

# HSBC Alternative Investments Limited (“HAIL”) Order Execution Policy

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## Objective

The objective of this order execution policy is to describe how HSBC Alternative Investments Limited (“HAIL”) takes all sufficient steps to obtain the best possible results for clients when making dealing decisions on their behalf, as required by applicable legislation (including but not limited to the UCITS Directive, AIFMD and MIFID 2) and HSBC Group policies.

## Summary

HAIL is authorised to provide discretionary portfolio management services to its clients. Depending on the asset class this may comprise making investment decisions (i.e. stock selection and portfolio construction decisions, consistent with a client’s investment objective and restrictions) and dealing decisions (i.e. placing or executing an order with a dealing counterparty, pursuant to an investment decision).

When making dealing decisions in relation to financial instruments or spot foreign exchange (‘spot FX’), HAIL is required to take all sufficient steps to obtain the best possible results for its clients (‘best execution’).

HAIL seeks to obtain best execution on a consistent basis, although that may not be possible for each and every order.

HAIL is required to obtain best execution for all of its clients, irrespective of where they are based.

HAIL does not provide portfolio management services to, or make dealing decisions on behalf of, retail clients. Therefore, this policy only applies to dealing decisions on behalf of professional clients.

If HAIL delegates all or part of a discretionary portfolio management mandate to another entity, then HAIL must ensure that the delegate can obtain equivalent best execution as set out in this policy.

## Dealing Decisions

The Portfolio Management Support team places orders in underlying collective investment schemes (“CIS”) for the hedge fund business, and will ensure that an order for a CIS is placed with funds’ appointed transfer agents before the “cut-off time”. The Portfolio Management Support team will monitor these orders post-trade, in order to identify potential improvements to the order execution process.

For the private equity and real estate functions, HAIL does not execute or place orders for collective investment schemes. This is done by the recipient of the HAIL services (“the Client”) or another third party. Any changes to operational/business models which would result in these functions executing or placing orders in collective investment scheme would need to be approved by relevant internal Committees including the HAIL Product Committee and Risk Management Meeting and relevant controls would need to be put in place.

When carrying out their duties the teams outlined above will be responsible for obtaining the best outcomes to clients and will where relevant:

- ◆ Decide the prioritisation of execution factors in relation to an order/transaction, i.e. price; cost; speed; the likelihood of execution and settlement; the size of the order/transaction; the nature of the order/transaction; or any other consideration relevant to the execution of the order/transaction.
- ◆ Deciding whether to place or execute an order; which dealing counterparty to use; and how much to pay a dealing counterparty for its services.
- ◆ Transmit an order to a dealing counterparty and monitoring the progress of the order.

## Financial Instruments and Spot FX

HAIL is responsible for obtaining best execution in relation to orders in financial instruments and currency transactions, which include the following.

- ◆ Collective investment schemes;
- ◆ Non exchange traded derivatives and spot FX.

### **Collective investment schemes (CIS)**

The Portfolio Management Support team are responsible for ensuring that best execution is achieved in relation to orders in Collective Investment Schemes for the hedge fund function. For the private equity and real estate functions, HAIL does not execute or place orders in collective investment schemes, this is done by the recipient of the portfolio management/ advisory services provided by HAIL i.e. HSBC (Guernsey) Management Limited "HMG", the Client etc.

An order for a CIS may only be placed with its appointed transfer agent before a specified time ('cut off time') at which the price is calculated. Therefore, HAIL seeks to place the order with the transfer agent before the cut-off time (prioritising speed and price) and to invest in an appropriately priced share class of the CIS (prioritising cost).

When negotiating transactions in private equity and real estate funds, detailed due diligence will be performed on the manager, fund and portfolio companies, which in conjunction with vendor negotiation, will determine any discount and ultimately the purchase price.

### **Non exchange traded derivatives (NETDs) and Spot FX**

NETDs include: interest rate swaps; total return swaps; non-deliverable forwards; contracts for difference (CFDs); and forward foreign exchange contracts (forward FX).

HAIL appoints State Street Europe Limited ("SSEL") as currency manager to conduct currency hedging activities for the Fund of Hedge Fund products (including the HSBC UCITS AdvantEdge Fund). SSEL therefore enters into NETDs including forward foreign exchange contracts on behalf of HAIL. For this purpose SSEL uses Street Street Bank GMBH as a counterparty.

HAIL conducts monitoring to ensure SSEL is entering into NETDs at the best terms for its clients. As part of this monitoring HAIL requires SSEL to provide it with evidence that it has obtained best execution, which HAIL monitors on a post trade basis.

For real estate club deals where variable rate debt finance may be secured, the execution venue for any interest rate swap is ordinarily limited to the debt finance provider who will hold security to the asset. HAIL in its capacity as investment adviser, or where relevant the appointed asset manager will seek to identify appropriate reference rates. The overall debt finance package, including covenants, will be taken into consideration as part of the overall decision. Any variable rate debt finance will be entered into by the Manager of vehicles in many cases HSBC Management (Guernsey) Limited rather than by HAIL.

### **Direct Real Estate**

In addition to the above, HAIL advises on and negotiates real estate transactions on behalf of clients, but does not execute. For transactions in direct real estate, detailed due diligence will be performed on the asset, which in conjunction with independent valuation and vendor negotiation, will determine the purchase/sale price.

### **Exceptional Circumstances**

On occasions collective investment schemes may convert to exchange-trade instruments and/or a corporate action might result in them transferring underlying assets to a client. In these cases, HAIL may execute deals in instruments which have not been outlined above, including listed equity.

In these circumstances transactions will generally be placed with dealing counterparties (acting as systematic internalisers, liquidity providers, market makers, organised trading facilities or on an over-the-counter basis).

When selecting a dealing counterparty, HAIL will consider various factors, whose relative importance depend on the characteristics of the order. The most important factors include:

- ◆ a dealing counterparty's access to liquidity (e.g. its membership of an exchange or a multilateral trading facility);
- ◆ a dealing counterparty's knowledge of a security and the market in which it is traded;
- ◆ in the case of an order to invest in a new issue, the dealing counterparty responsible for the issue; and
- ◆ in the case of an equity order on behalf of an exchange traded fund (ETF), any specific instruction to select a dealing counterparty, which may be provided by the authorised participant (AP) of that ETF.

HAIL will generally prioritise price over other execution factors, subject to any instructions from investment teams. For example, the Investment Team may request that an order is completed by a given time of day so that the order can be matched with corresponding flows into and out of an account (prioritising speed); or to complete an order subject to a price limit (prioritising price).

### **Specific Instructions from a Client**

A client may give HAIL a specific instruction on how to place or execute an order. If HAIL cannot follow the instruction (for example, because it would contravene applicable law) then the client will be informed. Otherwise, HAIL will follow the client's instruction, but

such specific instruction may prevent HAIL from taking the steps that it has designed and implemented in its execution policy to obtain the best possible result for the execution of orders in respect of the elements covered by that instruction.

## **Post Trade Monitoring**

HAIL's dealing decisions are captured and stored in a central database. Where appropriate, execution prices are compared against pre-defined benchmarks; execution prices outside of a pre-defined tolerance of its associated benchmark are analysed; and the analysis is used by various teams to improve its processes.

## **Oversight**

### **First line of defence**

Best execution is overseen locally by HAIL's Risk Management Meeting ("the RMM") which reviews relevant management information (including post trade monitoring analysis) and holds Teams accountable for their activities. The RMM is chaired by HAIL's Chief Risk Office and its members include representatives from HAIL's Investment and Compliance Teams.

Best execution is overseen globally by HSBC Global Asset Management's (AMG's) Global Dealing Oversight Committee (GDOC) which reviews relevant management information (including post trade monitoring analysis) and holds Teams accountable for their activities. The GDOC allows AMG to identify and share best practice between its affiliates. The GDOC is chaired by AMG's Global Chief Investment Officer, and its members include AMG's Global Head of Risk and Global Head of Compliance.

### **Second line of defence**

HAIL's Compliance Monitoring and Testing Team (CMAT) carries out independent, risk-based monitoring of HAIL's order management policies and processes.

### **Third line of defence**

HSBC Group Audit carries out independent, risk-based monitoring of AMEU's order management policies and processes.

## **Policy Ownership and Review**

This policy is owned by the Investment Team. It is reviewed once a year, and additionally whenever a material change occurs. Changes are notified to the HAIL RMM and the GDOC. When we make a material change, we will inform clients by publishing an updated version of this statement which updates and replaces our prior disclosure statement.

## **Client Information, Consent and Requests for Additional Information**

HAIL will provide clients with appropriate information about this order execution policy.

HAIL will obtain clients' consent to its order execution policy, in relevant clauses included in their investment management agreement.

Where appropriate, HAIL will obtain clients' consent to execute orders outside of a trading venue, in relevant clauses included in their investment management agreement.

Where appropriate, HAIL will respond to reasonable and proportionate requests by clients for additional information about this policy, its dealing counterparties or the consequences of executing orders outside a trading venue.

## Annex

### Execution Venues and Placement Counterparties

HAIL uses a number of approved dealing counterparties and execution venues. A full list is available on request. HAIL places significant reliance on the approved counterparties and execution venues listed below.

This list is not exhaustive, nor is it static (as AMEU regularly assess the execution venues and placement counterparties that are available).

#### Foreign Exchange – Counterparties

Street Street Bank GMBH

#### Collective investment schemes – Execution Venues

Available on request

## Glossary

Best execution	Taking all sufficient steps to obtain the best possible result for clients when managing orders on their behalf.
Dealing counterparty	An entity with which an order may be placed or executed.
Dealing decisions	Placing or executing an order with a dealing counterparty, pursuant to an investment decision.
Execute	Dealing directly on an execution venue (e.g. where HAIL is the last link in a chain of intermediaries and an execution venue).
Execution factors	Factors to be considered in order to obtain best execution, including: price; cost; speed; likelihood of execution and settlement; size; nature; or any other consideration relevant to the execution of the order.
Execution venue	A dealing counterparty acting as a systematic internaliser, liquidity provider, market maker, organised trading facility or on an over-the-counter basis.
Investment decisions	Stock selection and portfolio construction decisions consistent with a client's investment objectives and restrictions.
Investment team	HAIL employees who are responsible for investment decisions.
Liquidity provider	An entity which acts as an execution venue for a financial instrument (e.g. a UCITS management company is a liquidity provider when it accepts dealing instructions in respect of its fund).
Market maker	A person who holds himself out on the financial markets on a continuous basis as being willing to buy and sell, on own account, financial instruments that it holds in its inventory at prices defined by that person.
Multilateral trading facility ('MTF')	A multilateral system, operated by an investment firm or a market operator, which brings together buyers and sellers in financial instruments in a way that results in a contract.

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Organised trading facility ('OTF')	A multilateral system which is not a regulated market or an MTF which brings together buyers and sellers of bonds, structured finance products, emission allowances or derivatives in a way that results in a contract.
Place	Submit an order to another entity for execution.
Regulated market	A multilateral system operated and/or managed by a market operator, which brings together buying and selling interests in financial instruments in a way that results in a contract.
Systematic internaliser	An investment firm which, on an organised, frequent systematic and substantial basis, deals on own account when executing client orders outside a regulated market, an MTF or an OTF without operating a multilateral system.
Trading venue	A regulated market, an MTF or an OTF.

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