

Sustainability related disclosures pursuant to Article 10(1) of the Disclosure Regulation | HSBC French AIF – Sub-Fund RCF Partnership Fund (the “**Sub-Fund**”)

Legal entity identifier: 635400FRWJRWAOXOEB06

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**”) (as supplemented by articles 25 to 36 of Commission Delegated Regulation (EU) 2022/1288 with regard to regulatory technical standards and as amended and supplemented from time to time) 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 or social characteristics. In particular, it requires fund managers and advisers to disclose specific ESG-related information to investors on their websites. Terms not otherwise defined herein shall have the meaning given to them in the Prospectus of the HSBC FRENCH AIF FFS Fund (the “**Fund**”) dated 29 November 2024, as amended from time to time (the “**Prospectus**”).

1 Summary

No sustainable investment objective	The Sub-Fund promotes environmental or social characteristics but does not have sustainable investment as its investment objective.
Environmental or social characteristics of the financial product	<p>The Sub-Fund will promote environmental and social 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 Portfolio Manager. In particular, the Sub-Fund will promote environmental and social characteristics by not making any investments into companies with a “Weak” ESG Rating evidenced by the Portfolio Manager’s approach to assessing ESG ratings for prospective borrowers.</p> <p>ESG Ratings are determined by reference to a number of environmental and social characteristics, including, dependent on the borrower’s sector, GHG Emissions & Climate Risk, Environmental Risk Management, Biodiversity & Ecological Impacts, Resource Use & Waste Management, Materials Sourcing & Supply Chain Management, and Environmental Opportunities for Environmental characteristics and Product/Service Safety & Liability, Privacy & Data Security, Labour Management, Workplace Health and Safety, Community Relations & Human Rights, and Social Opportunities for Social characteristics.</p> <p>More detail on the Environmental and Social characteristics is set out below.</p>
Investment strategy	<p>The Sub-Fund will invest (directly or indirectly through a funded or risk participation) in Eligible Facilities which will be originated by HoldCo and/or any other Holding Company in which the Sub-Fund holds (directly or indirectly) equity interests and/or other equity-like instruments. The Sub-Fund may, to a limited extent, also acquire and hold RCFs that are not Eligible Facilities via HoldCo and/or other Holding Companies, provided that it needs to carry out a due diligence with regard to each such investment and to actively monitor the performance of such RCFs. The activity of the investing Holding Company will not be limited to mere loan administration, but rather each potential RCF investment will be examined pursuant to the established due diligence processes and subsequently monitored accordingly.</p> <p>In addition, the Sub-Fund will promote environmental and social characteristics by not making any investments with a “Weak” ESG Rating, as assessed by the Portfolio Manager.</p>
Proportion of investments	At least 90% of the Sub-Fund’s assets will be held in Investments that attain the Environmental and Social characteristics promoted by the Sub-Fund.

Monitoring of environmental or social characteristics	<p>The final investment papers presented to the Investment Committee (the “IC”) contain a dedicated ESG section, covering an assessment of the ESG positives, ESG concerns & mitigants and ESG Rating and Scorecard score. This will be covered as part of the IC’s decision making.</p> <p>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 Ratings will be updated at least annually.</p>
Methodologies	The Investment Team has implemented a set of asset class and sector-specific ESG Scorecards, used to assess a borrower’s exposure to both ESG risks and opportunities for positive ESG contributions.
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.
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 (including via the Sub-Fund’s questionnaire), sourced from independent reports, or available from HSBC or third-party ESG data providers to complete their analysis.
Due diligence	During the due diligence phase of the transaction, the Portfolio Manager will review more detailed information on the company which may include the business plan and financial model, site visit attendance and management presentations, and review of externally prepared due diligence reports.
Engagement policies	The Investment Team will drive engagement by raising sustainability topics at management meetings and will encourage borrowers to report on their ESG-related activities and to share outputs with the Sub-Fund, when they are not already providing detailed ESG reporting.
Designated reference benchmark	No reference benchmark has been designated for the purpose of attaining the above environmental and social characteristics promoted by the Sub-Fund.

2 No sustainable investment objective

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

3 Environmental or social characteristics of the financial product

The environmental and social characteristics that each company is assessed against via the ESG Scorecard include, dependent on the borrower's sector:

Environmental:

- GHG Emissions & Climate Risk
- Environmental Risk Management
- Biodiversity & Ecological Impacts
- Resource Use & Waste Management
- Materials Sourcing and Supply Chain Management
- Environmental Opportunities

Social:

- Product/Service Safety & Liability
- Privacy & Data Security
- Labour Management
- Workplace Health and Safety
- Community Relations & Human Rights
- Social Opportunities

4 Investment strategy

The Sub-Fund will invest (directly or indirectly through a funded or risk participation) in Eligible Facilities which will be originated by HoldCo and/or any other Holding Company in which the Sub-Fund holds (directly or indirectly) equity interests and/or other equity-like instruments.

The Sub-Fund may, to a limited extent, also acquire and hold RCFs that are not Eligible Facilities via HoldCo and/or other Holding Companies, provided that it needs to carry out a due diligence with regard to each such investment and to actively monitor the performance of such RCFs. The activity of the investing Holding Company will not be limited to mere loan administration, but rather each potential RCF investment will be examined pursuant to the established due diligence processes and subsequently monitored accordingly.

In addition, the Sub-Fund will promote environmental and social characteristics by not making any investments with a "Weak" ESG Rating, as assessed by the Portfolio Manager in accordance with its ESG framework.

Further information on the ESG Scorecard and other methodologies that the Sub-Fund adopts to meet the environmental and social characteristics promoted by the Sub-Fund can be found in section 7 (**Methodologies**).

The Sub-Fund looks to ensure that investee companies uphold the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, including the principles and rights set out in the eight fundamental conventions identified in the Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work and the International Bill of Human Rights.

5 Proportion of investments

At least 90% of the Sub-Fund's assets will be held in Investments that attain the Environmental and Social characteristics promoted by the Sub-Fund. The remaining portion of the Sub-Fund's investments may be held in Investments which fall below the required ESG Rating post-investment and/or Cash Management Investments. Environmental and social safeguards will not apply to such Cash Management Investments.

6 Monitoring of environmental or social characteristics

The final investment papers presented to the IC contain a dedicated ESG section, covering an assessment of the ESG positives, ESG concerns & mitigants and ESG Rating and Scorecard score. This will be covered as part of the IC's decision making.

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 Ratings will be updated at least annually.

7 Methodologies

ESG Scorecards

The Investment Team has implemented a set of asset class (i.e. Private Credit) and sectoral ESG 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 (e.g. GHG 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 Asset Management Responsible Investment team.

The outcome of the ESG Scorecard is a score between 1 and 5 that maps to an ESG Rating in a 4-point scale, from "Weak" through to "Strong":

ESG Rating	Private Credit ESG Scorecard score
Strong	4.00 – 5.00
Good	3.00 – 3.99
Satisfactory	2.00 – 2.99
Weak	1.00 – 1.99

This design takes the screening into consideration, as many of the highest risk potential borrowers 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 lower risk potential borrowers.

ESG Ratings will be reviewed and updated at least annually.

Whilst it is not a requirement for any Investment to be aligned with the United Nations Sustainable Development Goals ("SDGs"), the Investment Team will also track alignment to the SDGs when relevant. 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 Sub-Fund will only seek to align borrowers to a particular SDG where the Sub-Fund has clear evidence from the due diligence and interactions with the borrower that allow the Sub-Fund to record a detailed rationale for the alignment to a specific target. There is no intention to report on alignment with SDGs.

8 Data sources and processing

Inputs to the Scorecard are determined by the Investment Team with reference to materials provided by the potential borrower, sponsor, responses to questions raised, due diligence reports as well as third party data providers such as RepRisk, and benchmarking against other companies in the same industry. The resulting output ("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 PAI reporting to fill gaps in information which contribute towards the ESG Scorecard, however, as detailed above, PAI are not considered by the Sub-Fund.

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/issuer during due diligence (including via our questionnaire), sourced from independent reports, or available from HSBC or third-party ESG data providers to complete their analysis.

9 Limitations to methodologies and data

The level of information available to complete the ESG Scorecards may vary between different borrowers. Whilst all reasonable efforts are made to retrieve such data, the Sub-Fund may not be able to obtain all the data it requires from the borrower. Accordingly, in order to address such limitations so that it does not material affect how the environmental or social characteristics promoted by the Sub-Fund are met, the Investment Team will use whatever robust and reliable information is available in the public domain, disclosed by the borrower during due diligence (including via the Sub-Fund's questionnaire), sourced from independent reports, or available from HSBC or third-party ESG data providers to complete their analysis. If the use of such information results in the use of estimations, robust estimation methodologies are used to replace such missing data.

10 Due diligence

During the due diligence phase of the transaction, the Portfolio Manager will review more detailed information on the company which may include the business plan and financial model, site visit attendance and management presentations, and review of externally prepared due diligence reports covering inter alia: financial; tax; market; and legal issues. Assessment of ESG risks is a key component of the initial transaction screening phase.

Through the screening and due diligence process we seek to make a qualitative assessment of the impact of ESG related factors on the credit risk profile of a borrower.

11 Engagement policies

The Alternatives Responsible Investment Policy (see <https://www.assetmanagement.hsbc.co.uk/en/institutional-investor/about-us/responsible-investing/policies>) sets out that, where HSBC Alternatives is investing directly we aim to engage with management of the underlying assets to ensure that they deliver high levels of corporate responsibility including appropriate disclosures.

For the Sub-Fund, this means that the Investment Team will drive engagement by raising sustainability topics at management meetings and will encourage borrowers to report on their ESG-related activities and to share outputs with the Sub-Fund, when they are not already providing detailed ESG reporting.

The Investment Team will aim to receive an update or engage with borrowers 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 Sub-Fund's borrowers.

ESG will be an agenda item at management meetings and prior to a 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 Rating of the borrower (e.g. progress on climate commitments, etc). Details of ESG-related engagements will be tracked and reflected in the updated Scorecard assessment.

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

Engagement with existing borrowers will be included on the agenda of the RCF Partnership Strategy IC, as part of the periodic portfolio review. For each borrower where there has been engagement with management in the last quarter, the relevant member of the Investment Team will cover any changes in ESG Ratings, key topics discussed, and any updates to relevant targets.

The Investment Team will implement enhanced engagement in the event that a borrower's allocated ESG Rating is downgraded to "Weak" by the Investment Team, or where the Investment Team becomes aware of an ESG incident.

Enhanced engagement means engagement with the borrower on a quarterly basis. This continues until sufficient evidence of improvement is gathered to support an increase of the ESG Rating of the borrower to "Satisfactory" or better, with approval from the IC of this assessment.

12 Designated reference benchmark

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