INVESTING WITHOUT COMPROMISE

Tom Green, Head of Direct Lending at HSBC Asset Management, talks about the importance of discipline in the lending business, the value of exclusive deal flows, and what makes the European mid-market so attractive right now.

Mr. Green, how has the direct lending business developed at HSBC Asset Management?
In 2019, I moved from the banking side into HSBC Asset Management to establish the direct lending part of the business. We started with a UK-domiciled direct lending strategy. That went well, and now we've diversified into a European strategy. We've made quite a few investments and managed to deploy the capital quickly. Now we have a team of 20 people in our group. In total, we've raised just under 3 billion US-Dollars as of June 2025 across the strategies.

How do you maintain discipline in your approach?
What we observe is a very competitive market with low M&A volumes impacting deal volumes. This has manifested itself in market trends including spread compression, more aggressive terms and increasing leverage ratios. This environment requires strong discipline in both deal selection and structuring, with no compromise on our investment criteria. Through our work with HSBC Bank, we benefit from broad market access and a strong pipeline of proprietary deal flow, which allows us to be highly selective and deliver strong risk adjusted returns for our investors.

Can you elaborate?
We benefit from a flow of transactions coming across our desk from HSBC Bank.

HSBC is one of the largest banks in Europe and has a strong presence in leveraged finance markets across the continent. We have a memorandum of understanding with the bank to have an exclusive first look at their pipeline. That provides us with lots of opportunities to choose from. More than 50 percent of the deals we've closed across the whole platform have been proprietary. This is where we come back to the obligation of being disciplined. We can invest without having to compromise on our investment criteria because we have this large set of opportunities coming to us through the HSBC network.

You mentioned discipline in structuring the portfolios too. What do you mean by that?
We focus on "bank-style" structuring. We do deals with lower leverage, robust covenants and documentation. Both are important, because covenant erosion has been a big trend in the market. We also make sure the documentation protects us. At entry, documentation doesn't matter so much but if a deal goes wrong, everyone looks at the contract. In our euro-denominated portfolio, the average opening debt-to-EBITDA is 3.3x. This is significantly lower compared to the broader European market, where average leverage was probably 5.2 to 5.5x within the last 12 months. This means we are structuring deals at materially lower leverage levels while still achieving average margins of over 500 basis points. And most importantly, our documentation allows the team to sleep at night because it's properly negotiated.

What makes the European mid-market as a whole so attractive for you?
The direct-lending market in Europe has really matured. Today you can do a deal at 1 million euro EBITDA, or at 500 million euro EBITDA. And there's a direct lender ready to cover that ticket size. It's the same across the risk curve: You find managers for very conservative deals and for riskier transactions. We focus on deals below €100 million. This segment offers good value. Transactions aren't overcrowded, and we can structure them with lower leverage. We specifically like the lower mid-market, where we benefit from HSBC's strong franchise.

What implications does the geopolitical situation have on your business model in Europe?
We are always alive to macro-economic trends and geopolitical issues when it comes to the potential for impacts on our portfolio. Factors we have considered recently included tariffs but also before that, exposure to inflationary risks, risks and opportunities from AI, and exposure to emerging risks such as cybersecurity. Generally our view is that direct lending is not GDP correlated and has proven to be well insulated from the wide range of geopolitical headwinds that have emerged over the last 5 years. The revenue growth we see in our portfolio proves that we can pick businesses growing far faster than the economies they operate in.

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CV

TOM GREEN
- Head of Direct Lending at HSBC Asset Management
- Member of the Investment Committee for Infrastructure Debt
- Previously spent 16 years at HSBC Bank UK in the mid-market leveraged finance business
- Invested over 3.2 billion GBP in more than 135 transactions during his career.

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Content ID: D056908 v3.0 Expiry: 31.10.2026