HSBC Bank (UK) Pension Scheme
(The “Scheme”)
UK Stewardship Code Report 2024

Table of Contents

Foreword

We are delighted to present our fourth annual stewardship report, produced in line with the 12 principles of the UK Stewardship Code. We continue in our commitment to practising effective stewardship by holding our asset managers to account, and to participating in initiatives and collaborations at the policy and regulatory level. We regard effective stewardship as prudent asset management and crucial for delivering our fiduciary duties to our members, helping us underpin value on their behalf.

Our primary way for carrying out our stewardship duties is to set our expectations of our asset managers and then to hold them to account for delivery against those expectations. We retain our focus on stewardship themes including climate change, the risks associated with biodiversity and nature-related losses, antimicrobial resistance, and the inclusion and diversity practices both at the asset managers we hire to invest on our behalf and in the companies in which we invest. This year, alongside climate-related risk, we particularly pressed managers to explain their efforts to deliver with regard to the biodiversity and nature, and antimicrobial resistance themes, because these have been the less well addressed thus far.

We also carry out our stewardship responsibilities by undertaking and promoting engagement at a policy level. We recognise that as a large asset owner, we are exposed to a number of significant sustainability-linked risks that are embedded within the economic system within which we operate, and that are not necessarily able to be mitigated by diversification. These are described as systemic risks. It is therefore important for us to behave as universal owners and engage at the regulatory and policy level to promote healthy, functioning systems. To this end, in 2024, we took the decision to reflect our focus on systemic risks by placing a greater emphasis on policy level engagement. In addition to the policy level engagement undertaken by our asset managers, we have worked to put in place a specialist engagement provider to focus on policy engagement. The appointment of this specialist provider services should enable us to be more effective in responding to regulatory consultations and other policy-level developments, as well as to participate more fully in the development of industry best practices. Our universal owner mindset continues to underpin our engagement actions and helps to guide our decision-making and where we deploy our resources.

As in previous years, this report contains several case studies to showcase our stewardship activities, including some of the process enhancements we have made over the year. Given our outsourced governance model, most of the direct company engagement and voting is delegated to our asset managers. This report therefore also includes case studies on engagement actions undertaken on our behalf by some of our largest asset managers.

We remain committed to delivering effectively for members and in seeing that commitment again reflected in retaining our status as a signatory to the UK Stewardship Code.

Russell Picot, HSBC Bank Pension Trust (UK) Limited, Board Chair

Section 1: HSBC Bank (UK) Pension Scheme Overview

The HSBC Bank (UK) Pension Scheme consists of three sections: the HSBC Bank (UK) ("HBUK") Section, the HSBC Bank plc (or "HBEU Section") Section and the HSBC Global Services (UK) Ltd ("HGSU") Section. Defined Benefit ("DB") and Defined Contribution ("DC") benefits are provided by each section. The Scheme holds in assets:

- DB: £18.9bn as at 31 December 2024
- DC: £8.3bn as at 31 December 2024

The Trustee operates for the exclusive purpose of providing retirement and death benefits to the Scheme's 178,965[1] eligible participants and beneficiaries who are past and current employees of the HSBC Group in the UK.

Appropriate investment philosophy and time horizon for investment

The long-term investment objective of the DB assets is to maintain a portfolio appropriate to each of the sections which will enable the Trustee to meet the cost of current and future DB benefits that the Scheme provides. There are three DB investment strategies: one for the HBUK section, one for the HBEU section and one for the HGSU section.

For the HBUK section, the Trustee follows the investment approach noted below. As of 2024, the investment strategy for the HBEU and the HGSU sections follows a lower-risk strategy comprised mainly of matching assets and an Investment Grade Credit fund. The approaches for each of the sections will help the Trustee meet its overall long-term investment objectives.

The primary objective with DC is to provide members with access to a default investment option that generates returns in line with members' circumstances depending on what stage of their pension journey they are in, and to provide an appropriate range of funds for members to select from if they choose to do so. Members who choose not to make an active decision regarding their investment strategy go in the default investment option. The self-select fund options are made available for those members who do wish to make active investment decisions.

- **DB Assets:** The DB assets are largely invested in a low-risk portfolio consisting of UK Government bonds, high quality corporate bonds, and other secure income assets. These assets make up the Cashflow Driven Investment ("CDI") portfolio. This portfolio relies on long-term cash flows to make liability payments and these assets therefore have a multi-decade investment time horizon in the region of 20 to 30 years to meet the peak of pensions payments, and beyond to pay for younger members' pensions as they retire.
- **DC Assets:** The majority of the DC assets are invested in the default investment option, which is designed to generate returns sufficiently above inflation whilst members are some distance from retirement, but then to switch automatically and gradually to lower risk investments as members near taking their DC pension pot. These assets therefore also have a multi-decade investment time horizon, which is in the region of 50 years.

The Scheme's structure, governance and oversight of investment

The Trustee's core purpose is to provide retirement benefits to its beneficiaries, the Scheme's members. To deliver this, the Trustee has set out its investment beliefs to shape investment decision-making, including several investment beliefs in relation to Environmental, Social and Governance ("ESG") risk factors, sustainability and stewardship. The full set of the Trustee's investment beliefs can be found in the latest Statement of Investment Principles, updated in November 2024 (see appendix 1). Bullet point extracts are given below:

- 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, but others can have a material impact on large parts of the global economy and are considered risks to the whole economic system.
- The Trustee also believes good stewardship and engagement can protect or enhance member retirement outcomes in the long-term.
- The Trustee has chosen to prioritise several system-wide ESG risks which it believes are especially financially material to the Scheme, now and/or in the future. These have been identified using evidence-based research and

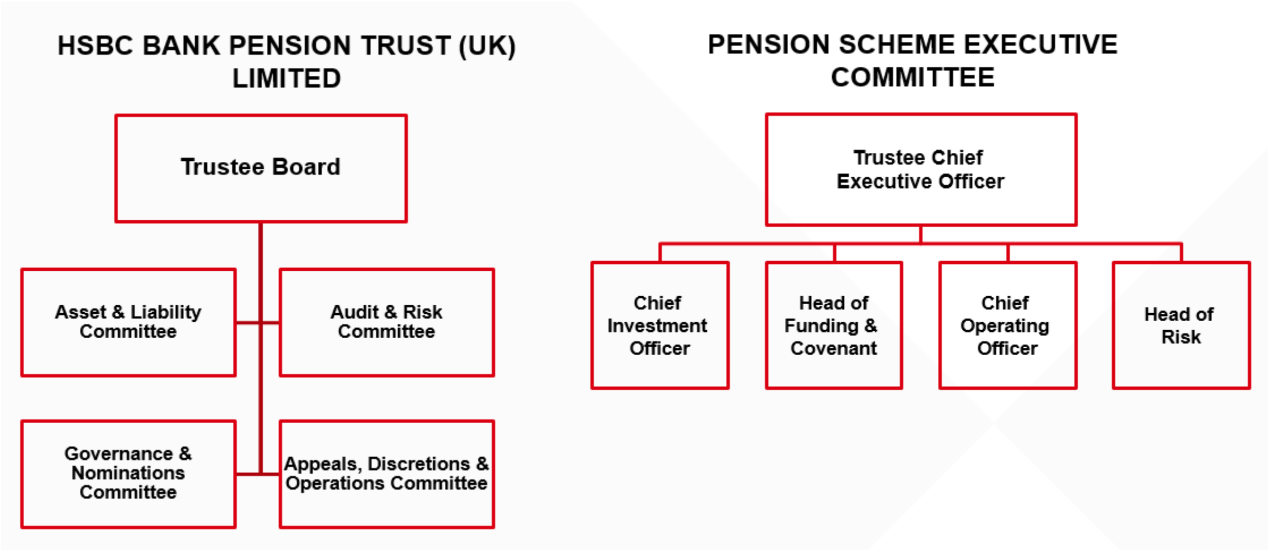
[1] The latest figure available data at the time of writing.

training. These include climate change, biodiversity and nature-related losses, including antimicrobial resistance, as well as diversity, equity and inclusion.

The Scheme's governance structure enables these beliefs to be applied, ensuring the Scheme is run in the best interests of all stakeholders. The Trustee is responsible for all aspects of running the Scheme and, to achieve this, it has established a governance structure comprising the Trustee Board and its sub-committees, supported by a management structure comprising the Pension Scheme Executive ("PSE"), who oversee the implementation of the Trustee's strategic decisions.

Strategic and operational decision-making happens at the Trustee Board and sub-committee level, with some decisions delegated to the PSE. This is to make the running of the Scheme more effective, for example, when members' benefits need to be paid out and Trustee decisions need to be implemented by technical specialists. The chart below outlines the Scheme's organisational structure effective in 2024. The section below also provides a description of the role of the Trustee Board, the two sub-committees that are relevant for investment matters, and the PSE.

The Scheme's Organisational Chart



Role of the Trustee Board ("the Trustee")

- The three sections of the Scheme are overseen by the HSBC Bank Pension Trust (UK) Limited ("the Trustee"). At the end of the reporting period, the Trustee Board comprised 11 Trustee Directors. Seven, including the Chair and two Independent Trustees, were nominated by the Sponsors. Four were nominated by the members of the Scheme.
- The Trustee is responsible for all aspects of running the Scheme. The Trustee meets at least quarterly and is responsible for determining its investment beliefs and agreeing the Statements of Investment Principles ("SIPs") for the DB and DC assets, which provide the basis for all investment decision-making. The Trustee agrees the strategic investment strategy for each section, including setting the Scheme's risk budget, and oversees the strategic asset allocation implementation approved by the Asset and Liability Committee.
- The Trustee sets the strategic outcome objectives for the PSE on an annual basis, reflecting the Scheme's priorities for the year, including objectives relating to the integration of stewardship in investment decision-making.

Role of the Asset & Liability Committee ("ALCo")

- The ALCo has delegated responsibility for certain investment functions, such as developing investment strategy, assessing the quality of performance and processes of the asset managers and identifying potential future asset classes and asset managers. The ALCo handles most investment matters in relation to the Scheme's assets and liabilities. The Committee then makes recommendations to the Trustee where required. The Committee reports to the Trustee on a quarterly basis.

Role of the Audit & Risk Committee ("ARC")

- The ARC is active in the oversight of the management of risk and in the supervision of the annual external audit of the Scheme's financial statements. The Committee reports to the Trustee on a quarterly basis.

Role of the Pension Scheme Executive ("PSE")

- To improve the efficiency of the Scheme's decision-making process, the Trustee has appointed a full-time executive to support the Trustee. The PSE looks after the day-to-day management of the Scheme on behalf of the Trustee. This is a team of 18 professionals, of which five comprise the Executive Committee which is led by the Trustee Chief Executive Officer.
- The Trustee is required by law to seek expert advice from qualified professionals, such as a legal practitioner, an actuary, or an investment advisor, before it makes certain decisions. The PSE manages the relationship with the relevant advisors, as well as making sure that the Trustee has access to the right advice for each decision it is taking.
- On an annual basis the PSE proposes strategic outcome objectives, which are approved by the Trustee as described above. Once the strategic objectives, including objectives relating to the integration of stewardship in investment decision-making, are agreed, the PSE is responsible for delivering them.

In keeping with this governance structure, this report has been reviewed and approved by the ALCo Chair and the Trustee Chair.

The Trustee makes decisions on investment strategy as a whole rather than relying on the skills of individual Trustee Directors. This includes decisions relating to stewardship. The Trustee also relies on the Scheme's investment advisors Lane Clark and Peacock ("LCP"), Redington and Willis Towers Watson ("WTW") for stewardship training and specific advice on stewardship matters.

The Scheme's values and culture

The Scheme is governed and managed with the aim of:

- Helping members to make well-informed decisions about their retirement savings
- Delivering an excellent experience for members in all interactions with the Scheme
- Providing high-quality investment options that enable DC members to realise their retirement ambitions
- Ensuring DB benefits are paid as they fall due

To achieve these high-level goals, the Trustee manages the Scheme within a cost-effective and risk-controlled environment. The Scheme operates within the relevant legislative framework, promotes a culture of continuous improvement, and aims to work in a collaborative but independent manner with the Principal Employers.

The Trustee applies a forward-thinking mindset and a long-term view in fulfilling all responsibilities, including those relating to stewardship. This includes an aim to innovate and to influence future policy and market developments where this is aligned with stakeholders' best interests.

The Trustee is also committed to fostering, cultivating and preserving a culture of diversity, equity and inclusion, in the belief that this supports good decision-making, as well as being beneficial to society. The Trustee developed its Diversity, Equity and Inclusion policy throughout 2023 which was approved in early 2024.

Approach to ESG

Having a universal owner mindset, the Trustee recognises that it cannot diversify away from systemic risks, including systemic ESG risks. The Trustee's approach to integrating ESG and practising good stewardship on behalf of its members is detailed in the "Environmental, social and governance and other financially material considerations" section of the SIPs, as well as in its Stewardship and Voting policy and referred within its risk management policies.

ESG factors can have a material financial impact on the value of the Scheme's investments over the time horizon applicable to each benefit type. The Trustee therefore believes that by taking such factors into account in the investment process, the Scheme is better positioned to deliver on its investment objectives.

The Trustee takes account of ESG factors when determining how the Scheme invests its assets and when selecting and monitoring the performance of appointed asset managers. For most of the Scheme's investments, the Trustee expects its asset managers to invest with a long-term time horizon, and to use their stewardship activity to drive improved performance in the assets in which they invest. The Trustee applies these principles to all asset classes, although it places a greater emphasis in this regard on credit, listed and unlisted equity, property, and infrastructure assets.

The Trustee believes that support for Responsible Investment organisations or initiatives is an important part of being a responsible asset owner. As such, the Trustee supports organisations or initiatives where the Trustee believes doing so will help achieve at least one of the following:

- **Innovate:** help to implement new Responsible Investment solutions in a proportionate and practical way with a clear focus on excellence and continuous improvement.

- **Influence:** have an impact on government policy, market developments and other investors with respect to Responsible Investment. A particular focus for influence is the Scheme's asset managers.
- **Improve member outcomes:** improve the risk and return characteristics of investments to increase the likelihood of DB members receiving benefits as they fall due and to improve DC members' outcomes.
- **Transparent:** enhance transparency in reporting, sharing knowledge with other asset owners and asset managers and helping to shape new ideas within Responsible Investment.

On this basis, the Trustee is currently associated with the following organisations:

- a member of the Institutional Investor Group on Climate Change ('IIGCC') and the Paris Aligned Investment Initiative ('PAII')
- 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 ('AODC')
- a signatory to the UK Stewardship Code (2020)
- a supporter of the Transition Pathway Initiative ('TPI')
- a supporter of Climate Action 100+, including the most recent Phase II of the initiative.

The Trustee recognises that it cannot support all organisations or initiatives and so will review its participation in associations periodically.

The Scheme's priorities

The Trustee has set out several key ESG priorities for the Scheme, with the key themes being climate change, biodiversity and nature, anti-microbial resistance (AMR), and diversity, equity and inclusion. These themes were added to the Trustee's ESG Risk Management in 2023 and over 2024 the Trustee has carried out various projects in relation to these. The key priorities and actions are summarised below.

Going deeper into climate change

- The Trustee recognises climate change as a systemic, long-term material financial risk to the value of the Scheme's investments and aims to align its investment with the Paris Agreement goals. To address climate-related risks and opportunities, the Trustee supported the Taskforce for Climate-related Financial Disclosures (TCFD) and published its first TCFD report in 2018. Oversight of climate-related disclosures now sits with the International Financial Reporting Standards (IFRS) Foundation, building on the recommendations of the TCFD. Since 2021, the annual report incorporates guidance from the Department for Work and Pensions. The Scheme's annual TCFD disclosures can be found within the Other information section of the Scheme's futurefocus website (link here).
- In 2021, the Trustee set a plan to achieve net zero by 2050, including:
    - targeting a real economy greenhouse gas emissions reduction interim target of 50% by 2030 or sooner for the equity and corporate bond mandates;
    - having the ambition of achieving all listed corporate bond and equity investments being fully aligned to the goals of the Paris Agreement by 2030 across both DB and DC assets; and
    - enhancing the engagement and stewardship efforts carried out by the Scheme's asset managers.
- The Scheme is committed to supporting the climate transition and over 2024 has finalised an internal climate transition plan, which aims to guide the actions and decisions of the Trustee and its PSE in relation to climate change. One of the key engagement topics with the Scheme's asset managers over 2024 was also the topic of transition plans, with the Trustee asking its managers about progress regarding their own transition plans.
- During 2024 the Trustee also approved a principles-based Energy position document, which is aimed to help guide the Trustee's and managers' thinking regarding the energy transition. The Energy position has been shared with the Scheme's managers, who are asked to implement the principles of the position as appropriate.
- During 2024 the Trustee refreshed its climate scenario analysis, in line with the regulatory requirement to carry this out every three years. The findings of the analysis can be found in the Scheme's 2024 TCFD report which will be published on futurefocus before the end of July 2025. (link here).

Biodiversity and Nature

- Recognising the importance of nature to the global economy, the Scheme is focused on identifying and assessing nature-related risks and opportunities. Over 2024 the Trustee carried out analysis looking at the Scheme's exposure to nature-related risks and has been engaging with its asset managers on their approach to integrating nature-related issues into the strategies they manage for the Scheme. The Trustee will continue to engage with its advisors and managers on the best approach to integrate nature and biodiversity, especially as it also relates to climate change.

Anti-microbial Resistance (AMR)

- The Scheme is aware of the risks posed by AMR to public health and the global economy. Over 2024 the Trustee has worked with its advisors to understand the Scheme's exposure to risks related to AMR, recognising that this is a nascent area. The Trustee also view awareness-building within the industry as an important step with regards to AMR and has engaged with its managers on their approaches to starting to consider AMR in the Scheme's mandates.

Diversity, Equity and Inclusion (DEI):

- DEI remains a key topic for the Trustee. Over 2024 the Trustee continued to monitor DEI activities and progress across all asset managers.

Enhancing the Trustee's approach to stewardship

- Recognising the power of stewardship, the Trustee has a clear preference for 'Engagement' rather than 'Exclusion' as a method of incorporating climate change and other ESG risks into an effective fiduciary framework.
- Effective delivery of stewardship is one of the key areas that the Trustee assesses in its manager monitoring efforts (including in manager-level scorecards, manager questionnaires and manager meetings). The Scheme's Stewardship and Voting Policy, adopted in 2022 and updated in 2024, clearly outlines the Trustee's expectations of asset managers in relation to engagement and voting, including escalation:
    - At a high-level, the Trustee expects asset managers to engage with entities in which they invest, to maintain or enhance the long-term value of their investments and limit negative externalities on the planet and society. The Scheme's asset managers are expected to have robust ESG, climate change and stewardship policies and processes in place. These are used to define how underlying companies are monitored, when engagement might occur, how progress is measured, and when escalation is required. Managers are expected to escalate engagement activities where necessary, employing a range of escalation tools, such as voting against management, proposing shareholder resolutions, as appropriate, and litigation. Divestment is the ultimate position of escalation, and this is at the discretion of the asset managers if they believe this is consistent with their fiduciary duties. The Trustee allows asset managers discretion over the appropriate tools to deploy, however, it expects them to be in active communication with management of the companies in which they invest when escalation tools are used. The Trustee also expects its asset managers to engage on public policy matters to promote a robust and sustainable economic operating environment for all.
    - The Trustee's outsourced investment model means it has delegated the exercise of rights attached to investments, including voting rights, to its asset managers. The Trustee therefore does not direct how votes are exercised and does not have its own proxy voting provider. As active owners, it is the Trustee's responsibility to hold asset managers to account for their voting activities to ensure they are exercising voting rights in the members' best interests. The Trustee chooses asset managers where it believes there is alignment with its stewardship beliefs and those of the asset manager but recognises that it has less direct influence over the managers' more granular policies and exercise of investment rights where assets are held in pooled funds. More detail on the Trustee's approach to voting can be found in Section 3.
- As part of the Trustee's asset manager monitoring, the Trustee requires specific evidence from asset managers that they have acted in accordance with the outlined expectations. The Trustee monitors its asset managers' performance and engages with each of them at least annually. More details on this enhanced process can be found in a case study in Section 3.
- The combination of these requirements provides the Trustee with enough evidence to assess whether its asset managers are practising effective stewardship that is best aligned with its long-term interest. Where the Trustee identifies deficiencies, it will escalate accordingly, with the ultimate response being the removal of mandates where the Trustee believes it is in the interests of the Scheme to do so.
- Over 2024 the Trustee continued to emphasise systems-level engagement. Noting that active participation in industry initiatives and public policy consultations can provide valuable insight as to current best practice regarding climate risk management processes and to help to achieve Scheme objectives, the Trustee completed a

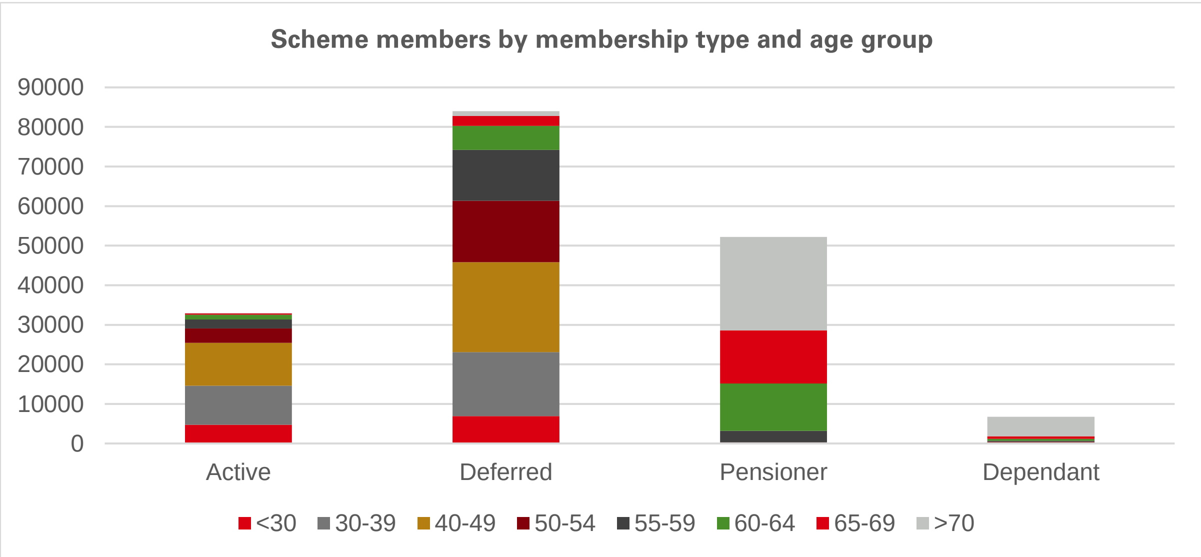
stewardship policy overlay provider selection exercise in 2024. The Trustee selected a provider to supplement efforts by the Scheme's asset managers by more closely emphasising the asset owner perspective in industry-shaping engagement, recognising that this perspective may differ from that of asset managers.

Going forward, the Trustee will continue to dedicate significant time and resources to its ESG priorities, focusing on the significant risks posed by geopolitics and climate change, which continue to be major concerns for investors and create market challenges and uncertainties.

Reporting to members

The Scheme has 178,965[2] members in total across the different sections of the Scheme. The membership breakdown by membership type and age group as at 31 December 2024[3] is shown in the table and the chart below:

	DB	DC	Hybrid	Average age
Active	2	32,923	2,153	42
Deferred	22,429	61,527	945	47
Pensioners	47,209	-	5001	67
Dependants	6,662	-	114	67
Total	**76,302**	**94,450**	**8,213**	



The Trustee's focus is the long-term interests of the Scheme, and the Trustee seeks to inform its efforts and decision-making with the views of its members. Scheme members have access to two platforms: 1) the Scheme's futurefocus website, where members can access information on how the Scheme is run, including a dedicated page "Managing ESG risks" which outlines the Trustee's approach to ESG, and 2) two web portals which give online access for DC and DB members respectively, with Hybrid members having access to both portals.

The Trustee provides all members with a series of communications to aid their understanding of the Scheme's investment and stewardship activities and outcomes to meet members' needs. These are all available on the public futurefocus website and include:

- Annual Newsletter
- Statement of Investment Principles for DB and DC Scheme, last updated in November 2024
- Annual Implementation Statements

[2] The latest figure available data at the time of writing
[3] Scheme membership as at 31/12/2024. Please note that the analysis of membership between the DB and DC records will not match the overall total number of members. The variance occurs due to the duplication of members with both DB and DC assets (for example Hybrid status members and DB status members with DC AVCs).

- Annual TCFD Report

Besides these standing annual items, the Trustee provides a series of more interactive communication programmes and guides to members:

- **Member guides:** New joiner Guide and checklist, mid-career MOT guide, Quickstart Guide, DC Investment Guide, Flexible Retirement Guide for DC members, Quarterly DC Fund Factsheets, DC Leaver Guide, Hybrid member guides and Hybrid refresher guides. Other guides may be provided from time to time as appropriate.
- **Member nudge programme:** The Trustee runs a programme with a schedule of nudges to interact with the Scheme's members when members need to make decisions about their benefits. The nudges reflect members' feedback from the previous year, covering different topics (including for example, target age retirement, retirement checklist, new joiner nudge, contribution calculator) and are tailored to different age groups. Nudges are sent to members via email.
- **Retirement webcasts, seminars, and information pieces:** The Trustee released a series of retirement videos which can be accessed by members on the website. The purpose of the webcasts is to educate members on their retirement needs and options available to them. The Trustee also runs pension retirement seminars for active and deferred DC members over age 50 to help members with their retirement planning. A sample of stewardship-related communication pieces released in 2024 include:
    - ESG bulletin, explaining the tools that the Trustee uses to manage the Scheme's ESG risks and opportunities.
    - Member-friendly TCFD report summary which includes an overview of the Scheme's key activities relating to climate (see extract below) and an ESG "jargon buster" to help members understand terms and phrases relating to ESG, climate and investment.
    - Stewardship policy, setting out how the Scheme practices effective stewardship as part of its fiduciary duty to act in the best financial interests of the Scheme.

Additionally, the Trustee issues a periodic member survey to seek members' views in several key areas, including ESG issues. The key takeaways from this survey help to inform Trustee communications.


The Scheme's climate change milestones

2015 Climate Change Risk Policy
In 2015 we adopted a Climate Change Risk Policy that is recorded in our Statement of Investment Principles.

2017 TCFD supporter signatory
We became a supporter of the TCFD in 2017 and published our first public TCFD report in 2018.

2018 First TCFD Statement
We published our first TCFD report, following the recommendations of the TCFD as applicable to asset owners.

2020 Project Clarity
We launched a project to further enhance our integration of all ESG issues, identifying climate change and engagement as priority areas.

2020 Climate Risk Management Framework
We built a dedicated Climate Risk Management Framework into the Scheme's approach to risk management.

2021 Net zero target and Paris Aligned Investment Initiative signatory
We set out our commitment to achieve net zero by 2050.

2022 Climate Action Plan
We published the Climate Action Plan, providing details about how we plan to deliver our net zero commitment.

2022 Stewardship and Voting Policy
We published our policy setting out how we practice effective stewardship on behalf of our members.

2023 Climate Transition Plan
Building on our Climate Action Plan, we have been exploring the development of a more detailed Climate Transition Plan, to further outline how we plan to meet our alignment and engagement targets.

To find out more, read the **Introduction** section of the full TCFD report 2023 (see page 9)

You might find the Environmental, Social and Governance ('ESG') jargon buster helpful (see page 9):

ESG jargon buster
Explains many of the commonly used terms and phrases relating to ESG, climate and investment.

ESG Jargon Buster

Responsible investment roadmap – what's next?

The Trustee continued to review its approach to Responsible Investment over 2024. Significant time was spent in assessing appropriate methods to analysing forward-looking exposures to climate-related risks through scenario analysis. The future course of action to mitigate portfolio risk, and to increase its contribution to real-world decarbonisation was documented in an initial climate transition plan. This internal document sets out a strategy across investment, divestment, engagement, and advocacy actions that the Trustee will test and explore over the coming years:

- Investment: explore options to increase allocations to sustainable solutions, including those focused on climate and/or nature.
- Divestment: implement and monitor the Trustee's energy position.
- Engagement: oversee outcomes-focused, but limitations-aware engagement through the asset managers that focuses action where it is feasible and impactful for corporates to act
- Advocacy: continue policy engagement by the Trustee in the UK, and onboard an outsourced partner to undertake global policy and regulation advocacy.

The Trustee requires the PSE to adopt a pragmatic and learn-by-doing approach. This should lead to continuous improvements and the development of effective risk management and engagement frameworks.

Section 2: Investment Approach

Approach to investment; geographic/asset class split

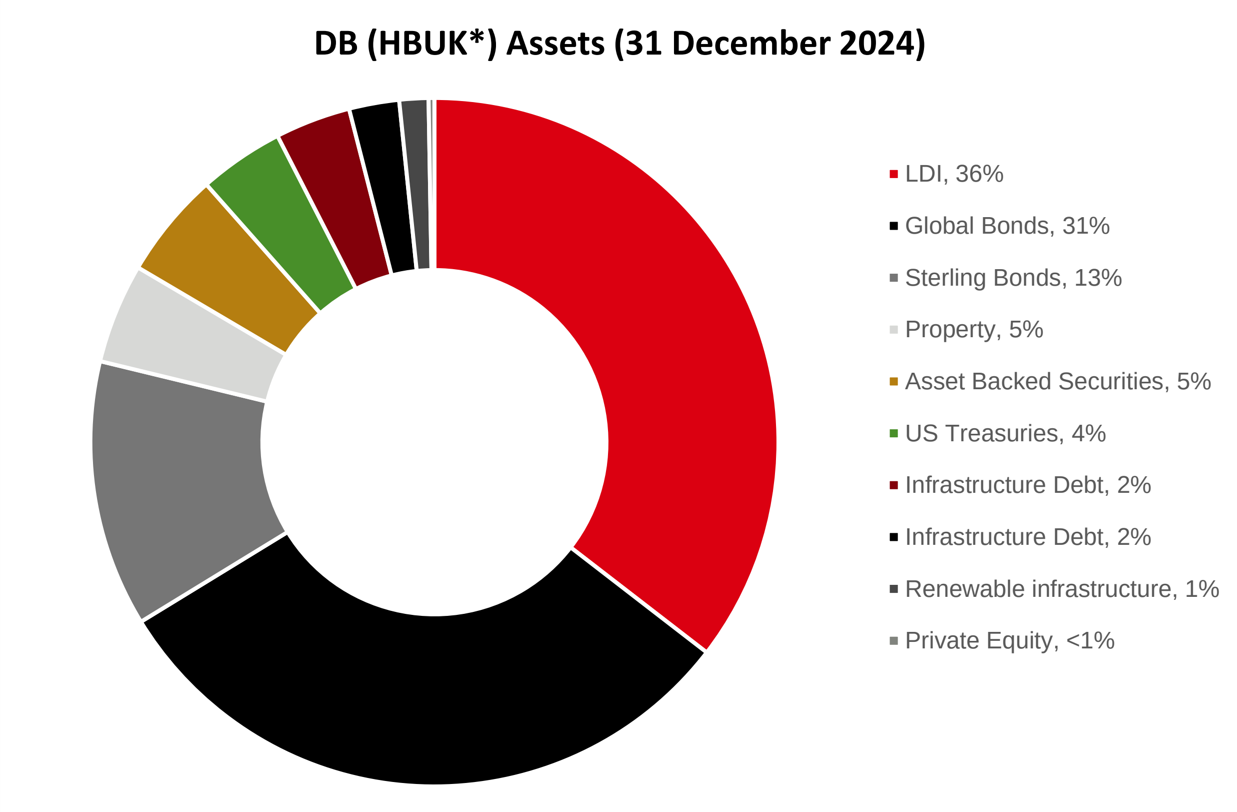
An overview of the DB assets

There are three DB investment strategies, one for the HBUK Section, one for the HGSU Section and one for the HBEU Section. The HBUK Section contains the majority of the DB assets, with the other two sections being considerably smaller:

DB Sections: percentage of assets by section[1]	
HBUK Section	99.4%
Total HGSU Section	0.4%
Total HBEU Section	0.1%

[1] Totals sum to 100% to more than one decimal place.

Under the HBUK Section's CDI approach, the asset class weights in the portfolio are expected to evolve over time as asset cashflows are released to pay pensions, reducing the value of the Scheme's assets, and impacting the relative proportions of remaining assets. Current assets comprise of government bonds, cash, and hedging instruments (including swaps and derivatives), high quality corporate bonds, and lower-risk illiquid matching assets, with small allocations in private equity and property.



** Given the scale of the other two sections, we have not included a breakdown of their assets. LDI contains UK Government bonds, interest rate and inflation swaps.*

Fund	2024 Asset Allocation (%)
LDI	36%
Global Bonds	31%
Sterling Bonds	13%
Property	5%
Asset Backed Securities	5%
US Dollar Bonds	4%
US Treasuries	4%
Infrastructure Debt	2%
Renewable Infrastructure	1%
Private Equity	<1%

In addition to the Scheme's capital being invested in a diverse set of assets, the Scheme is also invested in a geographically diverse manner. This helps achieve the Trustee's overall risk-adjusted return objective for the DB assets to ensure the Scheme can pay members' benefits as and when they fall due. For example, the Scheme's core buy and maintain mandates principally invest in high quality credit across the UK, Europe and the US, with a bias towards the UK to address the Scheme's UK liabilities.

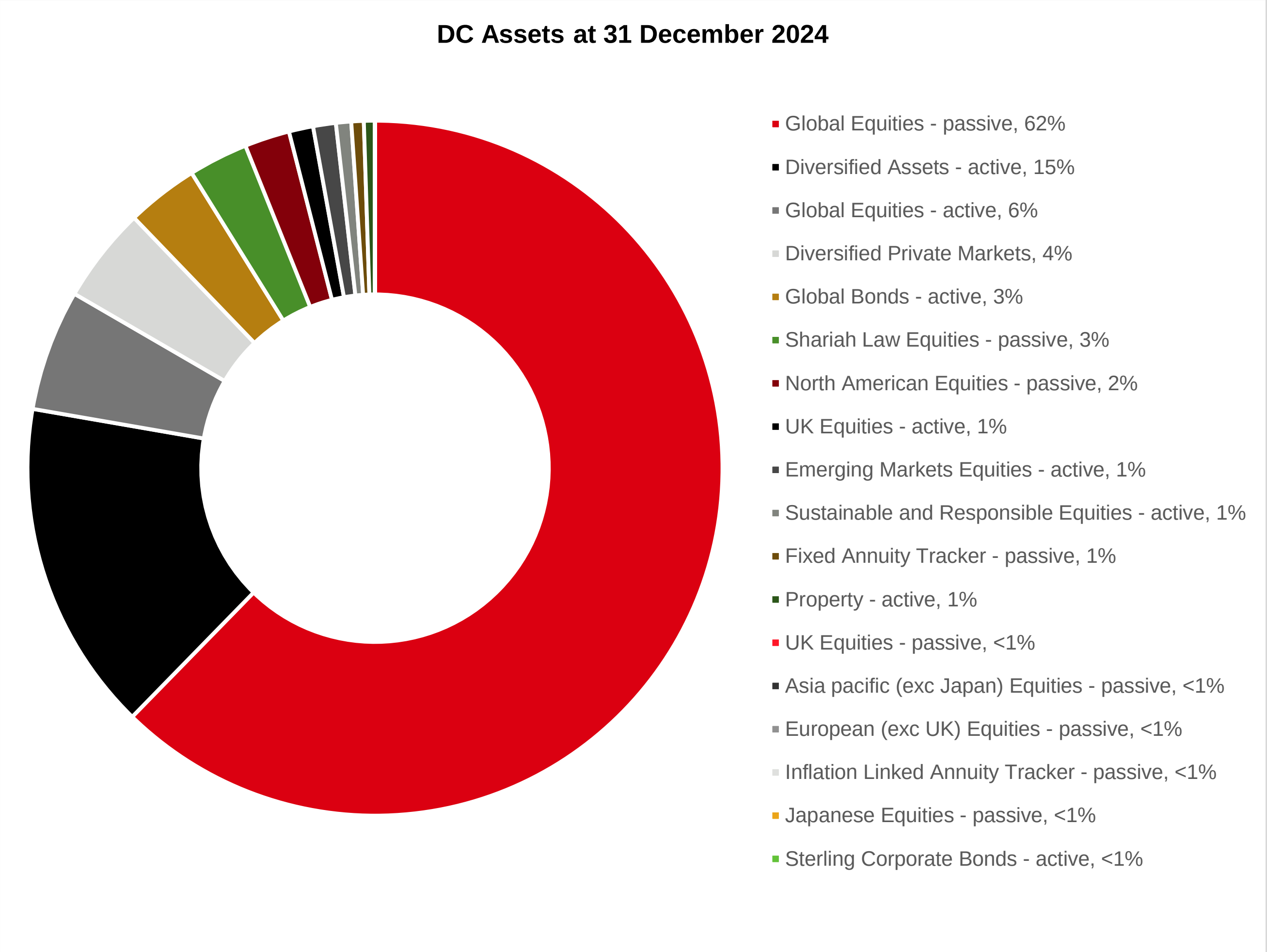
An overview of the DC assets

Within the DC assets, there are a range of investment funds available for members. The Scheme also provides different default strategies for members, depending on the type of benefits they have and their estimated time to retirement.

For members with only DC benefits, the main default option targets flexible income drawdown at retirement. Therefore, the initial growth phase is invested to target a return significantly above inflation, and then it gradually switches into less risky assets as a member gets closer to their target retirement age. The main default option makes up a significant proportion of the members' total retirement funds, and so it is more suited to a drawdown approach, reflecting the pension freedoms now available. For members with both DC and DB benefits in the Scheme, the main default option targets a cash lump sum at the target retirement age, however, the approach initially mirrors that of the DC-only members, where the initial growth phase is invested into higher return assets and then gradually switches into less risky assets. In addition to the two main defaults, the Scheme also currently offers an alternative lifecycle strategy; one designed to be appropriate for members who wish to purchase an annuity at retirement. Further, there is an additional default fund called the Cash – active (ex Property). The objective of this fund is to provide a suitable interim investment vehicle in case of restricted liquidity of any fund (in the fund range) in the future to ensure that members' regular cash contributions still have a fund they can be invested in without incurring significant transaction costs.

The main DC investment fund used in the Flexible Income Strategy and Lump Sum Strategy, the Global Equities – passive fund, has Legal and General Investment Management's (LGIM's) Future World Fund, which aims to replicate the FTSE All-World ex Controversial Weapons Climate Balanced Factor Index, as its underlying investment (75% GBP currency hedged). This is a multi-factor global equity fund which targets certain stocks to gain a balanced factor exposure while incorporating climate change considerations in the core investment thesis. Over the past few years, the Trustee has updated a number of the default options to ensure that climate considerations are embedded into their core theses.

The Trustee reviews the investment arrangements for consistency with their beliefs, including those on ESG risk management, climate change and stewardship, on a regular basis. The Trustee also monitors the behaviour of members with DC or Hybrid benefits to check whether assumptions made about how members will access their benefits are borne out in practice.



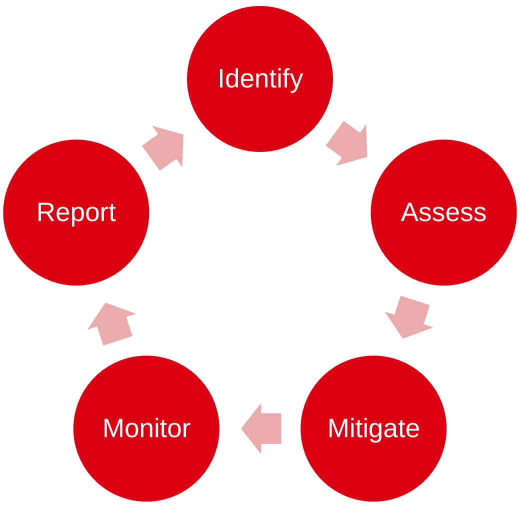
Fund	2024 Asset Allocation (%)
Global Equities - passive	62%
Diversified Assets - active	15%
Global Equities - active	6%
Diversified Private Markets	4%

Shariah Law Equities - passive	3%
North American Equities - passive	2%
UK Equities - active	1%
Emerging Markets Equities - active	1%
Sustainable and Responsible Equities - active	1%
Fixed Annuity Tracker - passive	1%
Property - active	1%
UK Equities - passive	<1%
Asia pacific (exc Japan) Equities - passive	<1%
European (exc UK) Equities - passive	<1%
Inflation Linked Annuity Tracker - passive	<1%
Japanese Equities - passive	<1%
Sterling Corporate Bonds - active	<1%

Integration of stewardship and ESG risk management into investment approach

Stewardship and ESG Risk Management are integrated within the Scheme's existing Risk Management Framework which clarifies the roles and responsibilities of the Trustee, its sub-committees, the PSE, and Scheme advisors, with regard to identifying, assessing, and managing ESG-related risks. Having this framework in place facilitates the Trustee to manage ESG risks in a considered and effective manner by considering both top-down (Scheme-level) and bottom-up (mandate-level) perspectives.

The Trustee's ESG Risk Management Framework



ESG risks, principally those related to climate change, were explicitly integrated into this framework, and documented in 2020. Since then, the Trustee has spent considerable time populating the framework with the right management information to ensure it works effectively. Over 2024 the Trustee continued to integrate its other sustainable investment priorities into the framework. The two primary mitigants for managing identified ESG risks are:

- Working with the Trustee's asset managers to design mandates that specifically integrate ESG issues.
  - Asset Manager Agreements were discussed with managers throughout 2023/2024 to ensure they are up-to-date and reflect the Trustee's continued investment, ESG and specifically climate ambitions. Over 2024 this led to an evolution of the guidelines in some cases, e.g. with the Scheme's Buy and Maintain managers, to enable them to sell bonds to reflect the Trustee's climate ambitions and to remain consistent with their fiduciary duty, in addition to their existing right to sell bonds where this an imminent concern of default. This will remain a live and evolving issue.

- Holding asset managers to account on how they integrate ESG issues into investment decision-making and active stewardship.
    - The Trustee's Stewardship and Voting Policy sets out in detail the process by which asset managers are monitored and held to account. This is described in full in Section 3 of this report.

The Trustee keeps an open mind regarding its approach and adopts a process of continuous improvement, recognising that the management of ESG risks is complex and is constantly evolving. The PSE is responsible for building on lessons learned and working with advisors to ensure the framework is fit-for-purpose and effective. Below is a case study of where the Trustee evaluated the need to broaden the risk-management approach to incorporate nature-related risks.

Case study: Exploring nature-related risk and evolving the nature strategy in 2024

Issue: Biodiversity and nature loss is one of the Scheme's ESG priority topics and the Trustee has already taken steps to integrate nature into its strategic thinking and to begin engagement with its asset managers on this topic. The Trustee understands that areas of the Scheme are likely to be at particular risk from nature-related factors and has therefore sought to discern where these risks may lie.

Action: The Trustee's advisors provided training on nature-related risks and emerging metrics in 2023, as well as an initial assessment of the nature-related risks of a selection of the Scheme's funds. This was followed in 2024 by a more detailed assessment of mandate-, sector- and company-level nature risk across the DB and DC portfolios. The Trustee also completed a project to assess different data sources, metrics and methodologies for assessing nature-related financial risk, including mandate-level assessments which many of the Scheme's asset managers contributed to. This work concluded that it is still too early for the Trustee to agree any nature-related targets or metrics, however the Trustee will retain a watching brief on this.

Outcome: The portfolio analysis demonstrated the scale of potential nature risk exposure and provided the Trustee with an understanding of where the Scheme's exposure to priority sectors lies. However, the analysis also demonstrated the complexities of measuring and monitoring material nature risk with current levels of data availability and quality. Using the findings from the analysis, the Trustee is developing an understanding of managers' current engagements with the identified priority sectors for DB and DC and is developing a set of engagement asks of the asset managers and will look to require them to carry out their own mandate-level assessments.

Case study: Climate considerations in investment decisions

Issue: The Trustee acknowledges climate risk as financially material and therefore incorporates the consideration of both physical and transition climate risks and opportunities into its investment decision-making. Physical risks from climate change are those which arise from both gradual changes in climatic conditions and extreme weather events, as well as from transition risks which occur in the process of moving to a net-zero economy.

Action: In 2024, the Trustee allocated capital to the Fulcrum Long-Term Asset Fund (LTAF), with climate (and sustainability more broadly) as key factors in this allocation decision. Sustainability integration is core to the manager's investment process – whilst reviewing investment opportunities, Fulcrum assesses multiple factors to determine an overall score for sustainability policy and approach. In addition to impacting return and volatility assumptions, sustainability scores influence marginal decisions. Improving sustainability characteristics through engagement is also central to the proposition and the LTAF invests in natural resources and climate solutions, exposing the Scheme to these environmental opportunities.

Outcome: The Trustee is comfortable that sustainability risk and opportunity is a core pillar of the Fulcrum LTAF's investment philosophy and process and therefore the inclusion of this fund in the portfolio contributes to the Scheme's integration and management of ESG risk. The Trustee will continue to engage with the manager to ensure that this approach stays consistent.

Resourcing of stewardship and ESG risk management, including external service providers

The Trustee's approach is to have a small but effective executive function – the PSE – who help the Trustee in its oversight of ESG investment and stewardship. This team works closely with the appointed service providers – both asset managers and investment advisors. The PSE sets out the Trustee's expectations regarding ESG risk management and stewardship and assesses delivery against them. This resourcing arrangement continues to be an effective model for delivering effective stewardship, however, one addition in 2024 was the appointment of a stewardship overlay provider to supplement efforts by the Scheme's asset managers by more closely emphasising the asset owner perspective in policy and industry-shaping engagement, recognising that this perspective may differ from that of asset managers.

To ensure the ongoing development and suitability of the Trustee's approach to stewardship, the PSE ensures that the Trustee Directors receive targeted training on stewardship-related topics. The frequency and level of training that Trustee Directors receive depends on their role and their membership of specific sub-committees. Training sessions were delivered in face-to-face meetings from advisors and subject matter specialists and in the form of pre-recorded training videos prepared by the advisors. Over 2024, the Trustee received considerable training on a wide range of ESG-related risks and opportunities. Two examples of training sessions which Trustee Directors received, which focused specifically on capacity building in relation to the Scheme's ESG priorities were around:

- Net zero and climate-related issues including in relation to understanding what an orderly transition in the energy sector might mean for the portfolio and how the Trustee's climate transition planning can evolve
- Global systemic risks beyond climate, including an update on assessment of nature risk and how to prioritise engagement with the Trustee's managers

In addition to these, the Trustee received training sessions on carbon markets and carbon pricing, Sustainability Disclosure Requirements (SDR), the Financial Markets Law Committee (FMLC) and evolving fiduciary duty in the context of climate, new climate metrics and scenario analysis, amongst others.

The PSE works closely with the Scheme's investment advisors. Each firm has a clear set of objectives linked to its support on ESG and stewardship issues, and the Trustee regularly assesses their delivery against the agreed standards. The Trustee's relationships with these advisors are subject to the industry-wide Investment Consultant Objectives overseen by the Pensions Regulator ("TPR"). In reflection of this, objectives for each investment advisory firm are agreed by the ALCo on a regular basis and subjected to annual reviews of performance. At the last review, the Trustee confirmed that the advisors met all their objectives for the year. The Trustee also analyses and reports detailed sustainability data sourced from MSCI.

Each of the Scheme's three investment advisors has a specific role in relation to ESG risk management and advancing the Trustee's approach. All three have been working together over the year to help enhance the Trustee's oversight of ESG matters. Most recently, the investment advisors have been working together to produce individual asset manager dashboards covering a range of key areas including climate exposures, diversity metrics and stewardship activities. These were used as background insights to support engagement with the Scheme's managers throughout 2024 and moving into 2025.

Assurance of approach

The Trustee's assurance approach in relation to ESG investment and stewardship has remained consistent over the year as it reflects the Scheme's broader approach to delivering risk management. The starting point for any risk assessment is the Scheme's mission, which is to pay DB benefits on time and in full and to provide high-quality investment options that enable DC members to realise their retirement ambitions.

In line with its approach to risk management, the Trustee uses the three lines of defence model to frame its approach to ESG investment and stewardship: the first line being operational management, the second is a dedicated risk management function and the third is an internal audit resource (currently outsourced). Over the year, the Trustee utilised the first two lines of the defence model.

Because of the Scheme's broader outsourced investment model, few of the granular risk management controls sit with the PSE. The focus of assessments and monitoring is therefore to assess that third parties – particularly asset managers and the Scheme's administrators – have in place appropriate controls and that these are operating effectively and in line with expectations. The Trustee relies on a range of assurance approaches such as attestations, annual manager monitoring and formal assessments, and standards such as the Audit and Assurance Faculty (AAF) or International Standard on Assurance Engagements (ISAE) standards, as well as relying on its own internal risk and assurance assessments supported by reviews performed by internal auditors and other specialist assurance providers.

The Trustee keeps its risk register and emerging risk framework under regular review. A number of ESG-related items are identified on the risk register, including climate and sustainability risk. As an increasingly important issue and recognising the potential impact on investment performance, the Trustee also includes geopolitical risks on the risk register and monitors these on an ongoing basis.

The use of independent advisors helps to provide independent views regarding ESG risk management integration and stewardship. While the three investment advisors have distinct roles, on occasion they work together to guide the Trustee's strategy. The Trustee keeps its investment-related policies regularly updated. The DB and DC SIPs are both considered at least annually. Any proposed changes are considered and need to be endorsed by ALCo and then approved by the Trustee. Both SIPs were updated during 2024. The Scheme's DC Investment Policy Implementation Document ("IPID") that supports the DC SIP was also updated.

Appropriately managing conflicts of interest

The Trustee fully recognises its duty to act in the best interests of the Scheme, and to always operate to do so. By acknowledging the existence of potential conflicts of interest and having a framework to manage and mitigate such conflicts, the Trustee makes it more likely that it will continue to act in the Scheme's best interests.

The Trustee therefore does not bar conflicts but recognises them as a normal feature of life that need to be identified and managed. The focus is on making conflicts visible and managing and mitigating those that do exist. The belief that conflicts of interest should be monitored and managed is codified within the Scheme's SIPs.

The Trustee has a conflicts of interest policy which sets out the way the Trustee identifies and manages conflicts of interest. The policy and the practice of conflicts of interest management continues to evolve. Most recently it has evolved to reference developing and maintain conflict management plans, including seeking legal advice where appropriate. These processes cover not just decision-makers, but also those involved in the wider decision-making process, such as the PSE and advisors and can be applied to any potential conflicts relating to stewardship. The policy includes:

- a definition of a conflict of interest;
- how conflicts might arise;
- the steps that can be taken to identify and manage conflicts; and
- the range of measures available to the Trustee to identify and manage conflicts including conflict management plans.

The steps taken to identify and manage conflicts include relevant parties:

- understanding why it is important to manage conflicts;
- identifying and evaluating potential conflicts of interest using a dedicated flowchart disclosed within the policy;
- managing identified individual conflicts through steps such as notifying the Trustee Chair and anyone the Chair deems necessary as soon as practical; and
- managing advisor or supplier conflicts through steps such as considering conflicts as part of supplier/advisor appointment and oversight processes.

One further tool the Trustee uses in its management of conflicts is a conflict register which covers:

- the interests of individual Trustee Directors;
- the interests of the PSE; and
- the interests of key advisors and providers.

The register is formally reviewed at least annually. Trustee Directors and executives are expected to update the register as and when any new potential conflict situation arises.

The declaration of conflicts of interest is a standing agenda item on all Trustee and sub-committee meetings, which includes the expectation that the PSE and investment advisors declare any conflicts they may have, and actions taken to manage these. Over 2024, four instances of standing conflicts/potential conflicts of interest were logged in the Trustee's Conflicts of Interest register. In each case the conflict was identified and the action taken to minimise the conflict noted. An example from 2024 noted that a new role for one of the Trustee Directors at another pension scheme may expose them to confidential information that might be relevant to the HSBC Bank (UK) pension scheme, and vice versa. This potential conflict was discussed with the Scheme's legal advisor, and it was agreed that the Trustee Director would keep information received from either organisation confidential, and if a special situation arose, this would be discussed with the Scheme's Pension Scheme Executive and legal advisor for specific guidance.

The Trustee also recognises there is the potential for conflicts to arise between the Scheme and the Principal Employers and looks to mitigate and manage such conflicts if and when they arise.

Section 3: Delivering Effective Stewardship

The Trustee's asset managers and holding them to account.

As a Trustee that has outsourced its investment activities, asset managers are expected to effectively integrate ESG risk management and enact effective stewardship, with detailed expectations in these areas documented in investment manager mandates. Leveraging the knowledge, expertise, and relationships of the asset managers and other advisors is an efficient method for achieving best-in-class stewardship outcomes. This model empowers the asset managers to apply relevant frameworks for their strategy when prioritising stewardship themes and engagement activities.

To hold managers accountable for their stewardship practices and results, the Trustee uses the capabilities of the three investment advisors to monitor asset managers on an ongoing basis. Each investment advisor reports promptly on any significant updates or events they become aware of relating to the Scheme's asset managers that may affect the managers' ability to achieve their investment objectives, including material or relevant ESG considerations.

Engagement with the Scheme's asset managers has been delegated to the PSE. The PSE meets with the Scheme's asset managers at least annually. This is in part to understand a manager's approach to assessing risks related to the Trustee's priority themes. Engagement and voting are primary agenda items for manager monitoring meetings, leading to extensive discussion and engagement. To get a more comprehensive understanding of how managers' policies operate in practice and to make these conversations as productive and insightful as possible, supporting materials are supplied by the Trustee's ESG and investment advisors, as well as responses by the manager to a questionnaire sent by the PSE with further information provided by the managers themselves. During 2024 the PSE continued to review individual 'manager scorecards' as part of its manager monitoring process to assess managers' progress on the Trustee's ESG priorities. The scorecards are provided by the Scheme's investment advisors who collate information on each manager's practices, with a specific focus on the Trustee's ESG priorities, progress against climate targets and the effectiveness of managers' engagement activities, including voting where relevant. 2024 was the second year these scorecards were used in relation to each of the Scheme's DB and DC asset managers and they have evolved slightly from the 2023 version to capture more fully the Trustee's ESG priorities.

When assessing prospective asset managers and as part of the ongoing monitoring process, the Trustee seeks to understand:

- Institutional alignment with the Trustee's ESG objectives;
- How managers are promoting best practice in relation to improving the management of ESG risks;
- How ESG considerations are integrated into the investment process, and how this may have changed over the year;
- The extent to which ESG risk assessments influence managers' approach to engagement with underlying companies and exercising of voting rights (where applicable); and
- Implicit and explicit ESG restrictions or exclusions at the mandate- or firm-level.

Using input from the investment advisors including the scorecards, meetings with asset managers, and responses to the annual monitoring questionnaire, a qualitative red-amber-green ("RAG") rating system on key monitoring themes has been implemented. Each of the Trustee's asset managers are given an overall RAG rating across seven sub-ratings, including two on ESG/Climate Change and one on the overall quality of the asset managers' engagements. This RAG rating helps identify potential areas of risk across the Scheme's asset managers and informs further dialogue or engagement.

Because of this clear view of the Trustee's position within the stewardship process, the bulk of the activities highlighted in this section of the report focuses on PSE activities in relation to the Trustee's asset managers: that is how the Trustee itself carries out the bulk of its stewardship. This is supplemented by some disclosures on activities by the Trustee's managers, and by the Trustee on public policy and best practice efforts.

Case Study: Setting clear expectations of asset managers in an annual CIO letter

Issue: The Trustee is driven by the spirit of continuous improvement and continues to deepen its understanding of how investments impact the sustainability of the planet and its people, and how sustainability impacts investment. Given the Trustee's outsourced model, the Trustee views institutional alignment between the asset managers it works with and the Scheme as an important tenet of both manager selection as well as ongoing manager monitoring to ensure the Trustee's priorities are implemented.

Action: For the second year at the beginning of 2024, the Scheme's Chief Investment Officer sent a letter to all the Scheme's asset managers communicating the Trustee's investment beliefs, ESG priorities and commitments around universal ownership, stewardship and ESG. The letter also sought managers' responses to questions outlined in the letter around the Trustee's four ESG priorities. For example, managers were asked to share their firm-wide climate transition plans, and undertake nature-related assessments for the mandates being managed on behalf of the Trustee. By formally articulating these expectations, the Trustee seeks to encourage improvement in the quality and quantity of managers' stewardship activities.

Outcome: During the annual manager meetings, the CIO letter and the relevant responses focused the discussion on the Trustee's evolving expectations and manager's current and planned actions. The PSE continued to engage with the managers throughout the year and provided a progress report against the 'asks', including where progress has been made as well as areas for improvement, to the ALCo at the end of the year. The CIO letter was repeated for the third time at the start of 2025, providing a powerful tool for the Trustee to evolve and communicate its expectations of asset managers and monitor progress on their implementation of each of the Trustee's ESG priorities. In conversations with the managers it is clear they give great importance to the asks in the CIO letter and view this as a key manager monitoring tool from the Scheme.

Direct engagement

As part of the Trustee's ongoing manager monitoring process, the PSE meet with all the Trustee's asset managers at least annually to discuss their activities including stewardship practices. The Trustee believes ongoing engagement with the Scheme's fund managers is important to ensure that they are aware of, and working towards meeting, the Trustee's stewardship expectations as set out in the Trustee's Stewardship Policy.

Regarding underlying issuers, the Trustee prefers engagement over exclusion as a way of influencing long-term behaviour. The Trustee believes the proximity of its asset managers to their investments can deliver more meaningful change via proactive and constructive engagement, and the Trustee makes this belief clear to them via the Trustee's investment guidelines and further discussions. The Trustee recognises that there is no 'one-size-fits-all' stewardship approach and instead encourages asset managers to prioritise stewardship opportunities and to apply the most suitable and influential engagement strategies based on their in-depth knowledge of a given asset class, sector, geography and/or specific company.

Given the nature of the Trustee's outsourced approach to investment, the Trustee reviews engagement reports from its asset managers to track their actions in material stewardship initiatives and the outcomes from those actions. Examples of direct engagement activities include letter writing, phone calls, annual meetings, and thematic/targeted engagements with management teams.

Case study: Direct engagement from one of the Scheme's managers on Anti-Microbial Resistance (AMR)

Issue: While many view AMR as a tail risk, the Trustee believes it could grow into a material market risk and has therefore engaged with all managers on the integration of AMR into their investment decision-making. One manager responded with a detailed AMR risk assessment of the Scheme's portfolio and some examples of the beginning stages of an engagement process with individual issuers.

Action: The asset manager engaged with a large consumer staples company in the US having identified the company on its AMR Focus List due to the risk of potentially excessive antibiotics usage in its supply chains. Over 2024, the asset manager engaged with the company on animal welfare expectations and supplier management processes to ensure that specific topics such as antibiotic management procedures are a high priority.

Outcome: While the asset manager acknowledged that the company does set clear expectations relating to animal welfare and antibiotic management, the manager was disappointed to note that the proportion of the company's dairy supply sourced from suppliers following formal animal welfare standards had fallen from

73% in 2022 to 67% in 2023. The manager is in the process of engaging with the company further to see if they would be willing to set a target goal and date for this metric.

Case study: Direct engagement from one of the Scheme's managers on diversity, equity and inclusion

Issue: Given that diversity, equity and inclusion is one of the Trustee's priorities, the PSE continues to closely monitor manager activity in relation to this theme. One of the Trustee's managers has been engaging with a British housebuilder, following the findings of a Parker Review report in 2020. The report highlighted the lack of diversity on FTSE 350 boards, in particular with regards to ethnically diverse directors.

Action: The manager initiated this engagement in 2020 when it asked the company to complete a survey evaluating diversity progress in senior positions. The manager set out the additional steps it encouraged the company to take in order to meet the Parker Review recommendations and increase representation, as well as highlighting its escalation techniques to vote against the Nomination Committee Chair if these requirements were not met. Subsequently, the manager accelerated the engagement through sending an email prior to the company's AGM and setting up a call to discuss the expectations on diversity in detail.

Outcome: In May 2024 the company appointed an ethnically diverse director to the board, now meeting the expectations set out for large UK boards in the Parker Review. Additionally, a formal Executive Committee was set up during 2024, which includes the senior executives, Regional Chairs, and several Group Directors. The manager will continue to monitor the company's ongoing efforts to increase gender and ethnic diversity.

Collective engagement

The Trustee recognises the importance of collaboration in delivering effective stewardship given the potential for increased resource and greater influence. As part of the Trustee's annual manager monitoring, the Trustee seeks to understand relevant industry initiatives or collaborations that its asset managers engage with. Major initiatives the Trustee's managers have committed to include the PRI, the UK Stewardship Code or national equivalent where possible, the IIGCC's Net Zero Investment Framework, the Net Zero Asset Managers Initiative, and Climate Action 100+, among others. Beyond industry association participation or signatory status, managers are encouraged to work with peers and other stakeholders to bring about tangible outcomes.

Case study: Call to Action on nature and biodiversity

Issue: As one of the Scheme's key ESG priorities, the Trustee is focused on engagement with policymakers and the wider industry to promote a system that addresses nature-related issues and supports nature recovery.

Action: In October, the Trustee supported a Call to Action aimed at governments and policy makers on nature and biodiversity, prepared by a group of leading asset owners. This was subsequently delivered to policy makers ahead of the Nature and Biodiversity Conference of Parties (COP16), that took place in Colombia in October 2024.

Outcome: The topics raised in the Call to Action were discussed at COP16 and an assessment against the specific asks in the statement will be undertaken in due course.

Case study: Call to Action on AMR

Issue: As one of the Scheme's key ESG priorities, the Trustee is engaging with policymakers and the wider industry to ensure that AMR risk is being adequately addressed by all of these stakeholders.

Action: In June 2024, the Trustee supported a Call to Action on AMR led by the industry group Investor Action on AMR (IAAMR). The statement outlined seven key asks for global policy makers to consider ahead of the

UN General Assembly High-Level Meeting on AMR in September 2024, emphasising the importance of all stakeholders coming to together to mitigate AMR risk.

Outcome: Following the High-Level Meeting, progress against the seven asked included in the statement were assessed. The Trustee was pleased to note that some progress was made towards six out of the seven asks. The Trustee will continue to follow the work of IAAMR and raise this issue with its managers.

Escalation of engagement

The Trustee recognises that there may be instances where engagement must be escalated, at both the manager and issuer levels. This is likely to follow a period of active dialogue that has not been successful. The Trustee expects its asset managers to apply a range of engagement tools to escalate dialogue, including voting against company management, proposing shareholder resolutions, and litigation. Divestment from unresponsive issuers is the final point of escalation and asset managers are expected by the Trustee to use discretion as to whether this is an appropriate action and to undertake any action in line with its fiduciary duty. Escalating engagement is also a responsibility of the PSE and Trustee, however the tools are somewhat different. Where asset managers provide substandard reporting, fail to respond adequately to targeted questions, or are behaving in a way that is not aligned with the Trustee's expectations, PSE engagement will escalate. If the PSE believes this is appropriate, it will first clearly set out what expectations have not been met, and the required remedying actions. Should these expectations not be met, the Trustee will seek to engage with senior representatives at the organisation and, if institutional alignment cannot be reached over a period of time, the Trustee will consider further escalation.

As expressed in Section 2, the Trustee expects managers to escalate engagement where necessary. While the Trustee believes proactive dialogue, relationship-building, and collaboration between managers and issuers are important in promoting lasting positive change, the Trustee recognises the need for escalation in certain cases (e.g. material news events, inaction/slow response to concerns, etc).

Case study: Escalation from a Scheme asset manager on climate change

Issue: One of the Trustee's managers invests in a large, integrated oil and gas producer. The manager recognises the importance of the company in the global transition to net zero.

Action: The manager has set minimum expectations for companies in climate-critical sectors, which aligns with the Trustee's climate change priority theme. In line with this, the manager has been engaging with the company on climate change for several years and supported the company's strengthened emissions targets and plans to decrease oil and gas production in 2022.

Outcome: In 2023 following a decision from the company to revise oil production targets, the manager engaged with the company to discuss its concerns with the plan and the company's governance processes. The engagement was escalated at the company's 2023 AGM where the manager voted against the re-election of the Chair. Since then, the manager has continued to engage with senior staff, including the Chair and former CEO and plans to do so into the future both individually and as part of collaborative engagement initiatives.

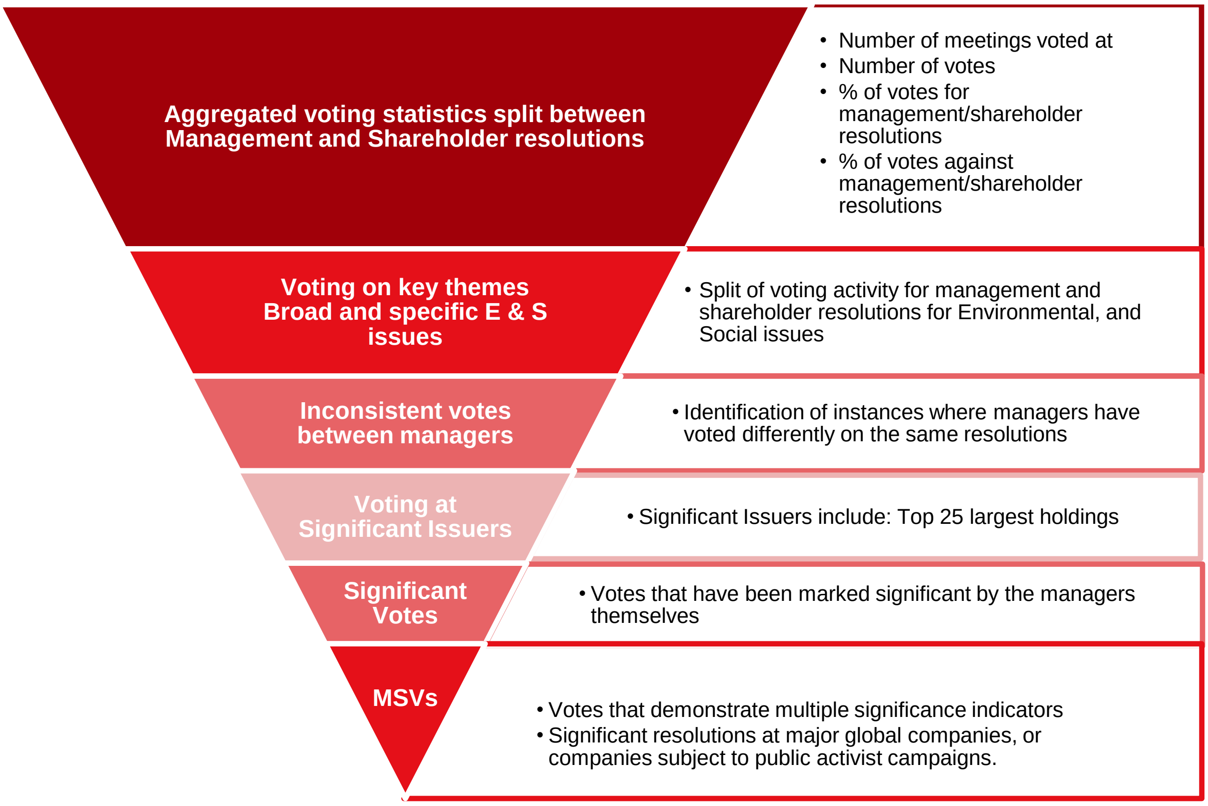
Approach to voting

The Trustee details its voting approach and process in its Stewardship and Voting Policy, adopted in 2022. The Policy was updated in 2024, reinforcing the Trustee's approach. In summary, the outsourced investment model chosen by the Trustee means that the exercise of voting rights has been delegated to the respective asset managers. The primary role of the Trustee and the PSE is to oversee the implementation of voting rights by its asset managers, make clear the expectations the Trustee has, and to hold the managers accountable for their delivery of voting.

Managers are held accountable by reviewing broad trends in their voting behaviour, which includes whether they have exercised all voting rights appropriately, how they have voted compared to proxy recommendations, how supportive of management teams they are, the reliance on and consistency of implementation of their voting policy, consistency of voting on specific environmental and social resolutions, the quality of systems and reporting they employ, and their voting instructions on major resolutions of significance. The Trustee's advisor collates voting information from the investment managers and provides a qualitative review alongside targeted questions for the PSE to challenge those managers on.

The Trustee has an obligation to define and identify the most significant votes exercised on its behalf and to disclose these annually to members in an Implementation Statement. The Trustee has adopted its own framework for identifying significant votes (shown below) which integrates the Trustee's priority issues and applies an asset-owner lens to voting activity carried out on its behalf. This means aggregating exposures and votes to identify significant issuers at a total-portfolio level, and instances where its asset managers may have voted differently on the same resolutions. In 2024 the Scheme's significant votes were identified using the framework below.

The Trustee's Vote Significance Framework



In 2023 Trustee has also started to monitor the risk that managers vote differently, recognising that it may dilute its stewardship footprint, however it is the current preference to identify these instances and challenge those asset managers rather than to direct manager voting. The Trustee is seeking to understand the quality of decision-making, and independence of thought. The Trustee may revisit its approach if significant numbers of votes are consistently cast differently.

Case study: Using insights from asset managers' voting activities in manager engagements

Issue: Following the Trustee's adoption of its 2022 Voting Policy and Vote Significance Framework, the Trustee has placed greater focus on asset managers' voting behaviour when assessing the effectiveness of managers' engagement practices.

Action: In 2024 the Trustee received its second Voting Activity Report, prepared by the Scheme's advisors, which identified significant votes as a result of the most significant votes (MSV) framework covering the year ending 31st December 2023. The report highlighted where managers are demonstrating a progressive approach to voting as well as identifying possible areas for improvements. In contrast to the previous report, the report is more qualitative, providing insights into how asset manager voting aligns with asset owner expectations in practice.

Outcome: The report highlighted inconsistencies in asset managers' voting practices but noted two key good practice voting mechanisms in the report. These were the integration of policy issues into voting on ordinary business resolutions, enabling managers to vote with ESG priorities in mind at all companies, and also the filing of shareholder resolutions, enabling managers to raise topics proactively prior to and at annual meetings. The findings gave the PSE the opportunity to engage with managers where there has been an inconsistency with how votes have been cast to understand the logic of how each manager has voted, as well as set out ways for how managers can increase alignment with Trustee expectations.

The Trustee's Voting Footprint

The Trustee's asset managers have cast votes on its behalf throughout 2024. Consistent with the Trustee's approach of focussing on exposures which are most material, the below table summarises the voting behaviour of the asset managers where the Scheme has the highest allocation, defined as approximately £100m invested per mandate. Five mandates have been identified.

The Trustee has access to the voting records of its asset managers. Data is requested specifically from the asset managers to allow its advisor to review each manager individually. This data is aggregated by the advisor through its own proprietary system. This system overlays the individual voting activity of each manager and identifies the largest holdings across all portfolios, and instances where managers have voted inconsistently on the same resolution. The Trustee takes this data as reported and recognises that there is a small margin for error due to potential errors accruing as part of data collection and amalgamation. However, the Trustee's advisor sense checks the output, and reviews the underlying data received from the asset managers should any underlying errors become apparent. Given these checks, the Trustee's advisor believes the data the Trustee and PSE receives is adequately robust to enable it to exercise its stewardship responsibilities by holding the managers to account for quality of decision-making and independence of thought.

In the voting data below, resolutions have been split between those proposed by management and shareholders respectively. Management resolutions are typically skewed more towards governance matters when compared to shareholder resolutions. Asset manager voting behaviour often differs between the two types of resolutions.

	HSBC Islamic Global Equity Fund	LGIM Future World Fund[2]	MFS Global Equity Fund[2]	Royal London Global Equity Diversified Fund[2]	Schroders Life HSBC Sustainable Diversified Growth Fund[2]
Meetings voted at	99	1,561	85	181	697
Resolutions voted	1,702	22,041	1,501	2,614	8,674
Management resolutions	1,545	21,185	1,411	2,424	8,325
Shareholder resolutions	157	856	90	190	349
% Voted in favour of management resolutions	78%	81%	94%	83%	88%
% Voted against management resolutions	16%	19%	2%	15%	10%
% Voted "other" on management resolutions[1]	5%	1%	4%	2%	3%

% Voted in favour of shareholder resolutions	62%	58%	13%	62%	53%
% Voted against shareholder resolutions	34%	38%	56%	26%	44%
% Voted "other" on shareholder resolutions[1]	3%	4%	31%	12%	2%

[1] "other" includes abstentions, withheld votes, and "do not vote" instructions.

[2] Totals sum to 100% to more than one decimal place.

Geographic Voting Footprint

Given the allocation of the Scheme's equity allocation is geographically diverse, it follows that the exercise of voting is also geographically diverse as shown in the table below:

	HSBC Islamic Global Equity Fund	LGIM Future World Fund	MFS Global Equity	Royal London Global Equity Diversified Fund	Schroder Life HSBC Sustainable Diversified Growth Fund
Europe, Middle East & Africa	41%	39%	60%	33%	41%
Asia-Pacific	11%	30%	2%	10%	20%
Americas	48%	31%	38%	57%	39%

Most Significant Votes

Most Significant Votes have been chosen through the use of the vote significance framework as described above. The votes shown in the below tables have therefore been chosen due to a combination of the following factors:

- Cast at issuers where the Scheme has higher exposure;
- Relate to one of the Trustee's key priorities of climate change, biodiversity, antimicrobial resistance, and diversity & inclusion;
- Voted on in an inconsistent manner by two or more of the asset managers; and
- Due to the significance of the resolution itself i.e., driven by its nature, the scale of any public media interest and whether votes against management on the resolution were particularly high.

During 2023, this process was revised and included additional considerations, producing a more targeted list:

- Climate change: Votes at Climate Action 100+ companies that focused on climate strategy and transition planning, scope 3 targets and climate lobbying.
- Biodiversity: Resolutions related to biodiversity overall, including ones that related to the company's impact on the environment.
- Antimicrobial resistance: AMR resolutions, all of which are included as an MSV.
- Diversity & inclusion: Resolutions that received significant support from shareholders.

The process only selected one resolution per company in most cases, allowing for exception where warranted (mainly when there were two or more resolutions covering different themes at the same company– e.g. at PepsiCo and Amazon).

Climate change-related votes

Company	Date	Country	Proponent	Resolution nature	Vote	Votes vs mgmt
Sasol	19/01/2024	South Africa	Management	Climate change report	Against	29%
Canadian Pacific Kansas	24/04/2024	Canada	Management	Say on climate	For/For/Against [1]	13%

The Goldman Sachs Group	24/04/2024	US	Shareholder	Clean energy financing ratio	For/Against/For/For[1]	30%	
Berkshire Hathaway	04/05/2024	US	Shareholder	Emissions in underwriting	For/For/For	41%	
American Express	06/05/2024	US	Shareholder	Climate lobbying	For/Against/For[1]	26%	
Suncor Energy	07/05/2024	Canada	Shareholder	Climate in accounting	For	12%	
Holcim	08/05/2024	Switzerland	Shareholder	Say on climate	For	5%	
Equinor	14/05/2024	Norway	Shareholder	Strategy and capex in line with Paris	For	30%	
Shell	21/05/2024	UK	Management	Say on climate	For/Against[1]	27%	
Amazon	22/05/2024	US	Shareholder	Just transition	For/For	28%	
Markel Group	22/05/2024	US	Shareholder	Disclose emissions from underwriting	For	41%	
TotalEnergies	24/05/2024	France	Management	Say on climate	Against	25%	
Glencore	29/05/2024	Jersey	Management	Say on climate	Against/Abstain[1]	20%	
Exxon Mobil	39/05/2024	US	Shareholder	Just transition	For	9%	
Nippon Steel	21/06/2024	Japan	Shareholder	GHG emissions targets	For	21%	
Mitsubishi	27/06/2024	Japan	Shareholder	Board climate competencies	For/Against[1]	27%	
Nike	10/06/2024	US	Shareholder	Sustainability target-setting	For/Against[1]	37%	

[1] Resolutions have been voted on inconsistently by the Trustee's managers.

Biodiversity

Company	Date	Country	Proponent	Resolution nature	Vote	Votes vs mgmt
PepsiCo	01/05/2024	US	Shareholder	Biodiversity and nature loss	For/For/For/For	21%
Amazon	22/05/2024	US	Shareholder	Plastic packaging	For/For/For/For	34%
Chevron Corporation	29/05/2024	US	Shareholder	Single use plastics	Against/For[1]	9%
General Motors Company	04/06/2024	US	Shareholder	Deep sea mining risks	For/For	13%
Restaurant Brands International	06/06/2024	Canada	Shareholder	Plastic packaging	For	41%
Tesla	13/06/2024	US	Shareholder	Deep sea mining moratorium	For/Against/For[1]	13%
Coles Group	12/11/2024	Australia	Shareholder	Farmed seafood reporting	For	40%

[1] Resolutions have been voted on inconsistently by the Trustee's managers.

Antimicrobial Resistance

Company	Date	Country	Proponent	Resolution nature	Vote	Votes vs mgmt
Yum! Brands	16/05/2024	US	Shareholder	Comply with World Health Organisation guidelines on	For	12%

				antimicrobial use throughout supply chains		
McDonalds	22/05/2024	US	Shareholder	Adopt antibiotics policy	For/For	16%
Restaurant Brands International	06/06/2024	Canada	Shareholder	Comply with World Health Organisation guidelines on antimicrobial use throughout supply chains	For	17%

Diversity & Inclusion

Company	Date	Country	Proponent	Resolution nature	Vote	Votes vs mgmt
The Goldman Sachs Group	24/04/2024	US	Shareholder	Report on Pay equity	For/Against/For /Against[1]	30%
PepsiCo	01/05/2024	US	Shareholder	Racial Equity Audit	For/For/For/For	21%
Eli Lilly and Company	06/05/2024	US	Shareholder	DEI efforts	For/For	24%
Marriott International	10/05/2024	US	Shareholder	Racial/gender pay gap reporting	For/Against[1]	24%
Amazon	22/05/2024	US	Shareholder	Racial/gender pay gap reporting	For/For	35%
The Procter & Gamble Company	08/10/2024	US	Shareholder	Racial/gender pay gap reporting	For/For	31%

[1] Resolutions have been voted on inconsistently by the Trustee's managers.

Examples of significant votes over the reporting period

Significant vote 1: Equinor

- Resolution: Shareholder resolution filed at Equinor to update the company strategy and capital expenditure according to the commitment to the goals of the Paris Agreement.

- Significance: The resolution is significant as it is related to climate change and at a significant issuer and emitter for the Scheme.

- Outcome: The resolution received 30% support with the Trustee's managers both voting in favour of the resolution. The Trustee is pleased to see that the managers voted in favour of the shareholder resolution calling on Equinor to update its strategy and capital expenditure to align with the goals of the Paris Agreement.

Significant vote 2: Restaurant Brands International

- Resolution: Shareholder resolution filed at Restaurant Brands International to comply with World Health Organisation guidelines on antimicrobial use throughout supply chains.

- Significance: The resolution is significant as it is related to AMR.

- Outcome: The resolution received 17% support, with the Trustee's asset manager voting in favour of the resolution. Given that AMR is one of the Trustee's priority themes, the Trustee is pleased to see that the manager voted in favour.

Significant vote 3: PepsiCo

- Resolution: Shareholder resolution filed at PepsiCo calling for a report on risks relating to biodiversity and nature loss.

- Significance: The resolution is significant due to it relating to nature.

- Outcome: The resolution received 21% support with the Trustee's asset managers both voting in favour of the resolution. The Trustee is pleased to see that both managers voted in favour of this resolution that seeks to encourage companies to disclose their risks in relation to biodiversity and nature loss given that nature is one of the Trustee's priority themes.

Systemic issues and public policy/best practice engagement

Having adopted a universal owner mindset, it is important for the Trustee to engage at the regulatory, policy and industry levels to promote healthy, well-functioning systems. The Trustee believes strongly that public policy and industry-level engagement are critical elements to ensure the Trustee meets its objectives of providing retirement benefits to its beneficiaries.

To date this work has been undertaken by the Trustee's asset managers and PSE operating on its behalf. In 2024, the Trustee decided to increase the policy engagement undertaken on its behalf, in recognition of the importance of this activity, and as noted below, it took steps to appoint a specialist provider to further supplement its work in this area.

Case study: Appointing a specialist provider for industry-shaping engagement

Issue: Reflecting the Trustee's increasing need to emphasise the asset owner perspective in public policy and industry-shaping engagement the Trustee considered whether it would be appropriate to appoint a specialist overlay provider to undertake this work on its behalf.

Action: The Trustee's advisor extended the opportunity to several providers. Following an in-depth analysis, the Trustee concluded that adopting a model of industry-shaping engagement fits the Scheme's outsourced model, builds in collaboration, leverages influence and enables a more comprehensive approach than any other model currently available. Reviewing the different sources of third party expertise, the advisor noted that one particular provider stood out in terms of its provision.

Outcome: The Trustee appointed a public policy engagement provider at the end of 2024 to enhance its collaboration and overall influence by supplementing efforts from the Scheme's managers and PSE, and more closely emphasising the asset owner perspective in industry-shaping engagement.

In addition to selecting a provider, the PSE undertook a number of public engagements during 2024 on the Trustee's behalf, and these are noted in the table below.

Engagement	Purpose	Details of engagement
Climate Scenario Analysis (CSA)	Connect industry leaders to further evolve industry thinking on CSA, with particular reference to creating a process that is decision-useful.	In Q2 the HSBC Bank (UK) Pension Scheme hosted an event at their offices, convened through the University of Exeter. The event was titled Narrative Climate Scenarios: Bringing the Real World into Decision-making. 40+ participants from academia, investment, civil society and policy came together to share their views.
Financial Reporting Council (FRC) Consultation on the UK Stewardship Code	The FRC consulted on a revised UK Stewardship Code, aiming to continue to drive effective stewardship by supporting high quality disclosures and appropriately reflecting developing stewardship practice, and maintaining its global leadership.	The Trustee responded to the consultation, largely supporting the proposed revisions to the Code, but also proposing improvements regarding the definition of stewardship, and the structure and purpose of the report.
Institutional Investors Group on Climate Change	The IIGCC consulted on the updated version of the Net Zero Investment	The Trustee responded to the consultation, emphasising the Trustee's ongoing support

(IIGCC) Consultation on Net Zero Investment Framework 2.0	Framework, NZIF 2.0. In addition to general feedback, the consultation specifically requested feedback regarding changes to the framework. These include recommended action points for users of the framework, changes to objective and target setting process, and changes to the assessment approach for listed equities, corporate fixed income and sovereign bonds.	of IIGCC and the importance of NZIF for setting a standard for good practice for net zero investors, but also noting that the structure of the current framework is challenging for asset owners to comply with in its entirety. The Trustee also noted that the focus on emissions measurement as an indicator for climate risk and impact has limited utility given the limitations associated with this data.

Appendices

Appendix 1: Investment beliefs

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

Appendix 2: Alignment of this report to UK Stewardship Code 2020 principles

The following table sets out where the key elements of the UK Stewardship Code 2020 are covered within the body of this report.

Principle	**Key elements**	**Section discussed, relevant page(s)**
Principle 1: Purpose, Strategy and Culture	Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for beneficiaries leading to sustainable benefits for the economy, the environment and society	Appropriate investment philosophy and time horizon for investment p4 The Scheme's values and culture, p6 Approach to ESG, p6-7
Principle 2: Governance, resources and incentives	Signatories' governance, resources and incentives support stewardship	The Scheme's structure, governance and oversight of investment, p4-6
Principle 3: Conflicts of Interest	Signatories manage conflicts of interest to put the best interests of beneficiaries first	Appropriately managing conflicts of interest, p16-17
Principle 4: Promoting well-functioning markets	Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system	Systemic issues and public policy/best practice engagement, p26-27
Principle 5: Review and assurance	Signatories review their policies, assure their processes and assess the effectiveness of their activities	Assurance of approach, p16
Principle 6: Beneficiary needs	Signatories take account of beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them	Reporting to members, p9-10
Principle 7: Stewardship, investment and ESG Integration	Signatories systematically integrate stewardship and investment, including material ESG issues, and climate change, to fulfil their responsibilities	Approach to investment; geographic/asset class split, p11-14 Integration of stewardship and ESG into investment approach, p14-15
Principle 8: Monitoring managers and service providers	Signatories monitor and hold to account managers and service providers	Resourcing of stewardship and ESG, including external service providers, p15 The Trustee's managers and holding them to account, p17-19
Principle 9: Engagement	Signatories engage with issuers to maintain or enhance the value of assets	Direct engagement, p19-20
Principle 10: Collaboration	Signatories, where necessary, participate in collaborative engagement to influence issuers	Collective engagement, p20
Principle 11: Escalation	Signatories, where necessary, escalate stewardship activities to influence issuers	Escalation of engagement, p20
Principle 12: Exercising rights and responsibilities	Signatories actively exercise their rights and responsibilities	Approach to voting, p21-26