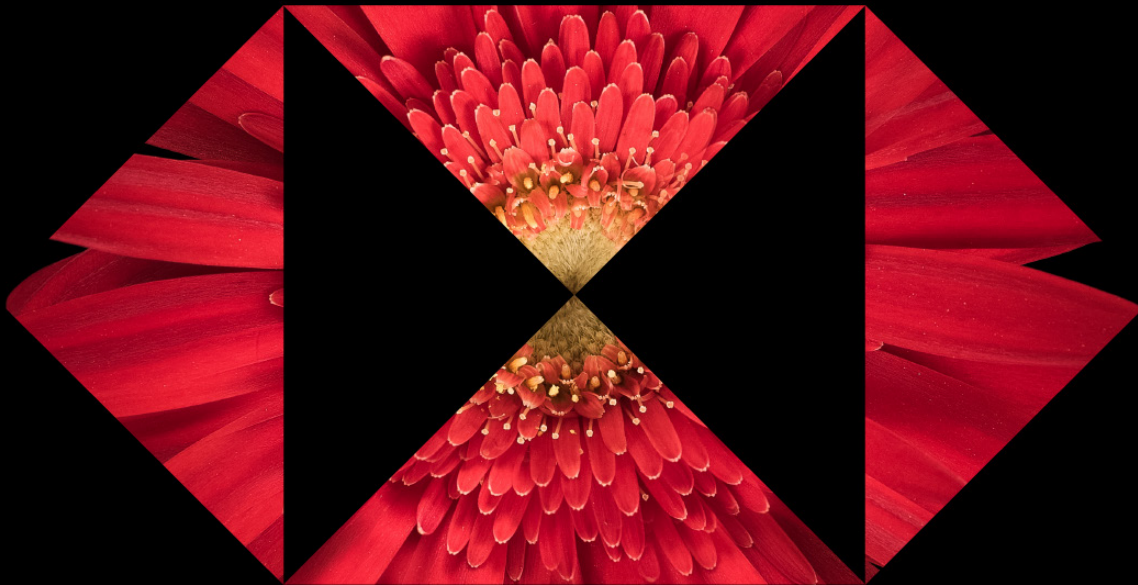


**Asset Management**

# **HSBC Alternative Investments Limited**

## Investment Firms Prudential Regime Disclosure Document

2022



**HSBC**

| Opening up a world of opportunity

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# Introduction and scope

HSBC Alternative Investments (UK) Limited (HAIL) is a private company limited by shares incorporated in England and Wales. HAIL was incorporated on 13 August 1993, with Companies House registration number 02845800. It is authorised and regulated by the FCA under number 170423. Its website is [www.assetmanagement.hsbc.co.uk](http://www.assetmanagement.hsbc.co.uk).

HAIL is a wholly owned subsidiary of HSBC Global Asset Management Limited, which is itself a wholly owned subsidiary of HSBC Holdings plc.

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.

These permissions are used to provide delegated portfolio management services and manage a range of alternative investment mandates (across private equity, real estate and hedge fund investments) on behalf of clients. As a result of holding these permissions HAIL is classified as a MIFIDPRU investment firm and is subject to the Investment Firms Prudential Regime ("IFPR").

HAIL meets the MIFIDPRU disclosure requirements through the publication of this disclosure document, which is made available via HAIL's public website. This disclosure document will be reviewed and updated in line with any changes to the business, but in any event at least annually. The disclosures are made as at the financial reporting date of 31st December 2022 and will be published in line with the submission of HAIL's financial statements to Companies House. HAIL has completed the necessary disclosures appropriate to its status as a non-small or non-interconnected (non-SNI) firm under MIFIDPRU firm categorisation thresholds.

There have been no material changes for HAIL in the reporting period.

# Risk Management Objectives and Policies (MIFIDPRU 8.2)

The HAIL Board has overall responsibility for ensuring that the Risk Management Framework (RMF) is adequate in light of the nature, scale and complexity of HAIL's business activities and for setting HAIL's risk appetite. The RMF provides a comprehensive framework around managing risk. It covers risk governance, roles and responsibilities, process and tools, internal controls, principles, policies and procedures, and risk classifications.

The RMF describes our approach to managing risk. It is applicable to all employees and is supplemented by specialist risk frameworks. It ensures a consistent risk management approach, to support a strong risk culture, to promote risk awareness and sound operational and strategic decision making and to ensure that only risks of an agreed type and level are taken with the appropriate/sufficient controls in place. 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.

HAIL's single shareholder is HSBC Global Asset Management Ltd. They have set HAIL the strategic goal to assist the global business with its long-term vision of 'opening a world of opportunity' for our clients by providing market leading investment solutions, aligned to the Sustainability transition, growing the Alternatives capability and growth in Emerging Markets & Asia".

HAIL will deliver these services to clients via the AM Global Institutional and Wholesale distribution teams working in collaboration with HSBC's three Global Businesses:

1. Wealth and Personal Banking ("WPB")
2. Global Banking & Markets ("GB&M")
3. Commercial Bank ("CMB")

HAIL deals with the full spectrum of client types, principally:

- ◆ Retail, professional and private clients through WPB
- ◆ Corporate and Institutional clients directly or via GB&M and CMB across various client segments (Corporates (treasury and pensions), Insurance, Official Institutions, Global Banks and Third Party Distributors). This includes HSBC Group Pensions and HSBC Insurance

HAIL enters into distribution partnerships with 3rd party firms where there is a strategic and commercial rationale. We recognise that AM, might ask HAIL to consider inorganic growth where attractive opportunities present themselves. The success of HAIL's strategy relies on some core beliefs:

- ◆ The focus on investment excellence
- ◆ The importance of collaboration across the global network & the relationship managed client base
- ◆ The importance of leveraging the HSBC global brand to convey trust, client centricity and good governance
- ◆ The importance of understanding the specific granular needs of key clients in different client segments
- ◆ The importance of fulfilling fiduciary responsibilities to the highest standards
- ◆ The importance of inclusiveness by creating an empowered and motivated and diverse workforce

In the execution of the business strategy, the business recognises that this could lead to the risk of harm from inadequate or failed internal processes, people and systems or external events, including legal risk.

We proactively identify, manage and monitor such risks, ensuring that we have an appropriate level of controls to prevent their occurrence and to reduce any potential harm. Our approach to risk and control management is detailed in our risk management framework (below).

## **Risk Management Framework**

The RMF articulates our risk culture. We define our culture as the shared attitudes, values and norms that shape our behaviour. 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. A culture that is effective in managing risk and leads to fair outcomes is one that supports and encourages behaviours;

### **We take responsibility**

1. Accountability and Leadership – We are all accountable for managing risk – "risk is everyone's business". Our leaders set the tone from the top and we all understand, embrace and discharge our responsibilities.
2. Speak Up – We speak up and act when something is not right about how we are managing risk and escalate issues promptly without fear of retribution.
3. Good Judgement – We make good judgements by looking at risk holistically and considering different perspectives, always keeping customer and market outcomes in mind. The decision framework provided in our Global Principles can help us make good decisions.

## We get it done

4. Taking Smart Risks – We take smart risks that balance risk and financial return and do not exceed our risk appetite.
5. Governance and Controls – We actively manage risk by understanding and adhering to our policies, controls and regulatory environment.
6. Learning and Remediation – We have the curiosity to identify vulnerabilities, uncertainties and emerging risks. We learn from our mistakes, share those learnings and ensure we remediate issues quickly and appropriately.

## We value difference

7. Diversity – We champion diversity of viewpoints and inclusivity in risk policies, governance and decision making.

## We succeed together

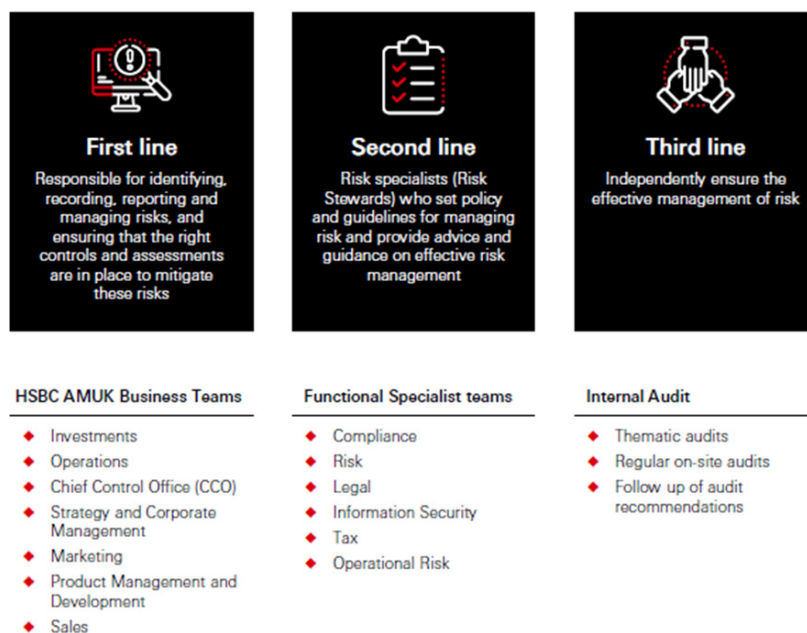
8. Reward and Recognition – We invest in our people and tools to help manage risk better and celebrate behaviours that support a strong risk culture.

HAIL falls within the Senior Managers and Certification Regime (SM&CR), in addition to the FCA Conduct Rules. All Senior Managers (SMFs) within HAIL hold a Statement of Responsibilities (SoR), which incorporates their prescribed responsibilities, business area and management functions and details how they discharge any responsibilities. Where appropriate formal letters of delegation are in place.

The Senior Manager Regime and Regulatory Accountabilities team (SMR & RA) contacts all SMF regularly (typically every month) to review their information within the Management Responsibility Map for accuracy and completeness. HAIL SMF and NEDs are offered training on the SMCR annually. Additionally SMR & RA produces MI on regime compliance vs agreed operational tolerances, and this MI is shared with the HAIL CEO.

To support the oversight of SMFs, the most material risks to the HAIL business have been identified, assessed and are subject to ongoing monitoring as part of the Risk Control and Assessment (RCA) process. This involves applying methodology from a Group perspective and then supplementing these risks with those that are considered locally significant (known as LSRs).

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. The roles and responsibilities across the 3 LoD are outlined below:



## Risk appetite

As an asset management business within the Group, the HAIL Board has set risk appetite statements for HAIL based on the principal risks it faces and to reflect the strategy of HAIL.

Qualitative risk appetite statements are set based on the following stances to each key risk:

- ◆ HAIL manages the risks it is exposed to via appropriate mitigation strategies but there are some risks where it is comfortable taking increased exposure in order to achieve certain strategic priorities (e.g. organic growth risk, significant change project risk). We define the level of appetite for such risks as **Has Appetite**
- ◆ There are a number of risks that HAIL is exposed to simply by being an asset management business (e.g. regulatory compliance risk). HAIL has limited appetite for these risks and seeks to mitigate them as far as possible. We define the level of appetite for such risks as **Has Limited Appetite**
- ◆ There are other risks where HAIL has no tolerance for any residual risk after taking into account controls, but recognises that it cannot completely rule out having some exposure (e.g. financial crime risk, fraud risk). HAIL seeks to minimise its exposure to such risks. We define the level of appetite for such risks as **Has Very Limited Appetite**
- ◆ There are some risks where HAIL has zero tolerance for any deliberate exposure. This means that HAIL has no tolerance for any risks associated for this kind of exposure. Likewise; HAIL has no appetite for deliberately facilitating business that gives rise to illicit activity. We define the level of appetite for such risks as **Has Zero Appetite**

Alongside the qualitative statements outlined above, HAIL has designed a set of risk tolerances using a Red/Amber/Green status to identify metrics through which risk appetite can be measured and reported on.

This approach to risk appetite, underlying risk appetite statements for each of the principal risks and associated tolerances are documented in full in the HAIL Risk Appetite Statement.

## Risk Monitoring

HAIL has adopted 2 enterprise risk reports to monitor the effectiveness of its risk management framework. These are;

**Risk Appetite Reporting:** Monthly metrics are produced that compare risk appetite levels to a set of tolerance levels. Where a risk is rated amber, additional monitoring or action plans may be implemented. Where a risk is rated red, an action plan to reduce the risk exposure must be implemented.

**Risk Map Reporting:** This report is used to assess, monitor and report on the current risk profile, including risk drivers and top risks. It provides a point-in-time view of the risk profile across both financial and non-financial risks.

In addition, the HAIL business undertakes an internal capital adequacy and risk assessment (ICARA). The ICARA related recommendations are tabled at the HAIL RMM for review and challenge. Once RMM endorsement has been provided, approval is sought from the HAIL Board. This includes reviewing all aspects of the ICARA, from the Risk Appetite Statement, harms identified and the related stress tests, business plan stress tests, liquidity requirements and the wind-down plan assessment.

The RMF and the underlying controls are regularly under review. Any risk appetite exceptions, errors or market trigger events will result in a review of the robustness and effectiveness of the framework and findings, or lessons learned are used to determine if enhancements or changes are required. Further independent review is also undertaken by internal and external auditors

## Own Funds Requirement

Categories of risks addressed by own funds requirements for MIFID activities (through the k-factors) and wind-down (through the fixed overheads requirement) can result in potential harm to clients, market and HAIL. For HAIL these harms principally arise from non-financial (operational) risks which include risks such as Resilience, Compliance, Legal

and Finance. The crystallisation of non-financial risks could lead to harm to HAIL and to its clients in terms of financial impact and inconvenience.

The HAIL Board is ultimately responsible for managing these risks and has delegated to the HAIL CRO (supported by the HAIL RMM) the responsibility for the oversight of the risk and internal control environment of HAIL. Risks are managed through the risk management framework and in line with the risk appetite as outlined above. Documented procedures detail controls and appropriate segregation of duties are in place. A system of internal control monitoring and assurance focuses on controls relating to key risks across HAIL. In addition, risk control assessments take place, incidents occurring are thoroughly investigated and key indicators and key risk items are reported to the HAIL RMM with appropriate follow up. These reduce the potential for harm to both HAIL and to its clients in terms of likelihood and potential impact.

As part of the ICARA process HAIL calculates its own funds requirement as being the higher of the K-factor requirements, the cost under a wind-down event and the harms assessment;

- ◆ For HAIL the relevant K-factor requirement is based on MIFID AUM. See page 16 for further details
- ◆ An assessment is conducted to understand the impact of a wind-down and how this could be best approached to minimise client harm. The financial resources to meet the wind-down are considered in terms of the overall capital requirement
- ◆ The harms assessment is based on potential severe but plausible risks. A capital provision is made where appropriate

The Own Funds Requirement assessment is captured in the ICARA and is subject to ongoing review by the HAIL RMM. The Finance function monitors the associated capital and liquidity levels.

## Concentration Risk

HAIL considers potential concentration risk arising from its business model. This takes into account the concentration of earnings from specific business lines, clients/counterparties, geographies, asset classes and sectors. We have also considered the potential concentration risk of how capital is held.

The Finance and Risk functions are responsible for identifying scenarios for quantification in relation to stress testing the Business plan. The HAIL RMM is responsible for oversight of HAIL's concentration risk and business plan stress tests / reverse stress tests are proposed to the RMM for review and agreement prior to quantifying the associated capital requirements. As part of the Business plan stress testing, potential points of failure are identified and remedial recovery actions are agreed. By identifying where there is concentration risk and incorporating this into business planning HAIL reduces the risk of harm by ensuring that it continues to meet its ongoing capital and liquidity requirements.

## Liquidity Risk

Liquidity Risk is the risk that an entity does not have sufficient resources to meet its financial obligations when they fall due or can only secure them at excessive cost leading to harm to both the firm and to its clients. Such risks could arise for HAIL due to a sustained mismatch in cash flows in and out of the business. HAIL considers this potential liquidity risk arising from its business model and manages them in line with the HSBC group-wide liquidity risk policy. This policy covers:- governance and control requirements; liquidity assessment processes (including forward planning and stress testing); recovery planning and resolution; and internal and regulatory reporting.



Through the ongoing harm assessment as part of the ICARA process HAIL identifies the amount of liquidity that it must hold to remain financially viable throughout the economic cycle, including to address potential material harms that may result from ongoing activities. The Basic Liquid Assets requirement equates to 1/3 of the fixed overhead requirement. In addition to the Basic Liquid Assets requirement, HAIL has identified a range of severe but plausible scenarios which could occur based on the potential material harms in the business model. These harms have been considered with respect to quantifying the potential peak stress outflow impact which has been incorporated into the overall liquidity requirement, with further details presented on page 16.

The Finance and Risk functions are responsible for identifying scenarios for quantification in relation to liquidity and stress testing the Business plan. Liquidity Risk requirements are reviewed by the HAIL RMM prior to seeking approval from the Board. By identifying where there is liquidity risk and incorporating this into business planning HAIL reduces the risk of harm by ensuring that it continues to meet its ongoing capital and liquidity requirements.

## Governance (MIFIDPRU 8.3)

The board of HAIL has overall responsibility for the long-term success of HAIL and for setting its strategic aims. The board is also responsible for setting HAIL's values and standards to help ensure that obligations to clients, shareholders and other stakeholders are understood and met. HAIL's governance framework also provides for the effective management of conflicts of interest. The board operates in accordance with the principles and guidance of the HSBC Group's Subsidiary Accountability Framework (SAF).

The SAF supports the HSBC Group in promoting effective governance arrangements across all of its subsidiaries, including HAIL. It achieves this objective through the articulation of best practice principles to which HSBC entities are expected to adhere, supported by provisions which underpin and expand upon the principles.

A key principle of the SAF is that each subsidiary, including HAIL, is led by an effective board with an appropriate balance of skills, diversity, experience and knowledge having regard to the nature of the subsidiary's business and any local requirements. In line with this principle, the composition and skills of the board are regularly reviewed to ensure that they remain appropriate and succession planning is undertaken for members of the board.

The board has its own terms of reference which set out its accountability for the long-term success of HAIL, together with its responsibilities for setting HAIL's strategy and risk appetite and its oversight of the operation, governance and risks of HAIL's business activities to help ensure that HAIL is fulfilling its responsibilities and is acting in the interests of customers at all times. The board's terms of reference also include specific responsibilities for the review and approval of HAIL's financial statements, internal capital adequacy risk assessment and wind-down plan, and the annual Assessment of Value of HAIL's funds. The board reviews these items in depth at its meetings each year.

At its regular meetings, the board considers a range of topics, including financial, operational, risk management, investment, environmental, social and governance and consumer duty related matters. In its consideration of such topics, the board ensures that there is an appropriate level of constructive challenge and effective oversight of management.

Prior to each of its meetings the board is provided with papers covering each topic prepared in accordance with the HSBC Group's template format for board and committee papers. The template has been designed to ensure that each forum receives the information it requires to support effective decision-making and to ensure that the board is able to carry out its duties and responsibilities effectively to meet high standards of governance.

The board has a conflicts of interest policy in place to help ensure that actual or potential conflicts of interest are identified and managed. A conflicts of interest register is maintained which contains details of other appointments held by members of the board. The members of the board are reminded of their duty to avoid conflicts of interest and the conflicts register is reviewed for accuracy at each meeting. At the start of each meeting the chair of the board requests members to declare any conflicts of interest and to recuse themselves from the discussion of any item in which they may have an actual or potential conflict of interest.

The board undertakes reviews of its effectiveness each year and key points arising from such reviews are discussed and appropriate actions taken to address any identified issues.

## Details of HAIL Board members directorships

Director	Senior Management Function	Number of directorships
<b>Edmund Stokes</b> (Chair, Non-Executive Director)	SMF 9	3 HSBC Asset Management entities / no external entities
<b>Xavier Baraton</b> (Non-Executive Director)	–	2 HSBC Asset Management entities / no external entities
<b>William Benjamin</b> (Executive Director, CEO)	SMF 1 / SMF 3	1 HSBC Asset Management entity / no external entities
<b>Berit Christiani</b> (Executive Director, CRO)	SMF 3	1 HSBC Asset Management entity / no external entities
<b>Sandra Lines</b> (Non-Executive Director)	–	1 HSBC Asset Management entity / no external entities

## Board Diversity

Board diversity is covered as part of the HSBC Group's Subsidiary Accountability Framework (SAF) as outlined in the previous section and within the AM Governance Policy and its guiding principals.

Our vision is to create a truly motivated, diverse, equitable and inclusive asset management workforce, proactively shaped to deliver our vision & strategy and to reflect the clients we want to serve and the societies in which we want to live in. To achieve this, we promote diversity of thought in the decisions we take, and we believe that employees from diverse backgrounds are the best way to bring the diversity into our decision making. This also applies to the effectiveness of our Board through its composition.

Annually the Board composition will be reviewed to ensure the appropriate balance of skills, experience, knowledge, and all forms of diversity. This is evidenced against objective and transparent criteria. We see this as an integral part of delivering on our strategy and ensuring good outcomes for both our employees and clients.

AM run a Diversity, Equity and Inclusion Programme which covers four objectives: Inclusive Leadership, Gender Equity, Minorities Equity and DE&I Investments. This is led by the Asset Management UK CEO as sponsor and as at July 2023, has a thirty-two person DE&I leadership team globally.

## Governance structure

HAIL has designed and built its governance structure to meet, and account for, its regulatory responsibilities and industry best practice for organisations of its scale.

Good governance is designed to be at the core of how HAIL does business. The HAIL Board ("Board") are committed to maintaining high standards of corporate governance. The corporate governance framework enables efficient and effective decision making with clear accountabilities, contributing to achieving HAIL's objectives and delivering long-term and sustainable value to its customers.

### HAIL Risk Management Meeting

The HAIL RMM is a management forum established to provide recommendations and advice as required by the CRO to assist them in the discharge of their role and responsibilities. The scope and remit of the HAIL RMM extends to the entire business of HAIL. Membership includes the key HAIL SMF executive roles and other Heads of Function.

The CRO is responsible for setting, within the context of HSBC AM and HSBC Group direction, the HAIL risk management strategy and appetite, policies and control standards for HAIL and to monitor their implementation. In

this regard, the CRO reviews the material risks affecting the HAIL business and is responsible for the oversight of the risk and internal control environment and escalating material issues to the Board.

The RMM has several governance sub-committees to which oversight is delegated in relation to Conflicts of Interests, Financial Crime Risk Management and Valuations.

### **HAIL Leadership Team Meeting**

The HAIL Leadership Team Meeting (“LTM”), meets on a quarterly basis and has delegated authority from the HAIL Board to set strategy, manage the business on a day-to-day basis and report on progress to the HAIL Board. The LTM also reviews progress against material new business initiatives and any legal/compliance risks, although this is primarily captured in the HAIL Risk Management Meeting.

The Hail Leadership Team Meeting has the following sub-committees: HAIL New Business Committee; The Indirect Alternatives Investment Oversight Committee.

### **HAIL New Business Committee (NBC)**

The NBC is a committee responsible for reviewing and approving all product initiatives, including the launch and closure of, and changes to, products and services. This includes ensuring ESG and sustainability risks are a consideration where relevant.

The scope and remit of the NBC extends to the entire business of HAIL, hence covering products and services manufactured and/or distributed by HAIL and products domiciled in the United Kingdom where approval authority has been delegated to the NBC.

### **HAIL Risk Management Function**

The HAIL risk function is headed by the Chief Risk Officer (CRO) who reports into the HAIL CEO. Functionally the HAIL CRO reports into the AM Chief Risk and Compliance Officer (CRCO).

The independence of the Risk function means that each responsible individual, including the CRO, will focus on the entity they represent and challenge the first line where required

The HAIL Risk Management function is charged with monitoring and oversight of all business activities and all Financial and Non-Financial risks material to HAIL including, but not limited to Operational / Resilience risk, Legal Risk, Regulatory Risk, Conduct Risk, Sustainability Risk, Investment Risk, Liquidity Risk, and Counterparty Risk.

The HAIL Governance structure is outlined in the table below. The firm does not have a risk committee and is not required by MIFIDPRU 7.3.1R to establish a risk committee.

## HAIL Governance and Accountability Structure

	<b>Mandate</b>	<b>Scope</b>	<b>Key Membership (SMF *)</b>	<b>Frequency</b>
HAIL Board	Responsible for the long-term success of the Company and delivery of sustainable value to shareholders. The Board sets the strategy and risk appetite for the Company within the context of the HSBC Group's and HSBC AM's direction.	Oversees the operation, governance and risks to help ensure HAIL is fulfilling its obligations and is acting in the interests of clients at all times.	HAIL CEO (SMF1&3) HAIL CRO (SMF3)	Quarterly
HAIL Risk Management Meeting (RMM)	Responsible for recommendations and advice to the CRO in order to assess changes in business activities or the markets in which HAIL operates, analysing the possible risk impact and addressing these risks accordingly.	Sets the HAIL risk management strategy and appetite, policies and control standards and to monitor implementation. The CRO reviews the material risks and is responsible for the oversight of the risk and internal control environment.	HAIL CEO (SMF1&3), HAIL CRO (SMF3), CEO Alternatives, CFO Alternatives, Senior Risk and Compliance Managers	Minimum 10 times a year
HAIL Leadership Team	Responsible for implementing the overall strategy, reviewing and implementing the annual operating plan, and reviewing business, financial and investment performance. Ensuring compliance with relevant legislation and regulations	Business oversight, monitoring and stewardship for HAIL and to drive business development and providing due consideration to local board and corporate management	All HAIL Executive SMFs	Minimum 4 times a year
HAIL Local New Business Committee	Responsible for reviewing and approving all product initiatives, including the launch and closure of, and changes to products and services.	The scope is all products and services for which HAIL is acting as the manager and/or distributor	Head of Product, Alternatives, HAIL CEO (SMF1&3), HAIL CRO (SMF3), Senior Risk and Compliance Managers	Every 2 weeks

# Own Funds (MIFIDPRU 8.4)

## 4.1 Composition of Regulatory Own Funds

HAIL's Tier 1 capital consisted of fully issued ordinary shares, satisfying all the criteria for a Tier 1 instrument as outlined in IFPR. HAIL does not have any Additional Tier 1 ('AT1') or Tier 2 capital instruments. The CET1 capital comprises ordinary shares. These shares carry voting rights and the right to receive dividends. As at the year end 31 December 2022, HAIL complied with the relevant capital regulatory obligations as outlined in the IFPR.

Under MIFIDPRU 8.4, HAIL is required to disclose information on calculation of own funds, its reconciliation with the capital in the audited financial statements; and a description of its main features. These are presented in the three tables below and are based on audited figures as at 31 December 2022.

The table below provides a reconciliation of common equity tier 1 items and the applicable filters and deductions applied in order to calculate the own funds of the firm

**Table OF1:**

		Amount	Source based on reference
Item		£000s	numbers/letters of the balance sheet in the audited financial statements*
1	OWN FUNDS	100,375	Page 10
2	TIER 1 CAPITAL	100,375	Page 10
3	COMMON EQUITY TIER 1 CAPITAL	100,375	Page 10
4	Fully paid-up capital instruments	896	Page 10, Note 22
5	Share premium	1,790	Page 10
6	Retained earnings	97,694	Page 10
7	Accumulated other comprehensive income	–	
8	Other reserves	–	
9	Adjustments to CET1 due to prudential filters	–	
10	Other funds	–	
11	(-) TOTAL DEDUCTIONS FROM COMMON EQUITY TIER	-5	Page 10, Note 10
19	CET1: Other capital elements, deductions, and adjustments	–	
20	ADDITIONAL TIER 1 CAPITAL	–	
21	Fully paid up, directly issued capital instruments	–	
22	Share premium	–	
23	(-) TOTAL DEDUCTIONS FROM ADDITIONAL TIER 1	–	
24	Additional Tier 1: Other capital elements, deductions, and adjustments	–	
25	TIER 2 CAPITAL	–	
26	Fully paid up, directly issued capital instruments	–	
27	Share premium	–	

		Amount £000s	Source based on reference numbers/letters of the balance sheet in the audited financial statements*
28	(-) TOTAL DEDUCTIONS FROM TIER 2	–	
29	Tier 2: Other capital elements, deductions, and adjustments	–	

\* All balances have been converted from USD to GBP using an FX rate of 0.83 as at 31 December 2022.

Note: The profit for 2022 is included within retained earnings. The 2022 profit was eligible to be included within retained earnings when the audited accounts were signed off on 14 April 2023.

## 4.2 Own Funds: Reconciliation of Regulatory Own Funds to Balance Sheet in the Audited financial statements

The table below details the reconciliation with own funds in the balance sheet, in the audited financial statements, as at 31 December 2022 (£000s).

Table OF2:

		a Balance sheet as in published/audited financial statements*	c Cross- reference to template OF1
As at 31 December 2022 (£000s)		2022	
<b>Assets – Breakdown by asset classes according to the balance sheet in the audited financial statements</b>			
1	Cash and cash equivalents	50,352	
2	Trade and other receivables	69,867	
3	Prepayments and accrued income	18,945	
4	Other assets	103	
5	Deferred tax assets	5	Item 11 in OF1
6	Total Assets	139,272	
<b>Liabilities – Breakdown by liability classes according to the balance sheet in the audited financial statements</b>			
1	Trade and other payables	8,793	
2	Accruals and other liabilities	17,569	
3	Current tax liabilities	12,530	
4	Total Liabilities	38,892	
<b>Equity</b>			
1	Called up share capital	896	Item 4 in OF1
2	Share premium account	1,790	Item 5 in OF1
3	Retained earnings	97,694	Item 6 in OF1
4	Total Equity	100,380	
5	Total Liabilities and Equity	139,272	

\* All balances have been converted from USD to GBP using an FX rate of 0.83 as at 31 December 2022.

Note: There is no difference between accounting and regulatory scope of consolidation. For this reason, only balances under financial statements are disclosed.

### 4.3 Own Funds: Main Features of Instruments Issued by the Firm

The table below provides information on the CET1 Instruments issued by HAIL as at 31 December 2022:

**Table OF3:**

Features	Characteristics
Issuer	HSBC Alternative Investments Limited
Public or private placement	Private
Instrument type	Ordinary share
Amount recognised in regulatory capital (GBP thousands, as of most recent reporting date*)	896
Nominal amount of instrument	1
Issue price	1
Redemption price	N/A
Accounting classification	Called up shared capital
Original date of issuance	13 August 1993
Perpetual or dated	Perpetual
Maturity date	N/A
Issuer call subject to prior supervisory approval	N/A
Optional call date, contingent call dates and redemption amount	N/A
Subsequent call dates, if applicable	N/A
Coupons/dividends	N/A
Fixed or floating dividend/coupon	N/A
Coupon rate and any related index	N/A
Existence of a dividend stopper	N/A
Convertible or non-convertible	N/A
Write-down features	N/A
Link to the terms and conditions of the instrument	N/A
Dividend paid per share during the year	\$49.83 per share

\* The balance has been converted from USD to GBP using an FX rate of 0.83 as at 31 December 2022.



# Own Funds Requirement (MIFIDPRU 8.5)

A MIFIDPRU investment firm is required to maintain a minimum level of own funds as specified in MIFIDPRU 4.3 of the FCA's Handbook. As a non-SNI firm, HAIL is required to hold own funds to cover the highest of:

- ◆ The permanent minimum capital requirement ("PMR")
- ◆ The fixed overhead requirement ("FOR")
- ◆ The K-factor requirements ("KFR")

The table below sets out the firm's own funds requirement as at 31 December 2022.

MIFIDPRU Own Funds Requirement	Value (£000s)*
<b>PMR</b>	75
<b>Fixed overheads requirement ("FOR")</b>	7,725
<b>K-factor requirements</b>	
∑ K-AUM, K-CMH and K-ASA	6,649
∑ K-COH and K-DTF	–
∑ K-NPR, K-CMG, K-TCD and K-CON	–
<b>Total K-factor requirement ("KFR")</b>	<b>6,649</b>
<b>Own Funds Requirement (higher of FOR or KFR)</b>	<b>7,725</b>

\* All balances have been converted from USD to GBP using an FX rate of 0.83 as at 31 December 2022.

## The K-factor requirement, broken down as follows:

- ◆ the sum of the K-AUM requirement, the K-CMH requirement and the K-ASA requirement;
- ◆ the sum of the K-COH requirement and the K-DTF requirement; and
- ◆ the sum of the K-NPR requirement, the K-CMG requirement, the K-TCD requirement and the K-CON requirement.

## There is one K-Factor that applies to HAIL:

- ◆ K-AUM: (Client AUM and ongoing advice), which captures the risk of harm to clients from the poor management or execution of client portfolios. By defining a need to hold capital against this risk, it provides support and client benefits in terms of the continuity of service

## Approach to assessing overall financial adequacy

HAIL must meet the Overall Financial Adequacy Rule ("OFAR") that it must at all times, hold own funds and liquid assets which are adequate, both as to their amount and their quality, to ensure that:

- ◆ It is able to remain financially viable throughout the economic cycle, with the ability to address any material potential harm that may result from its ongoing activities; and
- ◆ The business can be wound down in an orderly manner, minimising harm to consumers or to other market participants

To meet the OFAR, HAIL has implemented the ICARA process, which is an internal assessment of the amount of capital and liquid resources that HAIL must hold to cover the potential harms that could result from the ongoing operation of the business, or from the winding-down of the business, and to establish the amount of capital and liquid assets required to cover those potential harms.

The ICARA process is performed annually. The results of the ICARA and the amount of capital and liquid resources considered adequate to cover the nature and level of risks are approved by the Board of Directors.

The assessment of harm considers implications beyond the direct capital requirements. These are assessed via stress tests and reverse stress tests. Based on HAIL's scenario modelling and stress testing, HAIL maintains sufficient capital resources to meet the OFAR at all times.

**Approach to assessing liquidity risk**

The harm assessment performed under the ICARA process also identifies the amount of liquidity HAIL must hold to meet the Overall Financial Adequacy Rule (OFAR) at all times.

To meet the OFAR, HAIL has identified a range of severe but plausible scenarios which could occur based on the potential material harms in the business model. Based on HAIL's scenario modelling, HAIL maintains sufficient liquid assets to meet the OFAR at all times.

# Remuneration Policy and Practices (MIFIDPRU 8.6)

## Our reward proposition

Our workforce proposition is rooted in our purpose and values. Our commitment to reward colleagues fairly, along with the opportunity to do inspiring work, have impact and contribute within our international network make up our unique proposition. Our principles and supporting commitments articulate the experience for employees and provide a clear framework to creating a dynamic culture where the best talent is motivated to deliver high performance. These principles are:

- ◆ **We will reward you responsibly** through fixed pay security and protection through core benefits, a competitive total compensation opportunity, and pay equity with a more inclusive and sustainable benefits proposition over time
- ◆ **We will recognise your success** through our performance culture and routines, including feedback and recognition, pay for performance, and all employee share ownership opportunities
- ◆ **We will support you to grow** through our proposition beyond pay, with a focus on future skills and development, your mental, physical, social and financial well-being, and flexibility in working practices

## Our remuneration structure

Total compensation, which comprises fixed and variable pay, is the key focus of our remuneration framework, with variable pay differentiated by performance and demonstration of values-aligned behaviours.

Our remuneration structure consists of the following key characteristics:

Remuneration components and objectives	Application
<b>Fixed pay</b> Attract and retain employees with market competitive pay for the role, skills and experience required.	<ul style="list-style-type: none"> <li>◆ May include salary, fixed pay allowance, cash in lieu of pension and other cash allowances in accordance with local market practices</li> <li>◆ Based on predetermined criteria, non-discretionary, transparent and are not reduced based on performance</li> <li>◆ Represents a higher proportion of total compensation for more junior employees</li> <li>◆ May change to reflect an individual's position, role or grade, cost of living in the country, individual skills, capabilities and experience</li> <li>◆ Fixed pay is generally delivered in cash on a monthly basis</li> </ul>
<b>Benefits</b> Support the physical, mental and financial health of a diverse workforce in accordance with local market practice.	<ul style="list-style-type: none"> <li>◆ Benefits may include, but are not limited to, the provision of a pension, medical insurance, life insurance, health assessment and relocation support</li> </ul>

Remuneration components and objectives	Application
<b>Variable pay</b> Incentivise and reward performance based on annual financial and non-financial objectives/measures consistent with the medium-to long-term strategy, stakeholder interests and values-aligned behaviours.	<ul style="list-style-type: none"> <li>◆ All employees are eligible to be considered for a discretionary variable pay award. Individual awards are determined against financial and non-financial goals set at the start of the year</li> <li>◆ Represents a higher proportion of total compensation for more senior employees and will be more closely aligned to business performance as seniority increases</li> <li>◆ Awards are generally paid in cash and shares. For Material Risk Takers ('MRTs'), at least 50% of the awards will be in shares. Where required by regulations, it will be paid in unit-linked asset management funds, along with a post-vesting retention period of up to one year</li> </ul>
<b>Deferrals</b> Align employee interests with the medium- to long-term strategy, stakeholder interests and values-aligned behaviours.	<ul style="list-style-type: none"> <li>◆ A Group-wide deferral approach is applicable to all employees. A portion of annual incentive awards above a specified threshold is deferred in shares vesting annually over a three-year period (33% vesting on the first and second anniversaries of grant and 34% on the third)</li> <li>◆ For individuals identified as an MRT, awards will generally be subject to a minimum 40% deferral (60% for awards of £500,000 or more) over a minimum period of four years</li> <li>◆ HAIL is not subject to the following SYSC rules as it meets the exemption criteria outlined in SYSC 19G.1.1R(2):               <ul style="list-style-type: none"> <li>• (a) SYSC 19G.6.19R to SYSC 19G.6.21G (Shares, instruments and alternative arrangements);</li> <li>• (b) SYSC 19G.6.22R and SYSC 19G.6.23G (Retention policy);</li> <li>• (c) SYSC 19G.6.24R to SYSC 19G.6.29R (Deferral); and</li> <li>• (d) SYSC 19G.6.35R(2) (Discretionary pension benefits)</li> </ul> </li> <li>◆ Individuals identified under the UK's Prudential Regulation Authority's ('PRA') remuneration rules, and those based outside the UK and identified as MRTs under local regulations would also be subject to PRA / local requirements where necessary</li> <li>◆ Where an employee is subject to more than one regulation, the requirement specific to the sector and/or country in which the individual is working will generally take priority and be applied in a manner to achieve compliance with all applicable regulations to the extent possible and taking into account operational considerations</li> </ul>
<b>Target variable remuneration</b> Support recruitment of key individuals.	<ul style="list-style-type: none"> <li>◆ Target variable pay is an indicative value, which is awarded in exceptional circumstances for new hires, 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</li> <li>◆ The exceptional circumstances would typically involve a critical new hire and would also depend on the factors such as the seniority of the individual, where the new hire candidate is forfeiting any awards and the timing of the hire during the performance year</li> </ul>
<b>Severance payments</b> Adhere to contractual agreements with involuntary leavers.	<ul style="list-style-type: none"> <li>◆ Where an individual's employment is terminated involuntarily for gross misconduct then, subject to compliance with local laws, the policy is not to make any severance payment in such cases and all outstanding unvested awards are forfeited</li> <li>◆ For other cases of involuntary termination of employment, the determination of any severance will take into consideration the performance of the individual, contractual notice period, applicable local laws and circumstances of the case</li> </ul>

## Link between risk, performance and reward

Our remuneration practices promote sound and effective risk management while supporting our business objectives and the delivery of our strategy.

We set out below the key features of our framework, which help enable us to achieve alignment between risk, performance and reward, subject to compliance with local laws and regulations.

Framework elements	Application
Variable pay pool	<ul style="list-style-type: none"> <li>◆ The main quantitative and qualitative performance and risk metrics used for assessment of performance include:               <ul style="list-style-type: none"> <li>• Group and business unit financial performance, taking into account contextual factors driving performance, and capital requirements;</li> <li>• current and future risks, taking into consideration performance against the risk appetite, financial and resourcing plan and global conduct outcomes; and</li> <li>• fines, penalties and provisions for customer redress</li> </ul> </li> <li>◆ In the event that HSBC Holdings plc was unable to distribute dividends to shareholders for reasons such as capital adequacy, then it may determine that as a year of weak performance. In such a year, HSBC may withhold some, or all, variable pay for employees including unvested share awards, using the metrics outlined above as a basis for that determination</li> </ul>
Individual performance scorecard	<ul style="list-style-type: none"> <li>◆ Assessment of individual performance is made with reference to clear and relevant financial and non-financial objectives</li> <li>◆ Objectives for senior management take into account appropriate measures linked to sustainability risks, 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</li> <li>◆ A mandatory global risk objective is included in the scorecard of all other employees</li> <li>◆ All employees receive a behaviour rating as well as a performance rating, which ensures performance is assessed not only on what is achieved but also on how it is achieved</li> </ul>
Variable pay adjustments and conduct recognition	<ul style="list-style-type: none"> <li>◆ Variable pay awards may be adjusted downwards in circumstances including:               <ul style="list-style-type: none"> <li>• detrimental conduct, including conduct that brings HSBC into disrepute;</li> <li>• involvement in events resulting in significant operational losses, or events that have caused or have the potential to cause significant harm to HSBC; and</li> <li>• non-compliance with the values-aligned behaviours and other mandatory requirements or policies</li> </ul> </li> <li>◆ Rewarding positive conduct may take the form of use of our global recognition programme, At Our Best, or positive adjustments to variable pay awards</li> </ul>
Malus	<p>Malus can be applied to unvested deferred awards granted in prior years in circumstances including:</p> <ul style="list-style-type: none"> <li>◆ detrimental conduct, including conduct that brings the business into disrepute;</li> <li>◆ past performance being materially worse than originally reported;</li> <li>◆ restatement, correction or amendment of any financial statements; and</li> <li>◆ improper or inadequate risk management</li> </ul>
Clawback	<p>Clawback can be applied to vested or paid awards over a period of up to 10 years in circumstances including:</p> <ul style="list-style-type: none"> <li>◆ participation in, or responsibility for, conduct that results in significant losses;</li> <li>◆ failing to meet appropriate standards and propriety;</li> <li>◆ reasonable evidence of misconduct or material error that would justify, or would have justified, summary termination of a contract of employment; and</li> <li>◆ a material failure of risk management suffered by HSBC or a business unit in the context of Group risk-management standards, policies and procedures</li> </ul>

Framework elements	Application
Anti-hedging provisions	◆ HSBC operates an anti-hedging policy for all employees, which prohibits employees from entering into any personal hedging strategies in respect of HSBC shares or other units/securities granted to them as part of their variable pay award which is subject to a vesting or post-vesting retention period

### Application of malus and clawback

Risk events that have occurred across the Group are taken into consideration in assessing performance and variable pay of relevant individuals. Events are classified, investigated and reviewed per the Reportable Incidents and Notable Events process by representatives from Operational and Resilience Risk, Regulatory Compliance, Financial Crime Risk, Internal Audit and others as appropriate following which an individual's accountability for the event is established and consequence management actions are recommended, including any adjustments to variable pay. The level of adjustment to variable pay is based on the employee's proximity to the event given their role, as well as mitigating and aggravating factors relevant to the individual and is subject to the discretion of line / senior managers or, where appropriate, HSBC's Group Remuneration Committee. Adjustments may be applied to either in-year variable pay, or as a malus adjustment to unvested deferred remuneration. In the most serious cases, clawback can be used to recoup paid variable pay.

### Our governance framework and oversight

The HSBC Group Remuneration Committee ('the Committee') is responsible for setting the overarching principles, parameters and governance of the Group's remuneration framework. The Committee regularly reviews the framework to ensure it supports the Group's purpose, values, culture and strategy, as well as promoting sound risk management. The Committee also reviews the framework to satisfy itself that it complies with the regulatory requirements of multiple jurisdictions.

The Committee receives input and advice from different advisers on specific topics during the year. Deloitte provided independent advice to the Committee during 2022.

HAIL is not required to establish a Remuneration Committee at the entity level as it meets the exemption threshold criteria outlined in MIFIDPRU 7.1.4R.

The Board of HAIL ('the Board') oversees the reward policy and its application to its businesses and functions, which is aligned to that of the Group. The Board's responsibilities include:

- ◆ reviewing the effectiveness of remuneration policies and practices to ensure compliance with regulations and business strategy;
- ◆ ensuring the approach taken to identify MRTs is appropriate and approving the identified MRT population;
- ◆ reviewing the pay review outcomes of each performance year, including the deferral and post-vesting retention period applied for variable pay awards; and
- ◆ reviewing variable pay awards granted to MRTs and their compliance with the requirements of the respective Remuneration Codes

To ensure there is no conflict of interest between the Board and the control functions of the entity, HSBC's Group Remuneration Committee is responsible for approving the remuneration for the position of the Asset Management Chief Risk and Compliance Officer and the Asset Management Head of Internal Audit.

### Identification of Material Risk Takers

HAIL identifies MRTs under the criteria set out under the FCA's MIFIDPRU Remuneration Code (SYSC 19G.5). The outcome of the MRT identification is also subject to review and approval by the Board and includes members of staff whose professional activities have a material impact on the risk profile of the firm or of the assets that the firm manages. For example:

- ◆ members of the management body and senior management at HAIL;
- ◆ employees that have managerial responsibility for a key business unit;
- ◆ individuals responsible for the activities of a control function, prevention of money laundering and terrorist financing, information technology and security; and
- ◆ voting members of the Product Approval Committee

## Quantitative disclosure

### HAIL

Remuneration awarded for the financial year

	Senior Management	Other MRTs	Other Staff	Total
Number of Staff	7	15	62	84
Fixed Remuneration (£'000)	1,332	5,225	8,017	14,574
Variable Remuneration (£'000)	702	4,863	4,300	9,864
<b>Total Remuneration (£'000)</b>	<b>2,033</b>	<b>10,088</b>	<b>12,317</b>	<b>24,438</b>

HAIL did not make any special payments, including guaranteed variable remuneration awards and severance payments, to MRT employees in 2022.

HAIL is not in scope of the disclosure requirements in MIFIDPRU 8.6.6.R (4) and MIFIDPRU 8.6.8R(6) because it meets the conditions in SYSC 19G.1.1R(2).

## Investment Policy (MIFIDPRU 8.7)

MIFIDPRU 8.7 of the FCA's Handbook requires a firm to make specific disclosures in respect of its investments in each company whose shares are admitted to trading on a regulated market and only in respect of those shares to which voting rights are attached, where the proportion of voting rights that the investment firm directly or indirectly holds exceeds the threshold of 5% of all voting rights attached to the shares issued by the company at the time of the general meeting.

Where the 5% threshold is exceeded, MIFIDPRU 8.7 requires the following items to be disclosed: Proportion of voting rights attached to the shares held; Complete description of voting behaviour in the general meetings of companies the shares of which are held, an explanation of the votes, and the ratio of proposals put forward by the administrative or management body of the company which the investment firm has approved; An explanation of the use of proxy advisor firms; and Voting guidelines regarding the companies the shares of which are held.

MIFIDPRU 8.7 is only applicable to large non-SNI firms and HAIL does not meet this threshold.



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