

# Remuneration: strategy, principles and governance

## Background

Marks and Spencer Unit Trust Management Limited (MSUTM) is the authorised fund manager and operator of four unit trust funds governed by the Undertakings for Collective Investment in Transferable Securities (UCITS) Directive. No staff are directly employed by MSUTM. Staff employed by Marks & Spencer Financial Services plc (MSFS) carry out a number of activities on behalf of MSUTM. Both MSUTM and MSFS are wholly owned subsidiaries of HSBC UK, part of the HSBC Group.

MSUTM does not directly manage the investments held in the funds. Fund management has been delegated to our investment manager HSBC Global Asset Management (UK) Limited, part of the HSBC Group.

With this structure in mind this document details the remuneration principles, practices and governance arrangements for the HSBC Group applicable to MSUTM.

The HSBC Group remuneration strategy is designed to reward competitively the achievement of long-term 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.

## Our approach to workforce reward

Our goal is to deliver a unique and exceptional experience to energise colleagues to perform at their best. This is critical to strengthening our ability to attract, retain and motivate the people we need in competitive markets where employee expectations continue to evolve.

Our workforce reward principles and commitments guide our approach and support our focus on being a great place to work.

- We will reward our colleagues responsibly through fixed pay security and protection through core benefits, a competitive total compensation opportunity, pay equity, and a more inclusive and sustainable benefits proposition over time.
- We will recognise colleagues' success through our performance routines, including feedback and recognition, pay for performance, and all employee share ownership opportunities.
- We will support our colleagues to grow through our proposition beyond pay, with a focus on future skills and development, support for well-being, and flexibility.

- The purpose of the fixed pay is to attract and retain employees by paying market competitive pay for the role, skills and experience required for the business. This includes salary, fixed pay allowance, cash in lieu of pension and other cash allowances in accordance with local market practices. These payments are fixed and do not vary with performance.
- The Group provides benefits in accordance with local market practice. This includes but is not limited to the provision of pensions, medical insurance, life insurance, health assessment, and relocation allowances.
- Awards to drive and reward performance based on annual financial and non-financial measures consistent with the medium to long-term strategy, shareholder interests and adherence to HSBC values. Awards can be in the form of cash, shares and any other fund-linked instruments as appropriate. A portion of the annual incentive award is deferred and vests over a period of 4 to 7 year.

## Remuneration

The following numbered list sets out the governance framework and remuneration principles that will apply to HSBC Group employees in accordance with Chapter 19E of the Financial Conduct Authority's System and Controls Sourcebook (SYSC). Where wider HSBC group principles impose more stringent requirements than these principles or regulatory requirements, group principles will be applied.

## Remuneration code principles

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

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

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

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

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

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

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

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

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

- Individuals in control functions must have a direct reporting line through the functions rather than through the business to ensure that conflicts of interest are avoided.
- Control functions must be represented at the most senior levels within the management companies.
- Senior individuals in control functions, including risk and compliance must provide inputs for remuneration decisions, specifically in relation to individuals involved in any reportable incident or notable events.
- The performance and remuneration of control function staff is determined according to a balanced scorecard of objectives specific to the functional role they undertake.
- Remuneration is carefully benchmarked with the market and internally to ensure that it is set at an appropriate level.

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

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

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

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

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

- The principles of any applicable local regulation must be applied taking into account group policies and proportionality principles that apply.

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

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

- Remuneration decisions are based on a combination of business results, performance against objectives set out in performance scorecards, general individual performance of the role and adherence to the HSBC values, business principles, Group risk-related policies and procedures and Global Standards.
- New hire indicative variable pay is awarded in exceptional circumstances, and is limited to the individual's first year of employment only, and is subject to a number of factors (such as the respective performance of the Group, business unit and individual), and the final value paid remains at the full discretion of HSBC.
- Fixed and variable components of total remuneration are appropriately balanced and the fixed component represents a sufficiently high proportion of the total remuneration to allow the operation of a fully flexible policy on variable remuneration components.
- The variable pay awards for UCITS Identified Staff are structured as follows, subject to any applicable local law, regulations, regulatory guidance and proportionality rules:
  - The higher of any regulatory deferral requirement and the group deferral requirement is applied for all variable pay awards.
  - In general, 40% of a variable pay award is deferred for a minimum period of 4 years and vests pro-rata on each anniversary of the award date. This increases to 60% for a variable pay award of GBP 500,000 or more.
  - 50% of an annual incentive award (both deferred and non-deferred component) is delivered in shares and/or, where required, awards linked to applicable fund units and where required subject to an appropriate retention period on vesting.
  - Variable pay awards are subject to malus provisions and can be reduced or cancelled in appropriate circumstances.
  - Where applicable under local law, all variable pay awards are subject to clawback.
- Where delegating investment management activities, the management companies 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.