



HSBC
Investment Funds (Luxembourg) S.A

Conflicts of Interest Policy

HSBC INVESTMENT FUNDS (LUXEMBOURG) S.A.

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REVISION HISTORY

Date / version	Drafted by	Reviewed / approved by	Comments
APR19/ v 0.1	HIFL Regulatory Compliance	HIFL's Board of Directors	Approved by HIFL Board on 29 April 2019
APR20/ v 0.2	HIFL Regulatory Compliance	HIFL's LMC	Approved by HIFL LMC on 29 April 2021
APR20/ v 0.2	HIFL Regulatory Compliance	HIFL's Board of Directors HIFL's LMC	Presented for noting at the HIFL Board meeting held on 24 June 2021 No significant changes have been made to the documents since these were last approved by the Board in 2019. The only change made was that the exhaustive list of Funds under management has been replaced by some generic wording.
APR23/ v 2.1	HIFL Regulatory Compliance	HIFL Board of Directors	Approved by the HIFL Board of Directors on 3 April 2023 No significant changes have been made to the document since this was last approved. The only change made is in relation to REGULATION (EU) 2019/2088 ("SFDR") with explicit reference to conflicts of interest that may arise as a result of the integration of sustainability risks in HIFL's processes, systems and internal controls



MAY23/ v 2.2	HIFL Regulatory Compliance	HIFL Board of Directors	Approved by the HIFL Board of Directors on 17 May 2023. The policy was updated to reflect the requirements of the ESMA Common Supervisory Action (CSA) on the supervision of costs and fees of UCITS - CSSF feedback report (20 October 2022) in relation to inclusion of a specific reference to conflict of interest that might arise from: i. The use of Securities Financing Transactions (SFT) and Efficient Portfolio (EPM) techniques with securities lending agents that are part of the same group; ii. Related parties' transactions with entities of the same Group.
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FEB24/v 3.0	HIFL Regulatory Compliance	HIFL Board of Directors	Approved by the HIFL Board of Directors on 15 February 2024. The Policy was redrafted to cover the specific context of conflicts of interest risks to which HIFL is exposed taking into consideration its specific business model, and to cover the following aspects: i. Details on HIFL's approach to conflicts management, recordkeeping and employee's responsibilities. ii. Conflicts of Interest relationships, scenarios and non-exhaustive list of specific examples of conflicts of interest. iii. Organisational Arrangements relating to Conflicts of Interest. iv. Description of systems, controls and procedures relating to conflicts of Interest management.
MAY 2025/v 3.1	HIFL Regulatory Compliance;	HIFL Board of Directors	Approved by the HIFL Board on 13 May 2025. The policy was updated to apply to all employees of HIFL, including those in the branches.



May 2026/v 3.2	HIFL Regulatory Compliance;	HIFL LMC HIFL Board of Directors	Approved by HIFL LMC on Approved by the HIFL Board on 13 May 2025. The policy was updated to incorporate the AIFMD II requirement that HIFL must ensure the AIF does not extend loans to itself, its employees, the AIF's depositary or delegates, any entities performing delegated functions, or any entities within the same corporate group.
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1. REGULATIONS

This policy is aligned to meet the requirements of:

- Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS)
- Law of 17 December 2010 relating to undertakings for collective investment (Article 109(1)), and related regulations and circulars;
- CSSF Regulation 10-04 (Chapter III), Articles 20, Article 22 (1) and (2);
- Commission Delegated Regulation (EU) 2016/438 (Article 23);
- Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers, (Article 14);
- Commission Delegated Regulation (EU) 231/2013 (Article 31);
- Law of 12 July 2013 on Alternative Investment Fund Managers (Article 13), and related regulations;
- Circular CSSF 18/698 on authorisation and organisation of investment Fund managers incorporated under Luxembourg law;
- 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 ("SFDR");
- ESMA Common Supervisory Action (CSA) on the supervision of costs and fees of UCITS - CSSF feedback report (20 October 2022).
- Securities and Commodities Authority (SCA) - The Chairman of the Authority's Board of Directors' Decision No. (13/Chairman) of 2021 on the Regulations Manual of the Financial Activities and Status Regularization Mechanisms Rule Book
- Directive (EU) 2024/927 AIFMD II



GENERAL PRINCIPLES

HSBC Investment Funds (Luxembourg) S.A. ("HIFL", or the "Company") acts as Investment Fund Manager ("IFM") for various Undertakings for Collective Investment in Transferrable Securities ("UCITS") as well as Alternative Investment Fund Manager ("AIFM") for various Alternative Investment Funds ("AIFs"). HIFL is established in Luxembourg under the prudential supervision of the Commission de Surveillance du Sector Financier ("CSSF").

The arrangements mentioned in this document apply to all HSBC Funds under management.

[HSBC FIM B.4 Conflicts of Interest](#), (including Personal Account Dealing and Outside Activities), ("HSBC FIM B.4 conflicts of interest", hereinafter) mandates that *"HSBC must take all appropriate steps to identify all conflicts of interest, or "conflicts". HSBC must try to prevent conflicts or otherwise manage them appropriately. Where conflicts are present, Global Businesses must ensure that they do not disadvantage the interests of existing Clients unfairly in favour of HSBC, its Workers or prospective Clients"*.

The HSBC FIM B.4 conflicts of interest states that *"HSBC has no appetite for failing to identify and manage material conflicts of interest appropriately. Where failures are identified, these will be addressed promptly and efficiently"*.

The HSBC FIM B.4 conflicts of interest provide the list of HSBC mandatory procedures, guidance and appendices that must be adhered to by HIFL.

CSSF Regulation No. 10-4, Chapter I, Art. 1.2 mandates that undertakings for collective investment shall: *"establish criteria for acting honestly and fairly and with due skill, care and diligence in the best interests of the UCITS and the criteria for determining the types of conflict of interest, specifying the principles required to ensure that the resources are employed effectively; and defining the steps that should be taken by management companies to identify, prevent, manage or disclose the conflicts of interest referred to in Art. 111 of the Law of 17 December 2010 concerning undertakings for collective investment"*.

The purpose of this policy is to outline the process in order to ensure consistency and accuracy of the conflicts of interest management in accordance with Luxembourg legal and regulatory obligations envisioned under CSSF Regulation 10-4, the Commission Delegated Regulation (EU) 231/2013, CSSF Circular 18/698, the Law of 12 July 2013 and the Law of 17 December 2010, as well as to implement HSBC Guidance, principles and obligations envisioned in HSBC FIM B.4 conflicts of interest.

Art. 20 of CSSF Regulation 10-4, sub-section 5.5.7.1 of CSSF Circular 18/698 and Article 31 of the Commission Delegated Regulation (EU) 231/2013 require HIFL to establish, implement and maintain an effective conflict of interest policy.

HIFL, as a part of the HSBC Group must undertake special considerations of conflict of interest that might arise from the relations, structure and business activities of other members of the HSBC Group, as envisioned under Art. 20.1, second paragraph of CSSF Regulation 10-4 and Art. 31.1, second paragraph of the Commission Delegated Regulation (EU) 231/2013.

The **CSSF Circular 18/698** further recommends under point 381 that the conflict-of-interest register shall contain at least the following elements:

- The description of the conflict of interest (whether potential or actual).



- The identification of the person or units concerned by the conflict of interest.
- The date on which the conflict of interest occurred or was discovered.
- The potential or actual impacts of the conflict of interest.
- the description of the envisaged solutions and chosen measures.
- where appropriate, the arrangements for informing investors.

The **HSBC FIM B.4 conflicts of Interest** establish “the minimum standards to protect HSBC, its Workers, Shareholders and Clients from exposure to unidentified or unmanaged conflicts”. HSBC primarily achieves this through maintaining – and reporting on – conflicts registers owned by the First Line of Defence (“FLOD”). The registers record actual and potential scenarios where conflicts could occur, with each evaluated and assigned mitigating controls.

2. SCOPE

This policy is applicable to all HIFL employees, including those in the Branches, irrespective of their employment status as well as all “relevant persons”¹ as defined by Art. 3.4 of the CSSF Regulation 10-4 and Art. 1.2 of the Commission Delegated Regulation (EU) 231/2013, and sets out the HIFL’s arrangements in connection with the identification, documentation, escalation and management of conflicts of interest.

HIFL must take all appropriate steps to identify all actual or potential conflicts of interest, or “conflicts”. HIFL must try to prevent conflicts or otherwise manage them appropriately. Where conflicts are present, HIFL must ensure that they do not disadvantage the interests of existing or prospective Fund investors unfairly in favour of HIFL, HSBC and its employees or prospective Fund investors.

Conflicts can arise in many contexts, and every employee is responsible for identifying and escalating potential conflicts of interest so that they may be appropriately managed and resolved. The HIFL Management is responsible for putting a framework in place and implementing systems, controls and procedures to identify, escalate and manage conflicts of interest.

HIFL Operations as part of the FLOD is responsible for designing and implementing a conflict-of-interest procedure and related controls to give effect to this policy. HIFL Operations is responsible for ensuring that a register of all the potential and actual conflicts that could reasonably arise in the context of HIFL’s activities is maintained and kept up to date.

HIFL Regulatory Compliance (“RC”) as Second Line of Defence (“SLOD”) is responsible for maintaining the local conflicts of interest policy. RC is also responsible for providing advice, guidance and adequate oversight of the register owned by HIFL Operations.

¹ “relevant person” in relation to a management company, means any of the following:

- a) a director, partner or equivalent, or manager of the management company;
- b) an employee of the management company, as well as any other natural person whose services are placed at the disposal and under the control of the management company and who is involved in the provision by the management company of collective portfolio management;
- c) a natural person who is directly involved in the provision of services to the management company under a delegation arrangement to third parties for the purpose of the provision by the management company of collective portfolio management.



3. CONFLICTS OF INTEREST DEFINITION

A conflict of interest is a situation or arrangement where HIFL and/or any of its employees is subject to multiple influences while conducting business. An example of this could be an employee facing a conflict of interest while working for HIFL, potentially compromising their professional judgment and objectivity or hindering their duties to the company. Failure to recognize and manage these conflicts could have negative consequences for Fund investors, HIFL, and its employees.

A conflict under this policy includes both an actual conflict of interest (a conflict of interest that has arisen) and a potential conflict of interest (a conflict of interest that could arise in the context of activities applicable to HIFL).

Failure to identify and manage conflicts of interest could lead to inappropriate consequences for Fund investors, HIFL, and its employees.

Annex 1 provides non-exhaustive lists of relationships where conflicts may arise.

Ensuring that conflicts of interest are properly managed is central to the relationship of trust between HIFL, the Funds under its management and the investors while upholding HSBC Conduct values.

Generally, HIFL must try to avoid conflicts of interest and when they cannot be avoided, ensure that the Funds it manages are fairly treated in accordance with Article 111(d) of the Law of 17 December 2010 Law and Article 11.1(d) of the Law of 12 July 2013.

4. APPROACH TO CONFLICTS MANAGEMENT

HIFL aims to ensure that conflicts of interest do not negatively impact the interests of Fund investors, HIFL, its shareholders, or other stakeholders by identifying, preventing, or managing such conflicts. HIFL may employ various methods, either individually or in combination, to manage conflicts of interest. These methods include:

- (i) **Organizational arrangements detailed in Annex 2;**
- (ii) **Systems, controls, policies, and procedures aimed at preventing the occurrence of conflicts of interest or reducing the associated risks, as described in Annex 3;**
- (iii) **Disclosure used to inform affected parties of conflicts of interest and their likely impact, detailed in Annex 3;**
- (iv) **Avoidance of the service, activity, or matter giving rise to the conflict of interest, if it cannot be effectively prevented or managed using other means.**



5. RESPONSIBILITIES

a. Employees

All HIFL employees, including those in the Branches, are required to:

- **Comply with this policy, rules and other applicable policies and procedures relating to the identification, documentation, escalation and management of conflicts of interest.**
- Act with integrity, objectivity and independence of mind always.
- Familiarise with the conflicts process and any relevant procedures.
- Proactively identify conflicts and escalate them promptly and appropriately.
- Identify and disclose any personal conflicts to line managers, following all mandatory procedures, such as Personal conflicts, Outside Activities and Personal Account Dealing;
- Not misuse information obtained in the course of employment at HIFL in connection with e.g. portfolio management, trade execution, investment advisory or any other regulated financial services and activities;
- Manage work-related information based on the “Need to Know” principle, respecting information barriers and duties of confidentiality at all times.
- Challenge and escalate promptly actual or potential conflicts or concerns to line managers and Regulatory Compliance so that conflicts of interest may be appropriately reviewed, managed and resolved.
- Upon joining HIFL and on a periodic basis, thereafter, complete all conflict-of-interest attestations required.

b. Authorized Management

It is the responsibility of the HIFL Authorized Management (i.e., “Conducting Officers”) to oversee the identification, documentation, escalation, and management of conflicts of interest within their relevant areas of responsibility at HIFL. Conducting Officers are required to:

- Promote a culture that emphasizes ethical treatment of Fund investors and fair handling of conflicts of interest.
- Be involved in the implementation of policies, procedures, and arrangements for identifying, documenting, escalating, managing, and monitoring conflicts of interest.
- Clearly communicate policies, procedures, and expectations, and take a holistic approach to identifying potential conflicts of interest and making informed judgments about their materiality and handling.
- Raise awareness of conflicts and ensure employees complete regular training at induction and as refresher training.
- Support systems and controls to document, track, manage, and mitigate conflicts of interest risk and regularly review their effectiveness.



- Consider the implications and take corrective action as necessary in connection with performance measurements or incentive schemes that may incentivize an employee to act contrary to their duties and responsibilities to HIFL and under applicable rules.

c. Board of Directors

HIFL Board Members comply with the obligations relating to managing conflicts of interest, through requirements set out in the respective terms of reference of the Board of Directors. It is imperative that Board Members ensure that actual or potential conflicts of interest do not influence their decisions.

Board Members are required to proactively recognize conflicts of interest arising from their role on the Board and disclose such conflicts as specified by the relevant terms of reference and applicable regulations. Specifically, Board Members must refrain from any actions that could harm HIFL and the Fund investors. Material conflicts of interest, both individually and collectively, must be thoroughly documented, communicated, discussed, and properly managed.

6. RECORDKEEPING

In accordance with **Section 5.5.7.2 of the CSSF Circular 18/698**, the HIFL Operations team (FLOD) **maintains and regularly update the HIFL conflicts of interest register (“register”) which contains all types of potential and actual conflicts that could reasonably arise in the context of HIFL’s activities, together with specific description of the management / controls in place concerning these conflicts of interest.**

The Register covers at least the following elements:

- The description of the conflict of interest (whether potential or actual);
- The identification of the person or units concerned by the conflict of interest;
- The date on which the conflict of interest occurred or was discovered;
- The potential or actual impacts of the conflict of interest;
- The description of the envisaged solutions and chosen measures;
- Where appropriate, the arrangements for informing investors.

The HIFL business and its employees are responsible for identifying and documenting those conflicts on an ongoing basis.

The conflicts of interest register must provide a comprehensive and sufficiently detailed inventory of conflicts of interest identified and the related controls in place, allowing for an adequate management of the conflicts of interest identified.

Further guidance is provided in the HSBC FIM B.4 Conflicts of Interest and related documentation.



ANNEX 1: Conflicts of Interest relationships, scenarios and non-exhaustive list of specific examples of conflicts of interest

The relationships giving rise to actual or potential conflicts of interest (non-exhaustive) include those that arise between:

- HIFL, including its employees or any person directly or indirectly linked to HIFL by control, and the Fund (UCITS or AIF) managed by HIFL or the investors in that Fund;
- HIFL and entities of the same Group, such as delegated Portfolio Managers, Fund Administrators, Distributors and other affiliates such as brokers/dealers and depositary;
- A Fund managed by HIFL, or the investors in that Fund, and another Fund or the investors in that Fund;
- HIFL and its Fund investors;
- The Fund, or the investors in that Fund, and another Fund investor of HIFL;
- Two Fund investors of HIFL;
- HIFL and its Vendors/services providers;

Integration of sustainability risks in HIFL's processes, systems and internal controls of HIFL that may damage the interests of its Fund investors². Actual or potential conflict of interest situations in relation to Fund investors (Fund investor-related conflicts) may arise if HIFL, an employee, or a third-party representative:

- (i) Stands to benefit financially or avoid financial loss at the expense of a Fund investor, resulting in an inappropriate financial gain;
- (ii) Has a vested interest in the outcome of a service provided to a Fund investor or a transaction carried out on behalf of a Fund investor that differs from the Fund investor's interest in that outcome;
- (iii) Is financially or otherwise motivated to prioritize the interests of one Fund investor or group of Fund investors over another;
- (iv) Engages in the same business as a Fund investor;
- (v) Receives or will receive an inducement, other than a standard commission or fee, from a person other than the Fund investor, in connection with a service provided to the Fund investor;
- (vi) Has a financial or other incentive to promote the sale of a specific product or service to a Fund investor which may not be in the best interest of the Fund investor.
- (vii) Solicits transactions in securities with - or for the account of - an investment company as compensation or in return for sales of participations, shares, or units in the investment company.
- (viii) As regulatory and public interest in environmental, social and governance "ESG" matters increases, it will become increasingly common for conflicts to arise between HSBC's stated climate strategy and our Fund investors, employees, activities and third-party considerations. Risk Owners

² Actual or potential conflict of interest linked to the integration of sustainability risks in HIFL's processes, systems and internal controls are recorded in the HIFL conflict of interest register.



must give careful consideration to managing Climate and ESG related conflicts in order to ensure any Climate and ESG related conflicts are documented and reported upon. Furthermore, conflicts of Interest have been highlighted as a prioritised Regulatory Compliance Risk when considering Climate, as such Climate and ESG considerations should be undertaken throughout and documented where relevant and appropriate.

In relation to provision of loan origination services under AIFMD II, HIFL shall ensure that an AIF it manages does not grant loans to the following entities:

- (i) HIFL itself or HIFL staff, including those in the branches.
- (ii) the AIF's depositary or the entities to which the depositary has delegated functions;
- (iii) an entity to which the AIFM has delegated functions or the staff of that entity; or
- (iv) an entity within the same group.

Actual or potential conflicts of interest in relation to HIFL (HIFL-related conflicts) can be broadly described as scenarios where:

- (i) An employee has the opportunity to influence HIFL's business decisions in a manner resulting in personal gain or advantage for the employee, a family member, or close personal relationship;
- (ii) An employee's existing financial or other interest, or previous engagement in an endeavour, activity, or relationship with another person, could compromise their judgment or objectivity in performing their duties and responsibilities;
- (iii) A conflict arises in connection with a transaction or arrangement entered into between HIFL and Related Parties (as defined in Annex 2) in relation to Fund administration, distribution, portfolio management and share class FX hedging activities which are delegated to HSBC Group entities.
- (iv) Use of Securities Financing Transactions (SFT) and Efficient Portfolio (EPM) techniques with securities lending agents that are part of the same HSBC Group.

3. Non-exhaustive list of specific examples of actual or potential conflicts of interest:

The below is a non-exhaustive list of specific examples of transactions and activities at HIFL that give or may give rise to conflicts of interest which require appropriate management, mitigation or prevention:

- Allocation and/or redeployment of resources focusing on new Funds versus existing Funds;
- Allocation and/or redeployment of resources in the HIFL's Branches focusing on new business needs;
- The scope and size of a Fund and the resulting impact on ability to trade without impacting the market;
- Merging and/or closing of Funds;
- Lower pricing of a new product impacts negatively an existing (more expensive product), and where new products conflict with existing products or client's interests;
- Determining if the product / Fund should have a performance fee or not;



- Where there is conflict between the best interests of a client and the interests of HIFL when determining the target client for a product, or where an employee makes an unsubstantiated claim about the environmental credentials of an ESG product.
- The examination of a complaint uncovers a systemic problem that will incur significant expenses for HIFL to address for all clients, as opposed to a minor cost to address it for the client who raised the complaint.
- Legal advice recommends not providing the client with a written summary of the resolution; however, this approach is perceived as good practice from a client service perspective.
- Various approaches can be utilized to rectify the error and restore the Fund investors to their original position. The chosen method will affect HIFL differently, for better and for worse. HIFL leverages its associations with Related Parties such as the delegated Fund Administrators or Portfolio Managers to conceal or minimize the repercussions;
- The service provider responsible for calculating a Fund's Net Asset Value (NAV) encounters a system outage and cannot calculate the NAV resulting in queries as to what NAV should be used for investors buying and redeeming on the date - can HIFL's shadow calculation of the NAV be used;
- The delegated Portfolio Manager acting as a Related Party is asked to provide the HIFL Operations team with a source for obtaining the valuation of an illiquid security that is held within the portfolios of other delegated Portfolio Managers;
- The delegated Portfolio Manager acting as Related Party is able to override the valuation of certain securities and thereby improve the performance within its portfolios;
- The potential conflict between the product's profitability for HIFL and the Fund investors' best interest, such as the impact of ESG costs and transparency returns;
- When a Fund's administrative charge is fix or capped and HIFL is responsible for paying for the services, there is the chance that HIFL and its employees may be motivated to minimize costs at the expense of investors;
- When service providers' costs, including costs from Related Parties' services such as delegated Fund Administration, Distribution and Portfolio management services or brokers/dealers and depository, are renegotiated to a lower fee, what is the determination for passing the savings on to the Fund investors;
- The Portfolio Manager and/or HIFL would like the swing factor to be as large as possible to help improve performance;
- The Distributor tries to influence HIFL to use a small swing factor as is deemed more beneficial to investors;
- Dissemination of additional product information to some Fund investors, leading to disparate treatment among Fund investors;
- When an investor or group of investors makes significant investment or withdrawals from Fund, which could potentially affect the value of the holdings of other investors;



- HIFL employees can utilise sensitive information to benefit themselves or to the detriment of investors by trading ahead of the Portfolio Manager;
- HIFL employees acquire information related to changes to a listed product that is distributed by a Related Party (delegated Distributor) and uses the information to their benefit;
- HIFL becomes aware of a Group strategic acquisition and this information is leaked;
- A gift could be offered to an HIFL employee which could put that employee in a position of conflict;
- The Sales Team of a Related Party, such as a delegated Distributor, encourage clients to move into HIFL's latest ESG products³;
- The variable remuneration of a HIFL employees is solely based on the performance of the Funds resulting in detriment a Fund positions which could damage investor interests⁴;
- The Fund Board (or equivalent) agrees to close a Fund when it reaches its capacity and the Fund Director invests just before the capacity is reached;
- Recruiting process in HIFL when candidates have family connections with current employees within HSBC Group;
- Where a HIFL employee takes on two roles creating a conflict between their primary job responsibilities and another role;
- HIFL Board of Directors may include Directors who are employees of HIFL's Related Parties, such as the parent entity of HIFL;
- A HIFL Related Party may push HIFL to support a Group initiative that is not in the best interest of the Fund investors;
- Any HIFL Related Party, such as delegated Portfolio Manager or Fund Administrator could try to influence the Fund Board (or equivalent) to renew its contract when another service provider's value proposition is better for the Fund's investors;
- A HIFL Related Party influences decisions around the future of a Fund (e.g., merger, closure, fee changes, etc.), which would be in their favour but may not be in the best interest of the Fund's investors;
- The Fund Director receives a monetary or non-monetary benefit from a service provider, or otherwise having any form of business connection with a service provider;
- The Fund Director has a directorship or other senior role with a service provider, which may influence their decisions;
- The Fund Director is a director of another Fund range whose actions may impact the Fund;
- HIFL may be encouraged to use Group Affiliates (or Related Parties) as service providers when this may not be the best choice (e.g. price, quality, etc.) for the business and/or its clients. Examples include:

More details of actual or potential conflict of interest and mitigating controls can be found in the conflict of interest register.



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- IT services;
 - Transfer Agent, Recordkeeping, and/or Custodial services;
 - Fund Administration;
 - Distribution;
 - Portfolio Management;
 - Spot Foreign Exchange (FX), FX forwards, and FX Overlay services;
 - Etc.
- HIFL negotiates services, contracts, fees, etc. on behalf of a Fund where the provider may be a Related Party;
- The Related Party's defined terms and conditions are more onerous than an external third party and the Related Party is reluctant to negotiate.
- Where a service provided by a Related Party results in an error, HIFL could be held up in its ability to take action against the Group Affiliate (as compared to action that could be taken if the service had been provided by an external third-party service provider);
- HIFL's Compliance or Legal function also supports a Related Party (i.e. Entity of the same HSBC Group) that provides services to HIFL's managed Funds;
- HIFL alignment with HSBC Group on a particular topic hinders HIFL's ability to express its independent opinion as ManCo, for example a particular operational issue to MSS, following a breach which resulted in a loss, or for example to express an opinion to the regulator on a general asset management industry issue;
- The ability of some HIFL Conducting officers to make independent decisions in the context of the oversight of Internal Third-Party service providers such as Distributors and Portfolio Managers may be impaired by the functional reporting line of HIFL Conducting officers into the entity in question;
- The Management Company may grant an important portion of revenue generated by the securities lending program to its affiliate who is acting as the Securities Lending Agent as opposed to distribute that revenue back to the Funds and ultimately to the shareholders;
- HIFL acts as AIFM to a number of AIFs. Under the AIFMD, the Luxembourg law of July 2013 and CSSF Circular 18/698, the AIFM is responsible for the valuation of the assets of the AIF, and the investment management, risk and valuation functions must be hierarchically and organisationally separate;

In some circumstances where an AIF holds illiquid assets, the valuation function of the AIFM may require data or information to be obtained directly from the Portfolio Manager to be included or used in the valuation of the asset. This gives rise to a potential conflict of interest as the data may only be obtained from the Portfolio Manager who acts as a Related Party.



ANNEX 2: Organisational Arrangements relating to conflicts of interest

Corporate Governance Fundamentals

HIFL is committed to maintaining a corporate governance framework aligned with legal requirements. In support of this objective, HIFL applies and acknowledges a clear and comprehensive set of **corporate governance principles** of HSBC Group documented in [HSBC FIM B.1 Internal Governance](#). All employees, including those in the branches are expected to comply with these principles.

Board and Committees Governance

The respective **terms of reference for the HIFL Board and the Local Management Committee set out the obligations of these bodies relating to the management of conflicts of interest, including those conflicts that may arise in connection to the HIFL's Branches**. All board and committee members and participants in committees are expected to comply with the terms of reference of Board / Committees they participate in and to disclose conflicts of interest as they arise. In particular, The HIFL LMC is responsible for overseeing, discussing, and addressing conflicts that may arise within HIFL activities on a monthly basis, for example, when developing new products, making changes to existing products, altering organisational structures, entering into third party relationships, amending cross-business reporting lines, or transferring businesses or operations to another part of HSBC. The conflicts register details the types of actual or potential scenarios in which a conflict could arise. The HIFL LMC must ensure that measures are put in place so that the conflicts register remains up to date monthly, with controls at an appropriate and proportionate level.

Specific requirements relating to conflicts of interest involving delegation and related parties

"Related parties" shall mean:

- a) The legal entities (structures) which are part of the HSBC Group to which HIFL belongs;
- b) The shareholders;
- c) The members of the management body of HIFL or entities mentioned in point (a), their spouses or partners registered in accordance with the applicable national law and their children and parents;
- d) The commercial entities, in which a member of the management body or his or her close family member as referred to in point (c) has a qualifying holding of 10 % or more of capital or of voting rights in that entity, in which those persons can exercise significant influence, or in which those persons hold senior management positions or are members of the management body⁵.

HIFL has several counterparties, such as our delegated service providers. These can be both legal entities within the HSBC Group (internal third parties) as well as parties outside the HSBC Group (external third

⁵ HIFL does not typically engage in transactions with commercial entities, in which a member of the management body or his or her close family member as referred to in point (c) has a qualifying holding of 10 % or more of capital or of voting rights in that entity, in which those persons can exercise significant influence, or in which those persons hold senior management positions or are members of the management body.



parties) supplying, among others, fund administration, portfolio management and distribution services. HIFL may be encouraged to use Group Affiliates (or Related Parties) as service providers and this may give rise to conflicts of interest. Examples include:

- IT services;
- Transfer Agent, Recordkeeping, and/or Custodial services;
- Fund Administration;
- Marketing and Distribution;
- Portfolio Management;
- FX Overlay services;
- Etc.

If HIFL delegates / outsources parts of its functions to another legal entity, an agreement or/and a service level agreement is established to govern the delegated/ outsourced function, considering the provisions of CSSF Circular 18/698 regarding the delegation/ outsourcing (Chapter 6). The agreement and the service level agreement shall specify the services that will be carried out by the delegate/service provider. **To avoid any potential or actual conflicts of interest, HIFL ensures that all functions, which are delegated / outsourced to any legal entity within the HSBC Group, are at arm's length.**

Employees involved in transactions and arrangements with related parties must be conscious of the risk of conflicts of interest and the need to manage such matters appropriately and in accordance with this policy.

The conflict-of-interest register is the tool used to record any actual or potential conflicts that may arise in the course of collective portfolio management activities and to identify the specific mitigating controls. In addition to conflicts related to portfolio management activities, the register also addresses potential conflicts arising from other delegated activities.

HIFL interaction with Vendors and Third-Party Representatives who are not Related Parties

Interaction with Vendors and Third-Party Representatives are carefully managed by HIFL. Due Diligence is conducted, and contracts are established to safeguard the interest of HIFL and its Fund investors. Potential conflicts of interest, such as when an employee involved in procurement or hiring has a close relationship with a particular vendor are expected to be identified, escalated and managed in accordance with this policy. It is the responsibility of employees to report any matters that might affect their independence, objectivity, or duties to HIFL or its Fund investors. HIFL also aims to manage actual or potential conflicts of interest between Vendors and Fund investors independently and on an arm's length basis, with the rules of engagement outlined in the Procurement policies and procedures.

Segregation of Functions

HIFL operates a clear structural segregation of business lines and functions to allow for the independent running of businesses. Each business line of HIFL reports to a nominated member of the Local Management Committee who is responsible for overseeing and managing the business line within the function. HIFL also operates an internal control environment underpinned by a "Three Lines of Defence" framework that articulates risk, control and reporting responsibilities in a consistent operating model



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across all three lines of defence. This requires the independence of control functions, including Compliance, Risk and Audit.

Compliance and Internal Audit

The Compliance and the Internal Audit functions of HIFL cannot be undertaken concurrently by the same physical person. Internal Audit function has been delegated, the monitoring of this function is undertaken concomitantly by the Management Committee.

The Compliance function as well as the Internal Audit function operate independently and in compliance with the separation of tasks to identify any risk of non-compliance of HIFL with the requirements imposed by laws and regulations applicable to HIFL, including conflicts of interest.

Risk Management

The Risk Management Function is hierarchically and functionally independent from operating units, including from the Portfolio Management and Valuation Function. The functional and hierarchical separation of the Risk Management Function is ensured as evidenced in HIFL's organizational chart.

Rules in relation to the management information

HIFL maintains in an adequate and orderly manner records of its activities and its internal organisation. To this end, HIFL has put in place "management information" permitting the follow-up of its activities and that of its delegates. The management information covers, amongst others, the incidents linked to the activity of our delegated service providers, including situations giving rise to conflicts of interest. Finally, it is ensured that this management information is available at the registered office in Luxembourg and is accessible at any time.

Rules in relation to communication and exchange of information

If an employee is employed by another legal entity within HSBC Group or another entity in addition to the employment within HIFL or in the case that HIFL has outsourced part of its functions to a legal entity within the HSBC Group, this employee should be aware of the obligation to preserve confidentiality and may not exchange information with the HSBC Group entity where the exchange of that information could harm the interest(s) of one or more funds managed.

HIFL and all employees are required to exercise due care to ensure that any material, non-public information (or inside information) in their possession always remains secure.

Rules in relation to remuneration principles and personal transactions guidelines

HIFL has adopted a Remuneration Policy to ensure that conflicts of interest are mitigated.

HIFL has also adopted a Global Personal Account Dealing Policy ("GPAD") to ensure that trading activities of relevant employees and closely related persons do not give rise to any conflicts of interest.



Independence in relation to the Depositary functions

HIFL ensures that no person may at the same time be both:

- 1) A HIFL director and a member of the Board of Directors of the Depositary;
- 2) A HIFL director and an employee of the Depositary;
- 3) A member of the Board of Directors of the Depositary and an HIFL Employee.

HIFL has put in place a decision-making process for selection and appointing the Depositary which is based on objective pre-defined criteria and meet the interest of the funds managed (and the investors of said funds).

Independence in relation to inducements

In accordance with article 24 of the Commission Delegated Regulation (EU) 231/2013 and article 32 of CSSF Regulation 10-04, HIFL takes all necessary actions to act honestly, fairly and professionally in accordance with the best interests of the funds managed and the investors, in relation to the activities performed for which it pays or is paid any fee or commission, or provides or is provided with any non-monetary benefit, other than the following:

- A fee, commission or non-monetary benefit paid or provided to or by the fund managed or a person on behalf of the fund managed;
- A fee, commission or non-monetary benefit paid or provided to or by a third party or a person acting on behalf of a third party, where the following conditions are satisfied:
 - the existence, nature and amount of the fee, commission or benefit, or, where the amount cannot be ascertained, the method of calculating that amount is clearly disclosed to the fund in a manner that is comprehensive, accurate and understandable, prior to the provision of the relevant service;
 - the payment of the fee or commission, or the provision of the non-monetary benefit is designed to enhance the quality of the relevant service and not impair compliance with HIFL's duty to act in the best interests of the fund it manages or the investors in the fund;
- Proper fees which enable or are necessary for the provision of the relevant service, including custody costs, settlement and exchange fees, regulatory levies or legal fees, and which, by their nature, cannot give rise to conflicts with HIFL's duties to act honestly, fairly and professionally in accordance with the best interests of the fund it manages or the investors in the fund.

Rules in relation to voting rights

HIFL shall have an appropriate and effective strategy to determine when and how voting rights attached to instruments held in a sub-fund managed are exercised and as well as to ensure that these rights are only of benefit to the relevant funds.

This strategy shall:

- Ensure the monitoring of relevant corporate events;



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- Guarantee that the exercised voting rights are done in accordance with the objectives and investment policy of the relevant funds;
- Prevent or manage any conflict of interest arising from the exercise of voting rights.

Resolution of conflicts

HIFL employees, including employees in the Branches, should abstain from any activities or events that may result in a conflict of interest. Conflicts, if unavoidable, need to be effectively and appropriately managed. If employees find themselves in a situation involving a conflict of interest which isn't identified or managed by an existing control, they should refrain from attempting to independently resolve any uncertainties and seek guidance from the Line Manager and Compliance. The HIFL Operations team, supported by the HIFL Compliance function as required, will conduct thorough investigations and determine the appropriate course of action to prevent and/or mitigate the relevant conflict.



ANNEX 3: Description of Systems, Controls and Procedures relating to conflicts of Interest management

Certain key controls set out in this policy are assessed in accordance with the HSBC Non-Financial Risk Framework. Specific controls to be followed to manage such conflicts are detailed in the conflicts of interest register.

The key controls in place at HIFL are as follows (non-exhaustive):

1. Identifying all types of conflicts that could reasonably arise in the context of its activities

HIFL must take all appropriate steps to identify the types of actual or potential conflicts relevant to its specific services and activities, including activities in its Branches. For example, HIFL must identify actual or potential conflicts when it:

- Develops a new product or change an existing product;
- Changes to organisational arrangements, such as the structure of pay and incentives, deployment or management of employees;
- Enters into or amend types of third-party relationships (including Related Parties relationships);
- Creates or amend cross-business reporting lines; or
- Transfers businesses, activities or operations – or parts thereof – to another part of HSBC.

HIFL must minimise the possibility of conflicts arising by:

- Appropriately segregating duties, where necessary, so that no individual carries out conflicting activities;
- Supervising people whose principal role involves serving multiple Fund investors whose interests could conflict;
- Preventing or limiting individuals or entities on each side of the Conflict influencing each other inappropriately;
- Prevent or control simultaneous or sequential involvement of people involved in conflicts.

When conflicts involve Fund investors, HIFL must assess whether HIFL or any employee:

- Is likely to make a financial gain or avoid a financial loss at the expense of that Fund investor;
- Has an interest in the outcome of a service provided to the Fund investor, or of a transaction carried out on behalf of the Fund investor, which is distinct from the Fund investor's interest in that outcome;
- Has a financial or other incentive to favour the interest of another Fund investor or group of Fund investors over the interest of the Fund investor;
- Carries on the same business as the Fund investor; or
- Receives or will receive from a person other than the Fund investor an Inducement in relation to a service provided to the Fund investor.



2. Conflicts register approval: maintaining a register recording all identified conflicts, with each scenario evaluated and assigned mitigating controls

The conflicts register detail the types of service or activity carried out by – or on behalf of – HIFL in which a conflict could arise. HIFL must ensure that measures are put in place so that the conflicts Register remains up to date, with controls at an appropriate and proportionate level. The conflicts register must be comprehensive and stand alone and not rely on other sources of information to be understandable. HIFL must ensure that the nominated register managers add newly identified conflicts to the register promptly. A change log must record when conflicts are added or modified. All changes to the register must be subject to an appropriate governance process.

The conflicts register is a preventative control which helps HIFL to maintain effective arrangements to identify, record and report all types of conflict that could reasonably arise in the context of its activities as follows:

- Evidence the complete and comprehensive record of all types of Conflict that arise or could reasonably arise in the context of their activities;
- Identify mitigating controls, and record these against each Conflict scenario in the register,
- Identify unmanaged conflicts easily, and escalate if appropriate

HIFL has established the ownership and accountability of the conflicts register at a senior governance forum, the HIFL Local Management Committee (“HIFL LMC”) and HIFL Board of Directors. The terms of reference of the HIFL LMC and HIFL Board of Directors include the responsibility to consider and resolve conflicts, and the need to review the register at least annually.

3. Personal Conflicts of Interest Controls

This is a key preventative control to ensure that the FLOD undertakes checks and provides authorisation before any employee engages in an activity that could give rise to personal conflicts. All Employees are aware of the need to notify HIFL of any possible personal conflicts, including those created by relationships with personal connections and HIFL must ensure that:

- Employees complete the required authorisation forms – e.g. Outside Activities form – at the required time;
- Systems of record are up-to-date and accurate – e.g. Outside Activities tool or Global Personal Account Dealing system (“GPAD”);
- An authorised independent approver – usually the line manager – approves Employee’s requests before they engage in Outside Activities or enter into a personal trade;
- Employees adhere to any conditions of acceptance and, where declined, they do not engage in the activity;
- Line managers ensure that any applicable conditions are adhered to on an on-going basis;
- The FLOD escalates all identified exceptions promptly and manages breaches in line with personal conduct procedures.



Global Human Resources is responsible for maintaining data and systems about employees. These enable the FLOD to identify Employees in scope for the purposes of Personal Account Dealing and manage personal conflicts in accordance with the internal procedures.

4. Escalation and reporting

Any employee uncertain of how to act in a particular circumstance and/or whether a specific situation gives rise to a conflict of interest, shall consult the line manager and compliance officer, who will then assist with the assessment of a possible conflict of interest.

The compliance officer shall ensure that any conflict is recorded by the HIFL Operations team and then reported to the senior management and to the Board of Directors with an adequate proposal on the management of any potential conflicts of interest, which includes:

- Informing the fund/investors where this is necessary;
- Choosing a solution that is in the fund's/investors' interest; and
- Refraining from any action if the previous solution cannot be implemented.

Based on the proposed action, the Board of Directors will decide on the measure(s) to be taken and its/their implementation.

5. Disclose Conflicts

HIFL must consider whether disclosing the presence of a conflict to a Fund investor or third party is appropriate to provide sufficient transparency.

Disclosures can be:

- General disclosures about the types of conflicts present in HIFL, which must be aligned to the registers;
- Specific disclosures, including where HIFL has made all reasonable efforts to prevent or manage a conflict appropriately, but the risk of damage to a Fund investor's interests remains.

Where HIFL considers a specific disclosure is appropriate, it must detail the risks to the Fund investor that arise due to the conflict, and the steps HIFL has undertaken to mitigate these risks. A duty of confidentiality to one Fund investor might limit the disclosures that HSBC can make to another.

This specific disclosure must:

- Be made in a durable medium (such as the prospectus or written notification in the form of an email to existing investors);
- Include sufficient details, taking into account the nature of the conflict, enabling the investors to take an informed decision with respect to the service in the context of which the conflict of interest arises; and
- Indicate the reasons for the decisions taken by HIFL in relation to the measures put in place and that the organisational and administrative arrangements established by HIFL to prevent or



manage that conflict are not sufficient to ensure with reasonable confidence, that the risks of damage of the investors will be prevented.

Disclosure is acceptable as part of an effective overall control framework. However, HIFL must not consider disclosure to be a substitute for otherwise managing Conflicts.

6. Reporting and evidencing all occurrences of unmanaged conflicts

HIFL must maintain evidence in the conflicts register of the circumstances where conflicts have not been - or cannot be – managed and are escalated to the HIFL Local Management Committee and HIFL Board of Directors. This includes situations where there has been a failure to identify or manage a Conflict appropriately, for example through a failure of controls. It also includes situations where unmanaged conflicts either manifest or are identified through reportable events and breaches.

7. Controls Monitoring and Risk Assessment

HIFL FLOD monitors controls relating to the management of conflicts of interest on a regular basis (e.g. annually) to ensure controls remain effective and to detect and remediate any gaps identified in these controls. Control monitoring and Risk Assessment is carried out in the HSBC Group tool “HELIOS” as set out in the Group’s Non-Financial Risk Management Framework. This monitoring plan is supplemented by regular risk assessments conducted by the Second Line of Defence (“SLOD”), including the Compliance Monitoring Program. In addition, HIFL’s conflict of interest framework is in scope for Third Line of Defence (“TLOD”) reviews conducted by Internal Audit.

8. Training

HIFL provides and expects relevant employees to attend or take regular training on conflicts management and conflicts of interest related topics. This training is critical in ensuring that Employees can identify and escalate conflicts of interest and are aware of the processes by which they are identified, escalated and resolved. Appropriate Compliance resources are dedicated to the training and building of awareness of conflicts of interest to develop the knowledge and understanding of Employees.



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