Sustainability related disclosures pursuant to Article 10(1) of the Disclosure Regulation | HSBC Senior UK Direct Lending Strategy 2022

The Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (the "**Disclosure Regulation**") aims at providing more transparency to investors on sustainability risk integration, on the consideration of adverse sustainability impacts in the investment processes and on the promotion of environmental, social and/or governance ("**ESG**") factors. In particular, it requires fund managers and advisers to disclose specific ESG-related information to investors on their websites.

1 Summary

Investment Strategy	The HSBC Senior UK Direct Lending Strategy 2022 (the "**Fund**") will promote ESG characteristics within the meaning of Article 8 of the Disclosure Regulation by seeking to invest in businesses that meet the requirements of the relevant ESG framework of the AIFM (in coordination with the Portfolio Manager). In particular, the Fund will promote ESG characteristics by not making any investments with a High ESG score as evidenced by the Portfolio Manager's approach to assessing ESG Ratings (as defined below) for prospective borrowers. The Fund will not make investments with a Medium ESG score unless a plan is in place to improve the score to Low or Neutral.
No sustainable investment objective	The Fund promotes environmental or social characteristics but does not have sustainable investment as its investment objective.
Environmental or social characteristics of the financial product	The Fund will promote ESG characteristics by not making any investments with a High ESG score as evidenced by the Portfolio Manager's approach to assessing ESG Ratings (as defined below) for prospective borrowers. The Fund will not make investments with a Medium ESG score unless a plan is in place to improve the score to Low or Neutral.
Investment Objective	To provide attractive risk adjusted returns by investing in a diversified portfolio of senior secured loans made to middle market sized UK businesses predominantly owned on a majority or minority basis by private equity sponsors.

Proportion of investments	The Fund pursues an investment strategy comprising of a portfolio of senior secured loans made to middle market sized UK businesses. 75% of the portfolio will promote environmental and social characteristics within the meaning of Article 8 of the Disclosure Regulation and be classified accordingly.
Monitoring of environmental or social characteristics	Every investment presented to the Direct Lending Investment Committee will contain a dedicated ESG section within the investment paper. ESG assessment will be covered as an agenda point during the meeting and members of the Direct Lending Investment Committee will be required to validate the designated company ESG Ratings. ESG factors will be monitored on an ongoing basis by the investment team of the Fund (the "**Investment Team**").
Methodologies	The Investment Team has implemented a set of sector-specific ESG assessment scorecards (the "**Scorecards**"), used to assess a borrower's exposure to both ESG risks and opportunities for positive ESG contributions, based on a number of Environmental, Social and Governance factors.
Data sources and processing	• Inputs to the ESG Scorecard are determined with reference to materials provided by the company or the private equity sponsor, responses to questions raised, due diligence reports as well as third party data providers such as RepRisk. • The Investment Team will also track alignment to the United Nations Sustainable Development Goals ("**SDGs**") where it has clear evidence from its due diligence and interactions with the borrower that allow it to record a detailed rationale for the alignment to a specific target.
Limitations to methodologies and data	The level of information available to complete the ESG Scorecards may vary between different borrowers and therefore the Investment Team will use whatever information is available in the public domain, disclosed by the borrower during due diligence, disclosed by the private equity sponsor, sourced from independent reports, or available from HSBC or third-party ESG data providers to complete their analysis.
Due diligence	During the screening and due diligence phases of considering a potential investment, the Investment Team

	receives detailed information (including third party due diligence reports) and access to the management team. Through this process, the Investment Team will seek to make a qualitative assessment of the impact of ESG related factors on the credit risk profile of a borrower.
Engagement policies	The Investment Team will engage with borrowers by raising sustainability topics at management meetings and will encourage borrowers to report on their ESG-related activities. The Investment Team intends to offer Sustainability Linked Loans ("**SLLs**") to borrowers under a conversion concept.
Designated reference benchmark	No reference benchmark has been designated for the purpose of attaining the above environmental and social characteristics promoted by the Fund.

2 No sustainable investment objective

The Fund promotes environmental or social characteristics but does not have sustainable investment as its investment objective.

The assets of the Fund may (but for the avoidance of doubt, there is no obligation to) include investments that qualify as sustainable investments within the meaning of article 2 (17) of the Disclosure Regulation.

3 Environmental or social characteristics of the financial product

The Fund will promote ESG characteristics within the meaning of Article 8 of the Disclosure Regulation by seeking to invest in businesses that meet the requirements of the relevant ESG framework of the AIFM (in coordination with the Portfolio Manager). In particular, the Fund will promote ESG characteristics by not making any investments with a High ESG score as evidenced by the Portfolio Manager's approach to assessing ESG Ratings (as defined below) for prospective borrowers. The Fund will not make investments with a Medium ESG score unless a plan is in place to improve the score to Low or Neutral.

The environmental and social characteristics that each company is assessed against via the ESG Scorecard (as defined below) are:

- Climate change factors
- Natural resources
- Pollution and waste
- Workplace health and safety
- Product safety and liability
- Labour management practices

No reference benchmark has been designated for the purpose of attaining the above environmental and social characteristics promoted by this Fund.

4 Investment strategy

The Fund will seek to invest in a diversified portfolio of senior secured loans made to middle market sized UK businesses predominantly, owned on a majority or minority basis by private equity sponsors.

The Fund will invest in Eligible Loans (as defined in the offering memorandum of the Fund) which will generally be originated by HSBC SDL UK II HoldCo S.à r.l. ("**HoldCo**") and/or any other holding company in which the Fund holds (directly or indirectly) equity interests and/or other equity-like instruments. The Fund may, to a limited extent, also acquire and hold loans via HoldCo and/or other holding companies, provided that it needs to carry out a due diligence with regard to each such investments and to actively monitor the performance of such loans. For the avoidance of doubt, the Fund will not hold any loans directly. In any case the activity of the investing holding company will not be limited to mere loan administration, but rather each potential loan investment will be examined pursuant to the established due diligence processes and subsequently monitored accordingly. The Fund will seek to invest in transactions that offer a lower risk profile than that offered by most participants in this market. In addition to the principally first lien senior secured nature of the Eligible Loans, this will be achieved by targeting transactions that have relatively low leverage at origination with strong lender protections. The total loan sizes extended to the borrowers are expected to be between GBP 20 million and GBP 200 million, of which the Fund is expected to extend between GBP 15 million and GBP 75 million respectively. The loans are typically expected to be up to seven (7) year loans which are pre-payable by the borrower and have a floating rate. The Fund may also invest in cash management investments and it is possible that the Fund may invest in equity, quasi equity or other debt instruments (which may be convertible into equity) as part of any future restructuring of investments. Whilst unlikely, the Investment Team may also accept equity options, such as and including equity warrants, to enhance overall return on new investments.

The Fund will promote ESG characteristics within the meaning of Article 8 of the Disclosure Regulation by seeking to invest in businesses that meet the requirements of the relevant ESG framework of the AIFM (in coordination with the Portfolio Manager). In particular, the Fund will promote ESG characteristics by not making any investments with a High ESG score as evidenced by the Portfolio Manager's approach to assessing ESG Ratings (as defined below) for prospective borrowers. The Fund will not make investments with a Medium ESG score unless a plan is in place to improve the score to Low or Neutral.

5 Proportion of investments

The Fund pursues an investment strategy comprising of a portfolio of senior secured loans made to middle market sized UK businesses. 75% of the portfolio will promote environmental and social characteristics within the meaning of Article 8 of the Disclosure Regulation and be classified accordingly. All investments will undergo the complete investment, operational and legal due diligence processes.

As outlined in the investment objective, the Fund will not make any investments into companies with high ESG risks. This means that no investments will be made into companies with an ESG score of 1 (High Risk). For companies with an ESG score of 2

(Medium Risk), the Fund will only invest where the company is demonstrating an intent to transition towards a low risk (3) or neutral (4) impact via specific initiatives.

6 Monitoring of environmental or social characteristics

Every investment presented to the Direct Lending Investment Committee will contain a dedicated ESG section within the investment paper. This will include a written assessment of the ESG opportunities and risks of the company, the ESG Scorecard (as defined below), and a written justification for the designated ESG Ratings (as defined below). The Investment team member presenting to the Direct Lending Investment Committee will be required to cover the ESG assessment as an agenda point during the meeting and members of the Direct Lending Investment Committee will be required to validate the designated company ESG Ratings (as defined below).

ESG factors will be monitored on an ongoing basis by the Investment Team using information collected from management meetings, borrower reporting, industry and regulatory developments, and from RepRisk monitoring. ESG scores will be updated at least annually.

7 Methodologies

ESG Scorecards

The Investment Team has implemented a set of sector-specific ESG Scorecards used to assess a borrower's exposure to both ESG risks and opportunities for positive ESG contributions, based on a number of Environmental, Social and Governance factors (e.g. greenhouse gas emissions, emissions to water, workforce health & safety, local community, management experience/strategy and ownership structure/corporate governance). Each factor is scored based on the parameters set out in the Scorecards and assigned a specific weight based on its relevance within that sector. The Scorecards were designed and are reviewed annually in collaboration with the HSBC AM Responsible Investment team.

Each company will be allocated a score between 1 and 5, with 1 being the highest ESG risk score and 5 being for the companies with a positive ESG contribution. The lowest scores 1 to 3 go from high to low, with companies scoring 4 showing a neutral ESG contribution. This design takes the screening into consideration, as many of the highest risk companies would have already been filtered out. As a result, it is important for the scoring system to reflect the different stages of ESG implementation among the lower risk companies.

Inputs to the Scorecard are determined by the Investment Team with reference to materials provided by the company, sponsor, responses to questions raised, due diligence reports as well as third party data providers such as RepRisk. The resulting output ("**ESG Rating**") is a weighted average of the relevant ESG factors.

The level of information available to complete the Scorecards may vary between different borrowers and therefore the Investment Team will use whatever information is available in the public domain, disclosed by the borrower during due diligence (including via the Fund's questionnaire), sourced from independent reports, or available from HSBC or third-party ESG data providers to complete their analysis.

The Fund will promote ESG characteristics by not making any investments into companies with a high ESG score. This means that no investments will be made into companies with an ESG score of 1 (High). For companies with an ESG score of 2 (Medium) the Fund will only invest where the company is demonstrating an intent to transition towards a Low (3) or Neutral (4) score via specific initiatives. The environmental and social characteristics that each company is assessed against via the ESG Scorecard are:

- Climate change factors
- Natural resources
- Pollution and waste
- Workplace health and safety
- Product safety and liability
- Labour management practices

ESG scores will be reviewed and updated at least annually.

8 Data sources and processing

Inputs to the proprietary ESG Scorecard are determined by the Investment Team with reference to materials provided by the company, sponsor, responses to questions raised, due diligence reports as well as third party data providers such as RepRisk. The resulting ESG Rating is a weighted average of the relevant ESG factors. Whilst it is not yet an industry standard or requirement, the Investment Team will encourage borrowers to complete an ESG questionnaire aligned with Principle Adverse Impact ("**PAI**") reporting to fill gaps in information which would contribute towards the ESG Scorecard. For clarification, neither the AIFM or the Portfolio Manager are able to consider PAIs as defined within the Disclosure Regulation on the basis that, in the context of instruments that may be contained within the Fund, it is not possible to guarantee consistent PAI data. However, the Investment Team continues to seek to develop proprietary sustainability frameworks to improve data availability and consistency and may apply these in the future.

The Investment Team will also track alignment to the United Nations SDGs. This will be done by looking to align with the 169 SDG targets which sit underneath the 17 SDGs and provide a more granular framework. The Investment Team will only seek to align borrowers to a particular SDG where it has clear evidence from its due diligence and interactions with the borrower that allow it to record a detailed rationale for the alignment to a specific target.

The level of information available to complete the Scorecards may vary between different borrowers and therefore the Investment Team will use whatever information is available in the public domain, disclosed by the borrower during due diligence, disclosed by the private equity sponsor, sourced from independent reports, or available from HSBC or third-party ESG data providers to complete their analysis.

Every investment presented to the Direct Lending Investment Committee will contain a dedicated ESG section within the investment paper. This will include a written assessment of the ESG risks of the company, the ESG Scorecard, and a written justification for the designated ESG Rating.

The Investment Team member presenting to the Direct Lending Investment Committee will be required to cover the ESG assessment as an agenda point during the meeting and members of the Direct Lending Investment Committee will be required to validate the designated company ESG Rating.

9 Limitations to methodologies and data

The level of information available to complete the ESG Scorecards may vary between different borrowers and therefore the Investment Team will use whatever information is available in the public domain, disclosed by the borrower during due diligence, disclosed by the private equity sponsor, sourced from independent reports, or available from HSBC or third-party ESG data providers to complete their analysis.

10 Due diligence

During the screening and due diligence phases of considering a potential investment, the Investment Team receives detailed information (including third party due diligence reports) and access to the management team. Through this process the Investment Team seek to make a qualitative assessment of the impact of ESG related factors on the credit risk profile of a borrower.

Assessment of ESG risks is a key component of the initial transaction screening phase and members of the Investment Team have (in their capacity as members of the investment teams of other financial products) declined transactions at this stage previously for ESG related reasons.

Whilst it is not yet industry standard or requirement, the Investment Team will encourage borrowers to complete an ESG questionnaire aligned with PAI reporting to fill gaps in information which would contribute towards the ESG Scorecard. For clarification, neither the AIFM or the Portfolio Manager are able to consider PAIs as defined within the Disclosure Regulation on the basis that, in the context of instruments that may be contained within the Fund, it is not possible to guarantee consistent PAI data. However, the Investment Team continues to seek to develop proprietary sustainability frameworks to improve data availability and consistency and may apply these in the future.

The RepRisk platform, an ESG risk data provider, is used to screen potential investments and connected parties for historic ESG risk incidents and for the provision of sector risk ratings and key focus areas. RepRisk is also used for post investment monitoring.

The Investment Team is able to draw upon in-depth ESG-related research carried out by the HSBC AM Responsible Investment team as well as the wider credit research analysts.

11 Engagement policies

In addition to the company-wide Responsible Investing ("**RI**") policies (https://www.assetmanagement.hsbc.co.uk/en/institutional-investor/about-us/responsible-investing/policies) and HSBC Alternatives policies around Voting and Engagement, the Investment Team has adopted a strategy to engage with the portfolio companies. The Investment Team will drive engagement by raising sustainability topics at management meetings and will encourage companies to report on their ESG-related activities and to share outputs with the Fund.

The Investment Team will engage with portfolio companies at least annually to understand and assess their sustainability commitments and progress on ESG targets where relevant.

Engagement will take place during management meetings and the Investment Team will look to schedule further meetings if additional information is required. Engagement will be carried out in person or via video-conferencing tools with management teams. Where relevant, the Investment Team will also engage with private equity sponsors to understand their overarching approach to ESG and specific strategy relating to the portfolio companies.

Prior to the meeting, the responsible member of the Investment Team will put together a set of ESG focused questions relevant to the sector to guide discussion with management. The Investment Team member may include any scorecard-related questions that may not have been fully covered pre-investment and are important to assess the ESG profile of the asset (e.g. progress on climate commitments etc). Details of ESG-related engagements will be tracked in Dynamo.

The outcome of engagement with companies will contribute towards any updates to the ESG score using the ESG Scorecard, which could result in positive/negative impacts to the assigned score. ESG scores will be updated at least annually.

Engagement will be covered on the agenda at the Quarterly Portfolio Review meeting, which is chaired by the Head of Direct Lending. For each company where there has been engagement with management in the last quarter, the relevant member of the Investment Team will cover any changes in ESG score, key topics discussed, and any updates to relevant targets.

The Investment Team will implement enhanced engagement for companies with an ESG score below or equal to Medium (2), or in the event that a company's allocated ESG score is downgraded to Medium (2) or below by the Investment Team, or where the Investment Team becomes aware of an ESG risk incident.

The responsible Investment Team member will put together an action plan of sustainability targets for the company to work towards, based on the environmental or social characteristics where the company falls below the expectations of the Investment Team.

Enhanced engagement will be carried out with the company on a quarterly basis. Enhanced engagement will continue until sufficient evidence of improvement is gathered to support an increase of the ESG score of the company to Low (3) or above, as well as approval from the Direct Lending Investment Committee.

<u>Sustainability-linked Loans</u>

The Investment Team intends to offer SLLs to portfolio companies under a conversion concept where the appropriate sustainable performance targets are set post transaction by the borrower and the sponsor. SLLs will:

- only be offered to borrowers controlled by a sponsor who is a signatory to the UN Principles for Responsible Investment ("**PRI**");
- include a 2-way margin ratchet (the margin on the loan is adjusted up or down depending on performance against the Sustainability Performance Targets ("**SPTs**"));
- include certain sustainability covenants to protect against greenwashing risk; and
- include meaningful key performance indicators ("**KPIs**") set by the borrower and to be reviewed by a third-party sustainability reviewer.

Whilst the conversion concept is required for situations where there is a change of control, the Fund will also offer SLLs on refinancings where the documentation and targets are put in place ahead of transaction completion.

12 Designated reference benchmark

No reference benchmark has been designated for the purpose of attaining the above environmental and social characteristics promoted by this Fund.