

Taskforce on Climate-Related Financial Disclosure (TCFD) Annual Report 2023

June 2024

HSBC Alternative Investment Limited



HSBC Asset Management

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In line with the Financial Conduct Authority (FCA)’s guidance on regulatory reporting, this report has limited information on Private Assets (such as Hedge Funds, Private Markets, Real Estate) where there is a lack of current data availability. It is anticipated that reporting will evolve for these asset classes as data availability increases over time. Where such data in relation to Private Assets is included, it will, in part, be based on information from third-party sources that whilst HSBC Alternative Investments Limited (HAIL) believes to be reliable, has not been independently verified by or on behalf of HAIL and as such HAIL cannot confirm its accuracy or completeness.

A message from the CEO of HSBC Alternative Investments Ltd (“HAIL”)



William Benjamin
CEO of HSBC Alternative Investments Ltd

Welcome to HAIL’s first Task Force on Climate-related Financial Disclosures (“TCFD”) Entity report. HAIL is a wholly owned subsidiary of HSBC Global Asset Management Limited which oversees mandates encompassing third party private equity, real estate, and hedge fund investments on behalf of clients.

The recommendations of the Task Force on Climate-related Financial Disclosures have served to ensure asset managers focus and communicate on key climate-related information and risks. To address these risks, we have seen increasing focus and regulation of emissions reporting, risk management and the identification of new opportunities in the transition to a more sustainable future.

As part of the wider HSBC Asset Management business, HAIL is committed to playing its part in helping to understand and address climate change risks, limiting its impact on the global economy. As a result, over the reporting period we have taken the following steps:

- ◆ Drawing on the expertise of the HSBC Asset Management Sustainability Office, we have mapped out and, where appropriate, applied new procedures in support of the eleven key TCFD recommendations that are themselves structured around four pillars: governance, strategy, risk management and metrics and targets.
- ◆ A dedicated sustainability governance committee has been established. This committee, the Alternatives Sustainability Oversight Committee, is led by Head of Responsible Investments and Strategy Execution. This committee has responsibility to oversee climate related risks and opportunities across all of HSBC Alternatives’ capabilities.
- ◆ Investing in hedge funds, private markets and real estate funds is one step removed from the portfolio company and therefore does not have the same level of access to data, or ability to influence the portfolio company’s operations. As a consequence of these matters, a third party environmental, social, and governance (“ESG”) data provider has been appointed. We expect that this provider will expand and enhance both the scope and consistency of available ESG data relating to our target investment funds.
- ◆ We have enhanced our qualitative third-party manager due diligence to include an expanded range of ESG risk management factors. Over time we believe this research work will help us to identify and influence best ESG practice across our partner alternative fund managers.

I look forward to updating you on our progress in the future and hope that you find this report useful and informative.

Compliance Statement

I can confirm that under the FCA rule, ESG 2.2.7 that the disclosure in this report, including any third party or HSBC Group disclosures cross-referenced in it, comply with the requirements stated in the FCA’s ESG sourcebook.

Best wishes

A handwritten signature in black ink, appearing to read 'W Benjamin', written in a cursive style.

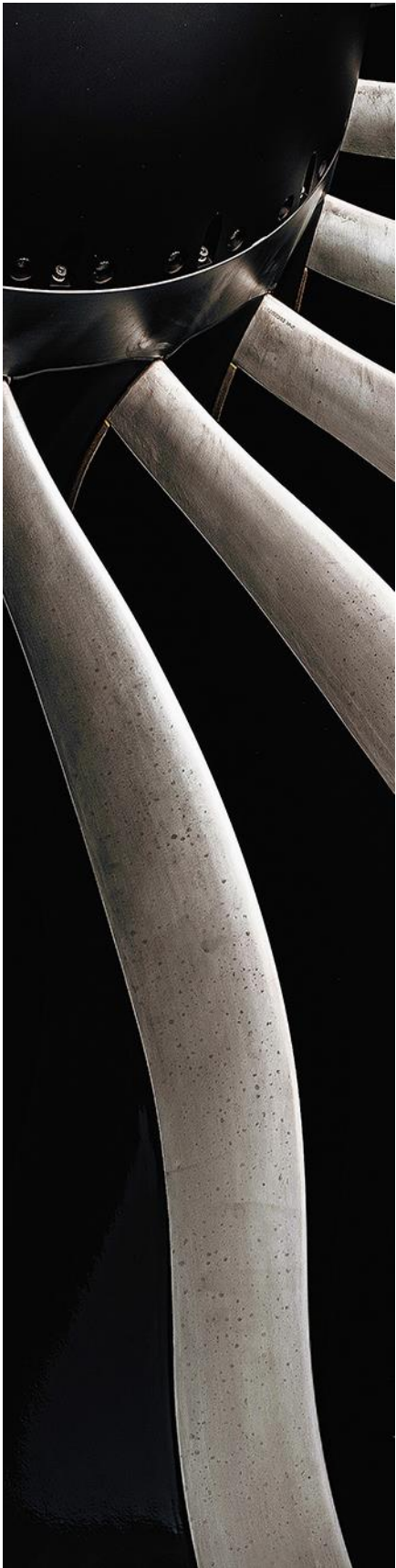
William Benjamin

Governance



HAIL TCFD follows the recommendations of the “PRI Technical Guide for Private Equity General Partners,” when possible as HAIL is a fund of funds business under HSBC Alternatives.

The PRI Technical Guide provides the objectives, practical steps, and deliverables in relation to the four pillars of the TCFD.





HAIL Board

The Board takes overall responsibility for our ESG strategy, overseeing executive management in developing the approach, execution, and associated reporting.

The HAIL Board has overall responsibility for the long-term success of HAIL and for setting its strategic aims, including its climate strategy.

At its regular meetings, the board considers a range of topics, including financial, operational, risk management, investment, environmental including climate, social and governance and consumer duty related matters.

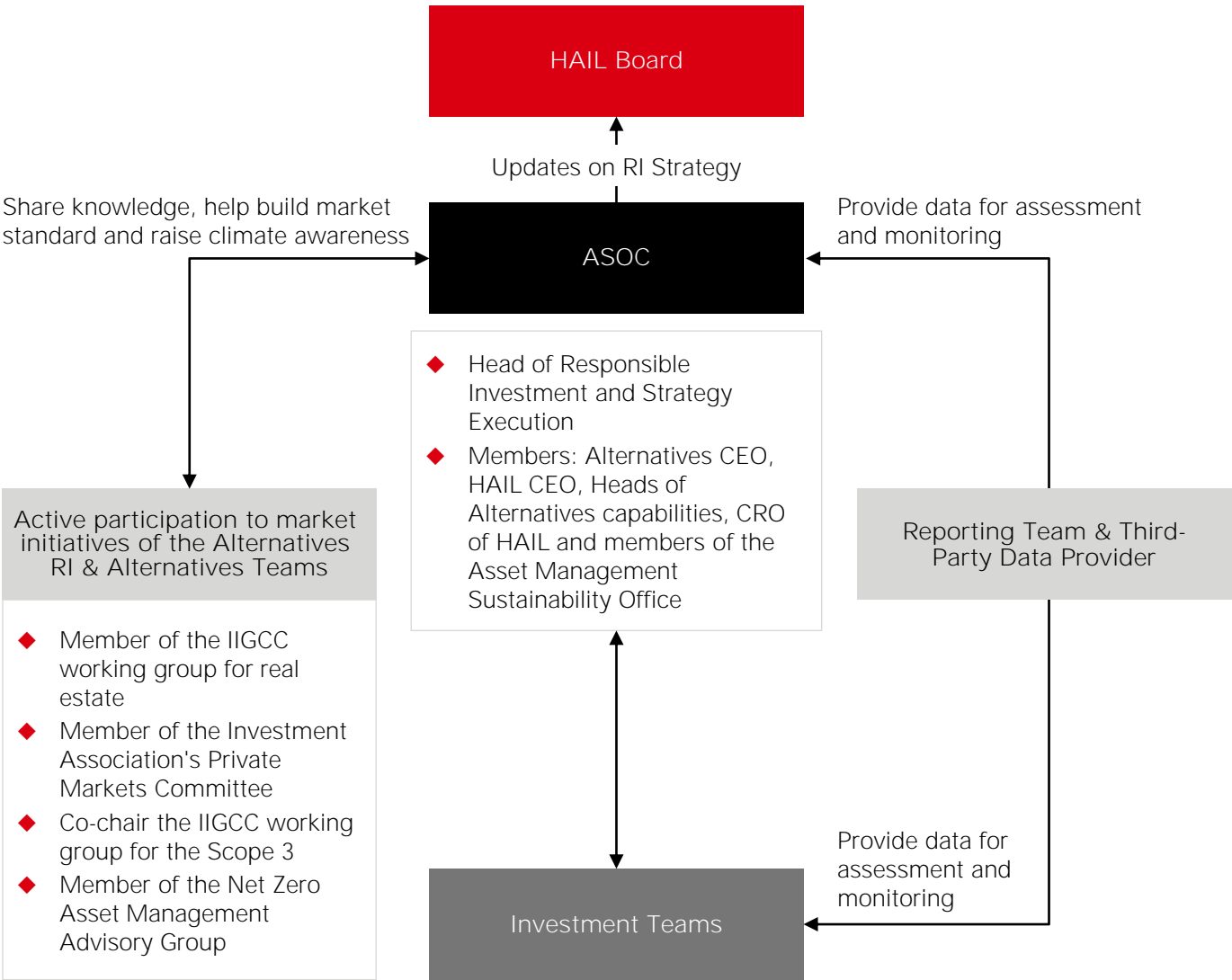
Alternatives Sustainability Oversight Committee

HSBC Alternatives has a dedicated Sustainability governance committee, the Alternatives Sustainability Oversight Committee (ASOC), that oversees climate related risks and opportunities.

Chaired by the Head of Responsible Investment and Strategy Execution for Alternatives, the ASOC has a pivotal role in the objective of raising climate awareness throughout the organisation and broader fields. ASOC presents to the board of HAIL, who has the ultimate responsibility for climate related risks. The Committee oversees the implementation of ESG across HSBC Alternatives. The ASOC ensures that the alternatives investment platform is aligned with AM business policies, priorities, and narrative.


Figure: Pivotal role of the ASOC

Central role of the Alternatives Sustainability Oversight Committee (ASOC)



Building employees' expertise in sustainable finance issues

To encourage employees to develop their expertise around sustainable finance and investment challenges, HSBC Asset Management has organised a series of global initiatives:

- HSBC Asset Management collaborated with Fitch Learning and rolled out ESG Investing Fundamentals and Advanced certifications and assigned these to a number of colleagues within Asset Management primarily in client-facing roles
- HSBC Asset Management also supports its employees in obtaining external certifications, such as the CFA Certificate in ESG Investing
- The HSBC / Imperial College Sustainability Leadership Programme aims to provide a bespoke pathway to accelerate understanding of core transition to net zero topics for leaders who are integral to supporting our climate strategy and the transition to net zero.
- Several Sustainability Town Halls were held in 2023 to communicate achievements and strategy to all Asset Management employees, as well as teach in sessions on natural capital
- Responsible Investment Talks held with internal experts and external speakers, aimed at educating HSBC Asset Management's employees on sustainability issues. Topics covered in 2023 were Sustainability Governance and ESG Regulation Developments and Global Greenwashing Risk
- 

Participating in cross-industry initiatives

HSBC Alternatives business unit, including the HAIL entity, participates actively in market initiatives and committees to share knowledge, help build market standards and raise climate awareness in broader fields.

Figure: Main market initiatives where we are actively engaged

Participate in Cross-industry Workshops



We participated in the following events in 2023

PRI in Person, in Japan, as silver sponsor

The conference which took place in early October in Tokyo was attended by our Global CEO and our responsible investment experts including our Head of Alternatives Responsible Investments and Strategy Execution.

[Click Here >](#)

We hosted a cocktail evening where our Head of Alternatives Responsible Investments and Strategy Execution explored the topic of 'Accelerating climate action through technology' in a fireside chat and we published the following article.

[Click Here >](#)

COP 28 at Dubai

Collaboration and partnership to help accelerate finance for the transition to a net zero global economy – this was our focus at the 28th session of the Conference of the Parties (COP28) to the UN Framework Convention on Climate Change (UNFCCC) in Dubai.

We hosted a discussion on energy transition, with the focus on transition in Asia, with our Global CEO and our Head of Alternatives Responsible Investments and Strategy Execution. We also published the following article, Navigating New Opportunities in the Energy Transition.

[Click Here >](#)

ALTSHK at Hong Kong

HSBC AM sponsored the ALTSHK event from Markets Group in HK. Our Head of Alternatives Responsible Investments and Strategy Execution participated in the panel, Case Studies in Action: Private Markets and led a roundtable on Sustainability in Alternatives.

Strategy



Within our pre-investment due diligence process, we assess potential exposure to climate and ESG parameters, both at the fund level and at the manager level to determine the managers’ commitment to ESG. The results are reflected in our proprietary investment due diligence scoring for all investment opportunities.

We assess and monitor investments for ESG risk including climate related risks and opportunities where applicable and significant.



Manage an investment process that focuses on significant environmental risks and opportunities.



Enhance ESG/Impact questionnaires to improve HSBC’s ability to assess important data.



Monitor inputs into ESG/Impact questionnaire to allow us to observe changes and improvements to managers’ and assets’ practices.



Post-investment, monitor progress and enhancements by managers and assets in their ESG/Impact efforts.



Risk Management



Risk Management Embedded In Our Governance

HAIL operates a Risk Management Framework (RMF) that outlines our approach for managing and overseeing risk.

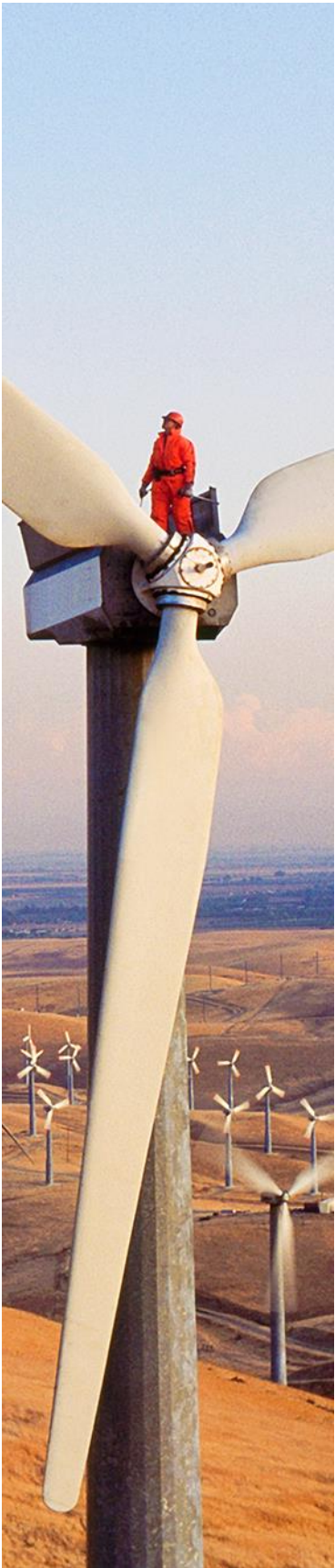
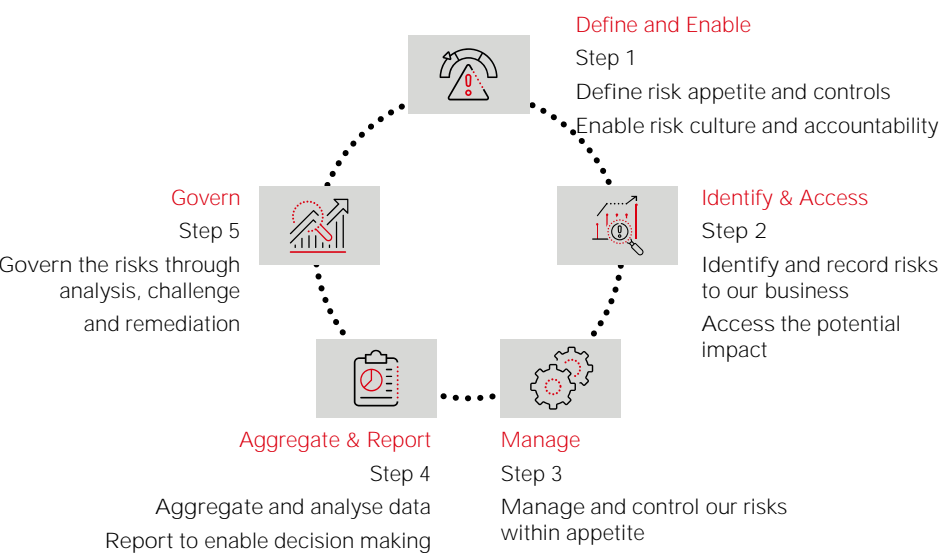
The HAIL Board has overall responsibility for ensuring that the business RMF is adequate in light of the nature, scale and complexity of HAIL’s activities and for setting HAIL’s risk appetite.

The Chief Risk Officer provides a quarterly report to the Board on the status of the RMF which includes a review of current and emerging risks.

The Five Steps Of The Risk Management Approach

The RMF describes our approach to managing risk. Our risk management approach follows five simple steps: define and enable, identify, and assess, manage, aggregate and report and govern.

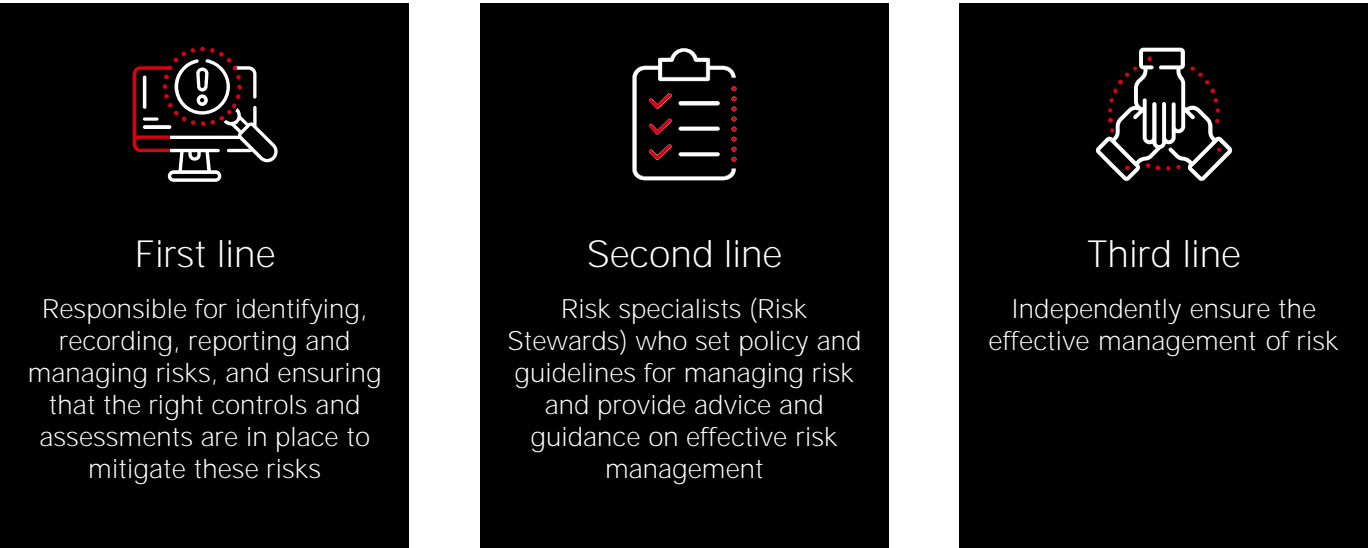
Within the RMF, key items relating to policy are maintained in the HSBC Group’s written procedures which HAIL is required to follow. Any changes to the HSBC Group procedures are reviewed by the HAIL Risk Management Meeting as appropriate.



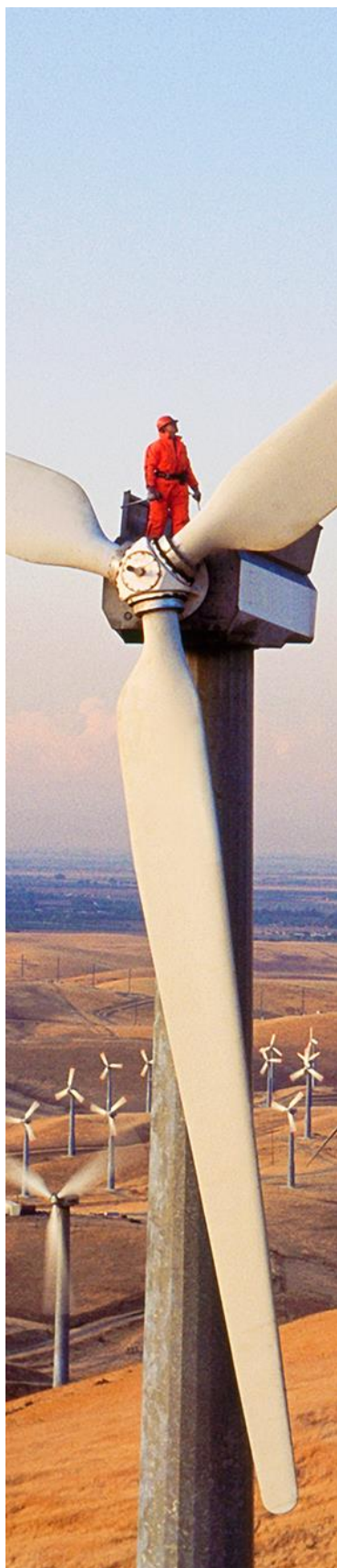
Risk Culture: Three Lines of Defence

The RMF articulates our risk culture. We define our culture as the shared attitudes, values and norms that shape our behavior. We do not consider risk culture as something separate to HSBC’s overall culture; rather it is simply a way of looking at how our culture either supports or inhibits our ability to manage risk

HAIL uses the 3 Lines of Defence (“LoD”) to define roles and responsibilities across our risk management framework and this applies to all individuals and risk types whilst supporting the delivery of conduct outcomes.



HAIL	Functional Specialist teams	Internal Audit
<ul style="list-style-type: none">InvestmentsAlternatives Responsible Investments and Strategy Execution TeamInvestors RelationsOperationsChief Control Office (CCO)Strategy and Corporate ManagementMarketingProduct Management and DevelopmentSales	<ul style="list-style-type: none">ComplianceRiskLegalTaxResilience and Operational RiskFinancial Crime	<ul style="list-style-type: none">Thematic auditsRegular on-site auditsFollow up of audit recommendations



Climate related risk control enhancements

The HSBC Alternatives Responsible Investment Policy sets out our approach to sustainability and climate risks.

We operate controls across first and second line to ensure compliance with our sustainability and climate-related policies.

For many of our strategies the best opportunities to integrate sustainability and climate considerations is at the time of the initial investment. We start by applying exclusions as a part of the due diligence process. The Investment teams in conjunction with Alts RI Team have also built proprietary ESG tools for screening and monitoring investments.

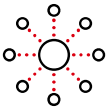
The Risk team provides independent oversight and reviews Management Action Triggers (MAT) which are set for each risk consideration. Although, these are not limits, they are used as an early warning indicator to highlight where a fund/ mandate is deviating from the levels it is expected to operate within. If a fund/ mandate moves outside of its agreed sustainable risk MAT, the relevant fund/ mandate Investment manager is engaged to understand the causes and where appropriate, determine remedial action.

Our ESG approach is considered throughout the investment process, from the sourcing phase to the monitoring phase of our selected managers.

Research is at the cornerstone of our strategy to address ESG, including climate-related risks and opportunities. We conduct on-site due diligence with managers to discuss the metrics that underpin their performance and investment processes.

And at each step we built different tools to identify, assess and manage ESG risks including climate risks.


- 1



Sourcing

Investment themes

◆ Themes driven
- 2




Preliminary review

ESG screening

◆ Exclusion lists

◆ Activities which may have a material negative impacts
- 3



Due diligence

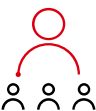
ESG due diligence

◆ Completion of ESG questionnaire

◆ Manager Engagement

◆ ODD & IDD

◆ Final ESG score
- 4



IC decision & execution

Final ESG validation

◆ Approval of ESG due diligence outcome by Investment Committee

◆ ASOC approval

◆ Side letters
- 5

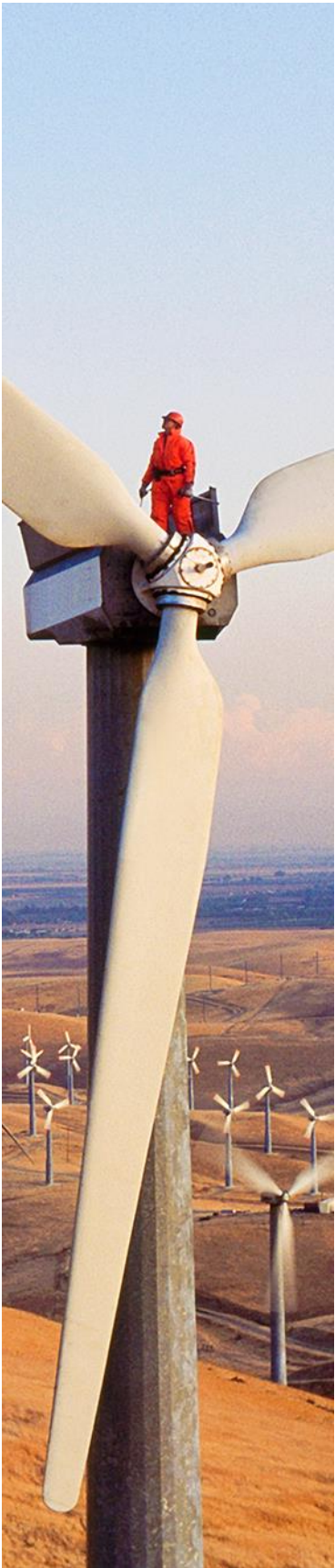


Monitoring

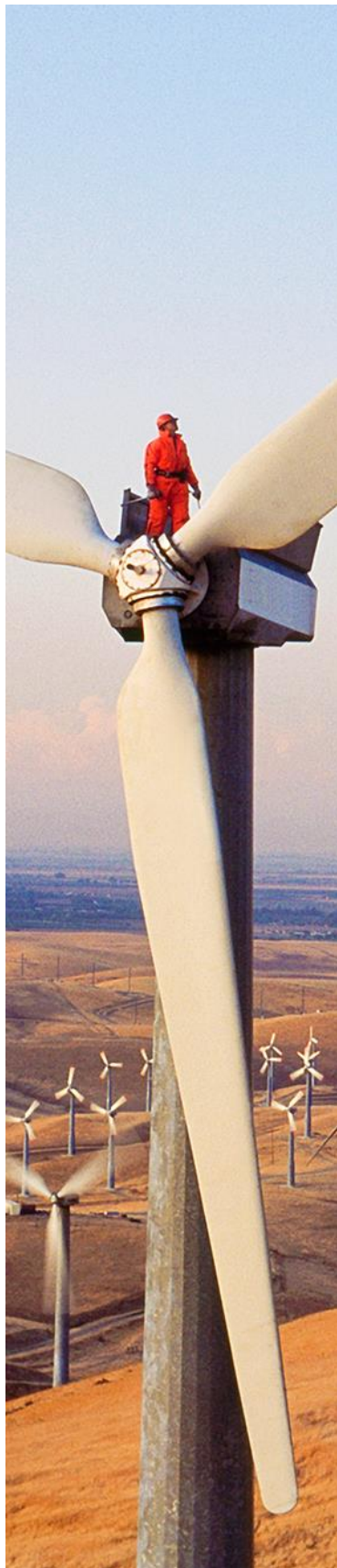
Ongoing ESG engagement

◆ Ongoing monitoring

◆ Regular assessment/scoring for our ODD



Climate related risks are identified and assessed through the ESG Scores and Due Diligence Questionnaires to assist the team in their investment process.



Proprietary ESG Score

An ESG Score is assigned to each manager, weighted across various criteria.

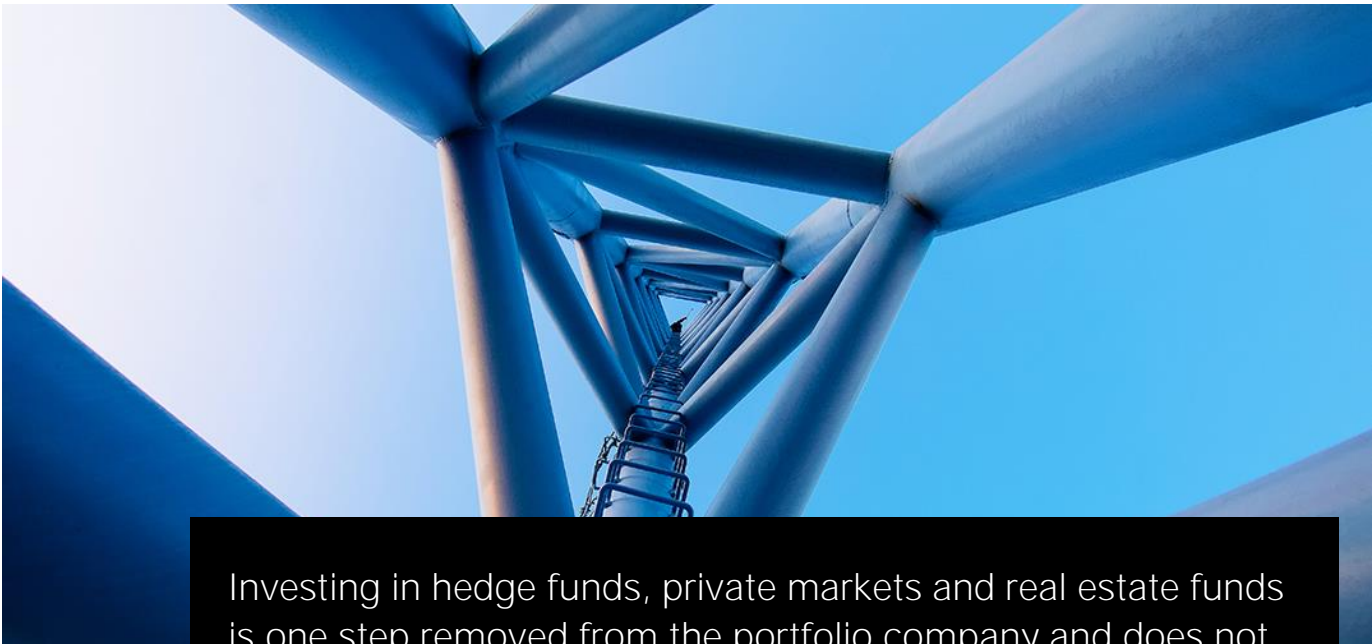
The criteria for our ESG Score are determined through various lens, including firm-level ESG policies, ESG investment implementation and overall transparency.

Based on 10-point scale, we built three categories assessing the maturity of the ESG integration of our mandates: Beginner, Intermediate, Advanced.

ESG Due Diligence Questionnaires

We use two ESG Due Diligence Questionnaires, one for hedge funds managers and one for private equity funds managers. Both questionnaires underpin our ESG scores and cover the pillars mentioned above e.g., policy, resources, process/implementation and transparency.

Metrics and Targets



Investing in hedge funds, private markets and real estate funds is one step removed from the portfolio company and does not have the same level of access to data, or ability to influence the portfolio company’s operations.

We invest in third party alternative fund managers, located around the world where each may be subject to different climate and ESG reporting standards and regulations.

For the 2023 reporting period, HSBC Alternatives onboarded a third-party data collector and service provider. The objective of this partnership is to expand our data coverage and to enhance our ability to manage climate risks.

We expect data availability to increase year-over-year as regulations and investor requirements for transparency increase.

HSBC AM & Group References	Cross References
<div>HSBC Group: Annual Report and Accounts 2022</div> <div>(See pages 43-96 for ESG disclosures)</div>	<div>https://www.hsbc.com/-/files/hsbc/investors/hsbc-results/2022/annual/pdfs/hsbc-holdings-plc/230221-annual-report-and-accounts-2022.pdf?download=1</div>
<div>HSBC AM Policies</div>	<div>https://www.assetmanagement.hsbc.co.uk/en/individual-investor/about-us/responsible-investing/policies</div>



A		
ASOC	Alternatives Sustainability Oversight Committee	The Committee oversees the implementation of ESG across HSBC Alternatives.
ALTSHK	ALTSHK is developed as a local, investor-centric, and education-focused forum co-hosted by CAIA Association.	This one-day event provides participants with a program that features leaders from private equity, venture capital, real estate, hedge funds, cryptocurrency, artificial intelligence, and other sectors of the alternative investment industry.
C		
CEO	Chief Executive Officer	
CRO	Chief Risk Officer	
CFA	Certificate in ESG Investing	The Certificate in ESG Investing is owned, administered, and awarded globally by CFA Institute having previously been developed and awarded by CFA Society UK
CAM	Climate Asset Management	A dedicated natural capital investment manager - a joint venture between HSBC Asset Management and Pollination - a specialist climate change advisory and investment firm.
E		
ESG	Environmental, Social, and Governance	
F		
FCA	Financial Conduct Authority	The Financial Conduct Authority is a financial regulatory body in the United Kingdom. It operates independently of the UK Government and is financed by charging fees to members of the financial services industry.



H		
HAIL	HSBC Alternative Investments (UK) Limited	<p>HAIL is a wholly owned subsidiary of HSBC Global Asset Management Limited, which is itself a wholly owned subsidiary of HSBC Holdings plc.</p> <p>HAIL has been trading since 1993 and is authorised and regulated by the FCA to act as a MIFID investment firm to provide portfolio management and investment advisory services. HAIL is part of the wider HSBC Asset Management (HSBC AM) business who share some common policies and procedures.</p>
HSBC Alternatives		Business unit gathering of all HSBC AM alternatives capabilities
HSBC AM	HSBC Asset Management	HSBC’s global asset management business
HSBC AMUK	HSBC Global Asset Management (UK) Limited	
I		
IDD	Investment Due Diligence	
M		
MAT	Management Action Triggers	



N		
Net Zero	HSBC Alternative Investments (UK) Limited	Net Zero refers to a state in which greenhouse gases going into the atmosphere are balanced by removal out of the atmosphere. The term net zero is important because for CO2 at least- this is the state at which global warming stops. The Paris Agreement underlines the need for net zero; to 'go net zero' is to reduce greenhouse gas emissions and/or to ensure that any ongoing emissions are balanced by removals. The 'net' in net zero is important it will be very difficult to reduce all emission to zero on the timescale needed. As well as deep and widespread cuts in the emissions, we will likely need to scale up removals. The IPCC concluded the need for net zero CO2 by mid-century remain consistent with 1.5° C
NZAM	Net Zero Asset Managers initiative	An international group of asset managers committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5 degrees Celsius; and to supporting investing aligned with net zero emissions by 2050 or sooner.
O		
ODD	Operational Due Diligence	



P		
PRI	Principles for Responsible Investment	<p>A set of responsible investment principles developed under the leadership of the United Nations. The six Principles offer a menu of possible actions for incorporating ESG issues into investment practice.</p> <p>The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system. They have attracted a global signatory base representing a majority of the world’s professionally managed investments.</p>
R		
Alts RI	Alternatives Responsible Investments Team	
S		
SFDR	Sustainable Finance Disclosure Regulation	EU legislation that imposes mandatory ESG disclosure obligations for asset managers and other financial markets participants
SI	Sustainable Investments	
SDG	Sustainable Development Goals	
T		
TCFD	Task Force on Climate-related Financial Disclosures	<p>Taskforce established by the Financial Stability Board to develop recommendations on the types of information that companies should disclose to support investors, lenders, and insurance underwriters in appropriately assessing and pricing risks related to climate change</p>



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Detailed information for article 8 and 9 sustainable investment products, as categorised under the Sustainable Finance Disclosure Regulation (SFDR), including; description of the environmental or social characteristics or the sustainable investment objective; methodologies used to assess, measure and monitor the environmental or social characteristics and the impact of the selected sustainable investments and; objectives and benchmark information, can be found at:
<https://www.assetmanagement.hsbc.co.uk/en/intermediary/investment-expertise/sustainable-investments/sustainable-investment-product-offering>.

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