REMUNERATION PRACTICES AND GOVERNANCE ARRANGEMENT FOR UCITS AND AIFMD AUTHORISED ENTITIES

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

Remuneration strategy

HSBC's reward package consists of three key elements:

FIXED PAY

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

BENEFITS

Ensure market competitiveness and provide benefits in accordance with local market practice. This may include, but not limited to, the provision of pensions, medical insurance, life insurance, health assessment, and relocation allowances.

ANNUAL INCENTIVE

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

Remuneration

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

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

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

Remuneration Principles	How we comply
Principle 1: Remuneration policy promotes sound and effective risk management	◆ Performance scorecards of senior executives align business objectives and risk (including sustainability risk measures such as: reduction in carbon footprint; facilitating financing to help clients with their transition to net zero; employee diversity targets; and risk and compliance measures) objectives and are cascaded to global business lines and regions. ◆ Risk and compliance is a critical part of the performance rating and variable pay assessment process. ◆ Material Risk Takers (`MRT') are identified based on the qualitative and quantitative criteria set out in the applicable regulations.
Principle 2: Remuneration policy supports business strategy, objectives, values and long-term interests of the management company / AIFM, the UCITS / AIF it manages and the investors of the UCITS / AIF	◆ Remuneration decisions based on a combination of performance against business objectives, performance of the UCITS / AIF and general individual performance of the role. ◆ Adherence to the HSBC values, business principles, Group risk-related policies and procedures and Global Standards are key considerations taken into account for determining variable pay awards.
Principle 3: Remuneration policy includes measures to avoid conflicts of interest	◆ All variable pay and incentive schemes are required to adhere to a set of policy principles and require approval of Finance, Risk, Legal, Compliance and HR Functions. ◆ The executives of the management company / AIFM cannot be involved in deciding their own remuneration. ◆ No executive of line manager can approve the remuneration for a direct report.
Principle 4: Governance of remuneration policy and oversight of policy implementation	◆ Where required by applicable local law and regulations and taking into account proportionality rules and guidance provided by local regulators, the management companies / AIFMs should set up a Remuneration Committee ('RemCo'). In the absence of a RemCo, the management companies / AIFMs should adopt the principles set out in this document, subject to compliance with any applicable local law and regulations. ◆ The RemCo should periodically review the adequacy and effectiveness of the remuneration policy. ◆ Implementation of the remuneration principles should be subject to an independent internal review at least annually.
Principle 5: Employees in control functions are independent, have appropriate authority and are remunerated adequately and based on functional objectives	◆ Individuals in control functions have a direct reporting line through the functions rather than through the business to ensure conflicts of interest are avoided. ◆ Control functions are represented at the most senior levels within the management companies / AIFMs. ◆ Senior individuals in control functions, including Risk and Compliance, must provide inputs for remuneration decisions. ◆ The performance and remuneration of control function staff is determined according to a balanced scorecard of objectives specific to the functional role they undertake. ◆ Remuneration for control function staff is carefully benchmarked with the market and internally to ensure that it is set at an appropriate level.

Remuneration Principles	How we comply
Principle 6: Pension policy is in line with business strategy, objectives, values and long-term interests and discretionary pension benefits are in the form of shares or other instruments	◆ Pensions policies are reviewed to ensure they are in line with market practice and sustainable. ◆ The Group policy is not to award any discretionary pension benefits.
Principle 7: Employees undertake not to use personal investment strategies to undermine the risk alignment effects of remuneration arrangements	◆ Our policy requires employees not to use personal hedging strategies or remuneration or liability related contracts of insurance in connection with any unvested deferred remuneration awards or any vested awards subject to a retention period.
Principle 8: Variable remuneration is not paid through vehicles that facilitate non-compliance with the Remuneration Rules	◆ The Remuneration Rules of the UK's Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA') Remuneration Rules are applied on a Group-wide basis along with any local and sectorial rules that are applicable for the relevant Group entity. ◆ All variable pay awards are currently delivered in the form of cash, shares, or awards linked to applicable fund units in accordance with the requirements of the applicable remuneration Rules, and taking into account local laws and regulations.

Remuneration Principles	How we comply
Principle 9: Remuneration structure is consistent with and complies with the applicable remuneration Rules	◆ For all employees, remuneration decisions are based on a combination of business results, performance against objectives set out in performance scorecards, general individual performance of the role and adherence to the HSBC values, business principles, Group risk-related policies and procedures and Global Standards. ◆ Guaranteed bonuses are paid exceptionally and limited to the first year of employment. ◆ Buy-out awards may be offered if an individual holds any outstanding unvested awards that are forfeited on resignation from the previous employer. The terms of the buy-out awards will not be more generous than the terms attached to the awards forfeited on cessation of employment with the previous employer. ◆ The variable pay awards for UCITS / AIFMD Identified Staff are structured as follows: • Variable pay is capped to a maximum of 200% of total fixed pay, after application of any discount permitted under the PRA Remuneration Rules. • The higher of any regulatory deferral requirement and the Group deferral requirement is applied for all variable pay awards. • In general, 40% of total variable pay award (annual incentive plus any long-term incentive award) is deferred for between three and five years. This increases to 60% for a high variable pay amount in line with regulatory requirements. • At least 50% of annual incentive award (both deferred and non-deferred component) is generally delivered in shares or awards linked to applicable fund units and, where required, subject to a retention period of up to one-year upon vesting. • Variable pay awards are subject to malus provisions and can be reduced or cancelled in appropriate circumstances. Awards made to MRTs are also subject to clawback provisions. • Where delegating investment management activities, the management companies / AIFMs must ensure that the entities to which investment management activities have been delegated are subject to requirements on remuneration that are equally as effective as those applicable under these principles.