of a particular investment, or the general poor performance of a given investment type, could materially adversely affect the Scheme's DC assets. The Trustee believes that the Scheme's default arrangements are adequately diversified between different asset classes and within each asset class, and that the options provide a suitably diversified range for members to choose from. This was a key consideration when determining the Scheme's investment arrangements.

4. DC fund manager risk

This is the risk that a DC fund manager fails to meet its investment objectives. Prior to appointing a DC fund manager, the Trustee receives written advice from a suitably qualified individual, and will typically undertake an DC fund manager selection exercise. The Trustee and its advisor monitor the DC fund managers on a regular basis.

5. Liquidity/marketability risk

This is the risk that core financial transactions, such as investing members' contributions, are not processed promptly due to lack of liquidity in the investments. The Trustee manages this risk by only using pooled funds with daily dealing within the default arrangements and diversifying the strategy across different types of investment.

6. Risk from excessive charges

While the Employers cover the cost of management fees, members are still liable for the additional expenses charged by DC fund managers. If the additional expense charges together with other charges, for example transaction costs, are excessive, then the value of a member's DC pension pot will be reduced unnecessarily. The Trustee is comfortable that the additional expenses and other charges payable by members are in line with market practice and assess regularly whether these represent good value for members.

7. Credit risk

This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Scheme is subject to credit risk because it invests in bonds via pooled funds. The Trustee manages its exposure to credit risk by only investing in pooled funds that have a diversified exposure to different credit issuers. The Scheme invests in some funds which invest in bonds that are classified as both 'investment grade' and 'non-investment grade'; the latter carrying greater credit risk but having a higher expected investment return, to compensate investors.

8. Market switching risk

The risk is that, where members choose to switch between DC funds, they are exposed to a cost of switching which is variable according to the conditions prevailing in the relevant markets at a particular point in time. It is measured by looking at the underlying spreads of the fund options. It is managed by the DC fund managers looking for best execution when implementing trades.

9. Currency risk

Whilst the majority of the currency exposure of the Scheme's DC assets is to Sterling, the Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets. The Trustee considers the overseas currency exposure in the context of the overall investment strategy, and believes that the currency exposure that exists diversifies the strategy and is appropriate. Furthermore, the Trustee manages the amount of currency risk by offering targeted strategies that invest in pooled funds with various levels of hedged currency exposure.

10. Annuity conversion risk

When a member retires, they may use their DC pension pot to secure an annuity. The cost of buying an annuity varies from time to time and depends partly on the price of bonds. It is measured by examining periodically the correlation of different assets to annuity prices.

The Trustee manages this risk by offering DC investment options which aim to protect purchasing power of annuities.

11. Securities lending risks

Through the act of securities lending, investors lend securities (such as stocks or bonds) to a third party (the borrower). The borrower gives the lender collateral in the form of cash, stocks, or bonds. In addition to providing the collateral plus a cash margin, the borrower pays the lender to borrow the securities. The process provides investment markets with liquidity, and allows security holders the chance to achieve additional returns on their portfolios, but incurs a number of risks.

- counterparty risk – the risk that lenders or their lending agents may default on their loan and be unable to return the securities borrowed;
- cash reinvestment risk – when the lender receives cash as collateral, this cash is often reinvested. The lender's objective is to generate income; however the lender is then also exposed to additional investment risks including the potential loss of principal;
- non-cash collateral risk – the additional risk involved in receiving assets other than cash as collateral; and

- operational risk – the risk of engaging in securities lending. For example, market or exchange problems, miscommunication between parties, incorrect records, etc.

The Trustee manages this risk by ensuring that, where possible, DC fund managers' policies toward securities lending are in line with the Trustee's beliefs.

12. Climate change risk

Climate change risk is considered to be a systemic risk by the Trustee, though it is difficult to measure with a simple number.

Climate change risk is managed through a combination of both positive and negative tilts where appropriate (Global Equities) as well as a robust engagement policy via the Trustee's appointed DC fund managers. See the detailed climate change policy in section 7 – Consideration of financially material and non-financial factors.

13. Other environmental, social and governance (ESG) risks

ESG factors are sources of risk to the Scheme's investments which could be financially material over both the short and longer term. The Trustee seeks to appoint DC fund managers who will manage these risks appropriately on its behalf and regularly reviews how these risks are being managed in practice.