HSBC Global Asset Management

UK Stewardship Code

July 2020

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This statement sets out how HSBC Global Asset Management (UK) applies the principles of the UK Stewardship Code.

1. Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities

We regard stewardship as integral to our long-term approach to investment. For active portfolios, our fund managers exercise close oversight of companies held, meeting them regularly to monitor performance as well as undertaking voting and associated engagement. Assessment of environmental, social & governance (ESG) issues is a full part of our investment process, with portfolio managers and analysts primarily responsible. For passive portfolios, where investment is determined by weighting in an index or other factor, we assess and engage on ESG issues, including voting for all UK companies.

Our active UK portfolios are quite concentrated, with relatively few companies held. Companies are often held for a number of years. This ensures that fund managers and analysts have a detailed knowledge of the companies in which they invest on behalf of clients, and also have the time to monitor them closely. As well as performance, regular meetings with management often cover strategy, risk – including environmental & social risks where relevant – culture and capital structure. Governance and remuneration issues are more typically raised in our engagement around voting. All matters also arise as relevant in less frequent meetings with non-executives. Companies are reviewed in regular investment team meetings, with the investment case and any concerns re-assessed continually.

Global developed and emerging market portfolios are managed with the same approach, although they are somewhat less concentrated and engagement around voting or with non-executives is less commonplace.

The concentration of active portfolios means that most companies are held only in passive portfolios. As many of these track major indices, we hold stock in every large company in many markets, including the UK. Although our proportionate holding in these companies is often small, we maintain active oversight. We receive external ESG research on all companies, investigating and, where necessary, engaging regarding issues of concern. We also vote on all passive holdings, except in markets where power of attorney or shareblocking requirements are onerous.

As part of our global voting guidelines, we have our own UK guidelines which are primarily based upon the UK Corporate Governance Code and recognised good practice. We use an external voting research agency to highlight companies' apparent breaches of our guidelines. Our specialist corporate governance team reviews this and other third party proxy research, as well as reviewing companies' governance arrangements. We consider carefully any explanations provided by companies for their departures from the Code, attaching particular weight to specific examples or evidence provided.

In the UK, we engage in advance with all companies where we intend to vote against or abstain for governance reasons on a general meeting resolution. We explain the reasons for our vote and give the company the opportunity to respond ahead of our vote instruction. In some cases, this dialogue results in changes to our voting intention and/or to the board's behaviour going forward.

In 2019, we engaged with some 138 UK companies regarding 272 resolutions. More than a third of the concerns raised related to board structure, typically directors whom we did not regard as independent due to tenure but sitting on board committees which should be wholly independent. We would normally abstain in these cases but voted against more serious board imbalances – around 20 per cent of all contrary votes. Around half of concerns related to board remuneration – structure, levels or performance linkage. We are more likely to vote against on remuneration – just over 50 per cent of all contrary votes. The remainder of issues raised in pre-vote engagement related to shareholder rights or other issues such as auditor fees / rotation and shareholder resolutions. Where we raise concerns in these areas, a vote against is likely – around 10 per cent of contrary votes.

We are also consulted by companies on remuneration and other governance issues. The scale of our holdings means that this usually relates to active holdings, though our record of engagement means that other companies also consult us, especially where proposed changes relate to concerns we have raised.

Our global voting guidelines reflect widely accepted principles of good governance. The prevalence of issues highlighted by our voting depends upon the nature of different markets. Independent board representation and remuneration concerns are usually prevalent; votes to defend shareholder rights are required more frequently in some markets. We also support a high proportion of shareholder resolutions seeking improved ESG disclosure, and further action where appropriate.

Our approach to stewardship is integral to our value proposition to clients. For active portfolios, it is not sufficient that a company meets a financial screen or seems to have good short-term prospects. We want to understand that returns are sustainable and review ESG and other issues facing the company before investment and throughout our time as holders. This includes challenging management on their own stewardship of our clients' assets and escalating our engagement where necessary. For passive portfolios, clients are seeking exposure to an index or other factor. We believe that our stewardship oversight of these assets still has an important role in protecting client interests as well as for returns of the market as a whole.

2. Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.

Our primary responsibility as an investment management firm is to try to add value over the long term. Potential conflicts of interest we may face are addressed by the over-riding principle that client interests are put first.

Our voting guidelines are intended to identify the best interest of all clients as investors in a particular company. Basing our voting decisions upon these guidelines helps us to manage conflicts of interest.

As with all our holdings, votes in situations where there may be a perceived conflict of interest, for example at our parent company and related entities, are considered in the context of our voting guidelines. Whilst our process allows for departure from vote recommendations based upon our guidelines, special review procedures and an entry in the conflict of interest register are required where we intend to depart from the external recommendation in a situation in which we are aware of a conflict of interest.

As set out above, we have a procedure for conflicted situations where we believe that investor interest is not reflected in the initial vote recommendation. This would apply if clients' interests diverged or a client relationship raised a potential conflict. If a conflict arises through holdings in both sides of a transaction, the shares in each company are voted in the interest of clients as investors in that company.

Clients in segregated mandates can undertake their own voting or instruct votes on their own portfolios on an ad hoc basis.

Where engagement with an investee company is proposed that would create a conflict of interest, the proposed engagement is recorded in the conflicts of interest register before commencement, or at the first opportunity if the conflict had not been appreciated at the outset, including an explanation of how the conflict will be managed. The outcome of the engagement is also recorded. As with all engagements, the best protection when undertaking engagement in a potentially conflicted situation is to maintain a high standards of research, communication & documentation.

All entries in the conflict of interest register are reviewed retrospectively by a conflicts of interest committee of senior executives separate from the function concerned.

HSBC Global Asset Management is functionally and operationally independent from, and maintains arm's length commercial relationships with, other HSBC Group companies.

3. Institutional investors should monitor their investee companies.

We monitor companies through our investment process. For active portfolios, this includes assessment of companies' own and market data, consideration of research from brokers and other independent research providers – including ESG & voting research, attending individual & group meetings with company management and directors, visiting production sites, talking to competitors and customers, and our own financial modelling. For companies held only in passive portfolios, we assess external ESG & voting research and engage with company management and / or directors to raise company specific or thematic issues of concern.

Whilst investors can never know all that is happening inside a company and or receive price sensitive information, we believe that our investment process for active portfolios makes us acutely sensitive to variations in company performance, drivers of value and risk, strengths and weaknesses of corporate leadership and the quality of companies' reporting.

Where concerns arise, we seek meetings with the company; with management in the first instance but where the response has not been satisfactory or where management might be part of the problem, we meet with the Chairman and / or independent directors. We find that UK companies respond well to this approach, at least in their availability to meet.

For both active and passive portfolios, we monitor and assess all investee companies' adherence to the UK Corporate Governance Code through external ESG and voting research, our own research and through regular and ad hoc contact with Chairmen and other board members.

We do not normally attend General Meetings of companies, although we have and will continue to do so on occasion as part of our engagement.

Our UK voting process highlights departures from the UK Corporate Governance Code and includes an assessment of any company explanation, as well as a specific engagement before any votes against or abstentions.

We would not normally wish to be made insiders.

4. Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.

As set out above & below, our investment, voting & engagement processes include contact at many different levels of an investee company. Our inclination is to support management in good standing. In the first instance, any engagement is to understand its approach, with the expectation that this will enhance confidence.

Where concerns arise because we feel that regular communication has not demonstrated that an issue is being adequately addressed, we might adopt any of the escalations set out in the guidance accompanying this principle in order to protect client interest, subject to the likelihood of a particular approach actually being successful. At each stage, we are seeking confidence that our concern is either misplaced, or is acknowledged and being addressed appropriately. If that confidence is lacking, we consider escalation in our engagement.

Our approach related to specific issues is as follows, reflecting in every case an engagement we have already undertaken:

Where we have concerns about performance and / or strategy, we would normally contact management in the first instance.

Concerns about management themselves or following an unsatisfactory response from management would be raised with the Chairman, or with the Senior Independent Director if the Chairman was unavailable / conflicted.

We might discuss our concerns with the company's advisers at different stages but would normally only ask them to communicate these formally if we had had an inadequate response from management and / or directors.

For voting issues, we normally contact the company secretary in the first instance. We expect the company secretary to communicate our concerns to the board. Subsequent engagement can be with the company secretary, other officers, directors and / or the Chairman.

Concerns about remuneration are usually addressed initially to the company secretary, subsequently with company officers and /or the chairman and members of the remuneration committee.

Concerns about audit, reporting & auditor rotation are also addressed initially to the company secretary, subsequently with the chairman of the audit committee.

Where other ESG issues arise, these will normally form part of regular engagement for active portfolios in the first instance. For passive portfolios, our external research and / or own monitoring could raise issues of concern. Concerns might include the company's response to climate change issues, or handling of a social issue related to customers or its supply chain. We raise these first with relevant company officers, sometimes through investor relations. In some cases, we ask a company to explain / develop an action plan for addressing an issue so that investors can monitor its progress in doing so. We are always keen to see director involvement with these issues and will seek meetings with them if initial responses do not address our concerns / a more strategic approach is required.

Our approach to collective engagement is set out below.

We have publicly indicated our support for certain climate change resolutions in advance of General Meetings and would also consider doing so in other circumstances / on other issues.

We have added our name to joint investor statements on ESG issues made at General Meetings and would also consider doing so in other circumstances / on other issues.

We have co-filed shareholder resolutions, including one in the UK in 2019, and are open to doing so in future where the issue / circumstances merits such an approach.

We have not requisitioned a general meeting in the UK, though might consider doing so jointly with other investors as a last resort.

5. Institutional investors should be willing to act collectively with other investors where appropriate.

Our investment dialogue with companies is usually conducted alone. Any consequent engagement will normally also be conducted on a direct one-to-one basis.

For governance, performance strategy & leadership issues, we would normally only consider collective engagement with other shareholders where our initial engagement with a company has failed to bring the confidence that we sought. This might be due to the quality of the company's response or because the scale of a passive holding meant that the company had not given our concerns sufficient attention. In this case, we might approach other shareholders directly to see if our concerns were shared / there was an appetite for joint action.

We are also members of the Investor Forum and raise our concerns through that body / participate in joint engagement initiated by them.

We are active in other investor networks and have participated in joint engagement through a number of them, including the Global Institutional Governance Network, and (outside the UK) the Asian Corporate Governance Association.

Some other governance issues, such as remuneration and audit, lend themselves more easily to joint engagement at the outset. We have participated jointly with other investors in engagement under both these headings. In some cases, these engagements have been initiated by the Investment Association.

ESG issues are also often appropriate for joint discussions with companies, enabling investors to leverage their influence / share coverage. We participate in thematic joint engagement on climate change and supply chain issues organised by the Principles for Responsible Investment Clearing House. We also participate in joint engagement with companies on climate change as part of the Climate Action 100+ initiative. We identify ESG issues for engagement through our own monitoring and research and consider whether to engage jointly or collectively according to the opportunity and likely impact on a case by case basis.

We also work with other institutions on certain policy issues impacting shareholder rights more generally.

6. Institutional investors should have a clear policy on voting and disclosure of voting activity.

We aim to vote all UK and overseas equities for which clients have given us voting authority, except for practical reasons such as share blocking or overly burdensome power of attorney requirements.

We have clear and detailed voting guidelines which provide the framework for our voting decisions, although these are applied according to the particular circumstances of the company. These guidelines are based upon the UK Corporate Governance Code and Investment Association remuneration guidelines for UK companies and on widely-accepted international governance standards for other markets. We aim to make clear our support for these standards whilst accepting that companies may have good reasons for departing from them. In practice this can mean giving slight extra leeway, for example in allowing ten year's board service rather than nine before considering tenure as an impediment to membership of an independent board committee, and abstaining rather than voting against on this issue where there are otherwise sufficient independent directors on the board.

We receive custom vote recommendations based upon these guidelines from Institutional Shareholder Services and use their platform for vote instruction. We also receive research on UK companies from the Investment Association's Institutional Voting Information Service.

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As set out above, we engage in advance with UK investee companies where we intend to vote against or abstain. Our own analysis / what we hear from the company may result in a different view from the custom recommendations before and / or after engagement. We engaged with 138 UK companies on 272 resolutions in 2019 and changed our view on six. In order to change our intended vote, we normally expect the company to demonstrate that it has or will address the issue of concern, as we would normally have considered any explanation before informing them of our intended vote.

For active holdings outside the UK, fund managers may also depart from custom recommendations where their knowledge of the company or investment view determines a different view.

Globally, our UK investment teams voted almost 70,000 resolutions at around 6,500 company meetings in 2019, voting against management on 6,263 resolutions.

We offer clients detailed reports on our voting activity. We publish voting records quarterly about one month in arrears for every resolution at every meeting around the world.

We do not ourselves undertake stock lending, nor do our funds. Where external clients lend their stock, this rarely accounts for a significant proportion of our total holding in a company. We usually have the authority to recall for voting but would not normally regard doing so as in client interest.

7. Institutional investors should report periodically on their stewardship and voting activities.

We are committed to accountability to our clients on stewardship and voting.

Our clients can receive a portfolio-specific quarterly voting report detailing all votes; some also receive reports with the rationale for any votes against. Clients can also receive a quarterly report detailing each UK engagement and its outcome. Our engagement policy is also available to them.

Our publication of voting policy and outcomes enhances our accountability. Our 2019 response to the annual UN Principles for Responsible Investment annual assessment, giving details and examples of our approach to integration, voting & engagement is also available at:

https://reporting.unpri.org/surveys/PRI-reporting-framework-2020/D2EE0699-6849-4DEC-A5A3-B64E2B6209A7/79894dbc337a40828d895f9402aa63de/html/2/?lang=en&a=1

Our voting process is subject to independent Statements on Standards for Attestation No.16 (SSAE16 audit).

Further details of our stewardship activity are available in our 2020 Responsible Investment Review, at:

https://www.assetmanagement.hsbc.co.uk/-/media/files/attachments/common/resource-documents/responsible-investment-review-2020.pdf

Note. This statement was reviewed in July 2020.

The person who can be contacted for further information is: **Thomas O’Malley**, Global Head of Corporate Governance at HSBC Global Asset Management (UK) Ltd, 8 Canada Square, London, E14 5HQ.