Sustainability related disclosures pursuant to Article 10(1) of the Disclosure Regulation | HSBC European Senior Direct Lending Fund 2023 RAIF SICAV-S.A. (the "**Fund**")

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 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, 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. Terms not otherwise defined herein shall have the meaning given to them in the offering memorandum of the Fund dated November 2023, as amended from time to time (the "**OM**").

1 Summary

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 new investments (other than Follow-on Investments) into companies with a High ESG Score (1) as evidenced by the Portfolio Manager's approach to assessing ESG Ratings for prospective borrowers. In addition, the Fund will not make investments (other than Follow-on Investments) with a Medium ESG Score (2) unless the Investment Team believes that an improvement in the ESG Rating to a Low ESG Score (3) or a Neutral ESG Score (4) is achievable. ESG Ratings are determined by reference to a number of ESG characteristics, including climate change factors, natural resources, pollution and waste, workplace health and safety, product safety and liability, and Labour management practices.
Investment strategy	The Fund's strategy is to build a diversified portfolio of senior secured loans extended to middle market companies in both the private equity sponsored and non-sponsored markets located in the EEA, Switzerland, the United Kingdom, the Isle of Man and the Channel Islands. ESG Ratings (described below) will be used to assess the environmental, social, and governance practices of borrowers.
Proportion of investments	It is expected that at least 75% of the portfolio will be aligned with 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 (IC) will contain a dedicated ESG section within the investment paper. ESG will be an agenda point during the meeting and members of the Direct Lending IC will be required to validate the designated company ESG Rating. 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 Scorecards, used to assess a borrower's exposure to both ESG risks and opportunities for positive ESG contributions. Each investment will also be assessed through the Portfolio Manager's SIFfA (Sustainability Investment Framework for Alternatives), but SIFfa will not be taken into account for the purpose of the ESG Scorecards.
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 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 companies 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.

3 Environmental or social characteristics of the financial product

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

The Fund will promote these ESG characteristics by not making any new investments (other than Follow-on Investments) into companies with a High ESG Score (1) as evidenced by the Portfolio Manager's approach to assessing ESG Ratings for prospective borrowers. In addition, the Fund will not make investments (other than Follow-on Investments) with a Medium ESG Score (2) unless the Investment Team believes that an improvement in the ESG Rating to a Low ESG Score (3) or a Neutral ESG Score (4) is achievable. Refer to section 7 for further details on the ESG Scorecards and how the ESG characteristics are factored into the ESG Scorecard methodology.

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's strategy is to build a diversified portfolio of senior secured loans extended to middle market companies in both the private equity sponsored and non-sponsored markets located in the EEA, Switzerland, the United Kingdom, the Isle of Man and the Channel Islands.

The Fund will invest in Eligible Loans (as defined in the OM) which will generally be originated by a Holding Company in which the Fund holds (directly or indirectly) equity interests and/or other equity-like instruments. The Fund may also acquire and hold loans via 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 EUR 25 million and EUR 225 million, of which the

Fund is expected to extend between EUR 25 million and EUR 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 of the Fund may also accept equity options, such as and including equity warrants, to enhance overall return on new investments.

The 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 Fund will promote environmental and social characteristics by not making any new investments (other than Follow-on Investments) into companies with a High ESG Score (1). In addition, the Fund will not make investments (other than Follow-on Investments) with a Medium ESG Score (2) unless the Investment Team believes that an improvement in the ESG Rating to a Low ESG Score (3) or a Neutral ESG Score (4) is achievable. 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

The Fund takes a rigorous approach to governance and ensures that it operates in accordance with local and national laws and regulations applicable to the jurisdictions in which it operates. The governance practices of investee companies are considered through the screening and due diligence process as well as through the ESG Scorecard and SIFfA assessment process. The governance characteristics that each company is assessed against via the ESG Scorecard are:

- Experience
- Strategy
- Background/influence of key shareholders
- Financial disclosure and internal controls
- Auditor independency
- Corruption risk
- Litigation
- Reputation

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

The 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

The Fund pursues an investment strategy comprising of a portfolio of senior secured loans made to middle market sized European businesses. It is expected that at least 75% of the portfolio (by reference to the aggregate of all commitments to the Fund (including to any parallel companies or alternative investment vehicles) ("**Aggregate Fund Commitments**")) will be aligned with environmental and social characteristics within the meaning of Article 8 of the Disclosure Regulation and be classified accordingly. Therefore, it is expected that 25% or less of the portfolio (by reference to Aggregate Fund Commitments) will not be aligned with environmental and social characteristics within the meaning of Article 8 of the Disclosure Regulation. All investments will undergo the complete investment, operational and legal due diligence processes.

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, 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.

ESG Ratings will be reviewed and updated at least annually.

7 Methodologies

ESG Scorecards

The Investment Team has implemented a set of sector-specific ESG assessment scorecards (the **"ESG Scorecards"**), used to assess a borrower's exposure to both ESG risks and opportunities for positive ESG contributions, based on a number of ESG factors. Each factor is scored based on the parameters set out in the ESG Scorecards and assigned a specific weight based on its relevance within that sector. The ESG Scorecards were designed 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 the lowest ESG risk score for the companies with a positive 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 ESG Scorecard are determined by the Investment Team with reference to materials provided by the company or the private equity sponsor, responses to questions raised, due diligence reports, and third-party data providers such as RepRisk. The resulting output score ("**ESG Rating**") is a weighted average of the relevant ESG factors. An ESG

Rating of (1) means a “High ESG Score”, an ESG Rating of (2) means a “Medium ESG Score,” an ESG Rating of (3) means a “Low ESG Score,” and an ESG Rating of (4) means a “Neutral ESG Score”.

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 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 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 Fund will promote environmental and social characteristics by not making any new investments (other than Follow-on Investments) into companies with a High ESG Score (1). In addition, the Fund will not make investments (other than Follow-on Investments) with a Medium ESG Score (2) unless the Investment Team believes that an improvement in the ESG Rating to a Low ESG Score (3) or a Neutral ESG Score (4) is achievable. 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

The 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.

ESG Ratings will be reviewed and updated at least annually.

<u>Sustainability Assessment</u>

Each investment will also be assessed through the Portfolio Manager's SIFfA from a sustainability perspective. Whilst investments will be assessed through the Portfolio Manager's SIFfA, such assessment is not currently taken into account for the purpose of the ESG Scorecards but may be taken into account in the future. Notwithstanding, it is likely that high scores in a SIFfA assessment correlate to a high score in the ESG Scorecard. SIFfA leverages the Global Impact Investor Networks' IRIS+ and the UN's Sustainable Development Goals ("**SDGs**") Compact Tool to determine the applicability of SDGs to each asset class sub-sector and the appropriate metrics (qualitative and/or quantitative) to use for the assessment. These metrics are enriched by relevant academic research and insights gained from regulatory requirements such as the Technical Screening Criteria within the EU Taxonomy. The framework is aligned to the EU Taxonomy where possible but also includes a broader scope of sectors and activities than those currently identified by the EU Taxonomy. For each applicable SDG and based on the business activity (what is produced/delivered and how this is produced/delivered) and the contribution (positive or negative), an investment is classified into one of four zones – Safe Zone, Progression Zone, At Risk Zone and Harmful Zone. To be considered a sustainable investment under SIFfA, the investment needs to demonstrate that it has made or will make substantial contribution to one or more

SDGs while doing no significant harm to any other SDGs, i.e. in the Safe Zone for at least one SDG and in the Progression Zone for the rest.

The Portfolio Manager plans to engage with an external consultant to review the robustness of SIFfA.

8 Data sources and processing

As described in section 7, ESG environmental and social characteristics are processed as data inputs to the ESG Scorecard are determined by the Investment Team with reference to materials provided by the company or the private equity sponsor, responses to questions raised, due diligence reports, and 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 industry standard or requirement, the investment team will encourage borrowers to complete an ESG questionnaire aligned with Principal Adverse Impact ("**PAI**") reporting to fill gaps in information, which would contribute towards the ESG Scorecard. The Investment Team continues to seek to develop proprietary sustainability frameworks to improve data availability and consistency and may apply these in the future. However, it remains the case that neither the AIFM, the Portfolio Manager nor the Fund Entities, consider PAIs as referred to in the Disclosure Regulation given the lack of available 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 Fund's questionnaire), sourced from independent reports, or available from HSBC or third-party ESG data providers to complete their analysis. To clarify, the Investment Team does not typically estimate data for the purpose of completing the ESG Scorecard. That being said, it is anticipated that no more than 20% of data will be estimated data.

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, 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. Whilst all reasonable efforts are made to retrieve such data, the 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 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 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. We have previously declined transactions at this stage for ESG-related reasons. 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.

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. The Investment Team continues to seek to develop proprietary sustainability frameworks to improve data availability and consistency and may apply these in the future. However, it remains the case that neither the AIFM, the Portfolio Manager nor the Fund Entities, consider PAIs as referred to in the Disclosure Regulation given the lack of available data.

11 Engagement policies

In addition to the company-wide RI 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 Fund’s 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 ESG 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 Investment Team’s chosen front office system.

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

Engagement will be covered on the agenda at the Quarterly Portfolio Review meeting. 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 Rating, key topics discussed, and any updates to relevant targets.

The Investment Team will implement enhanced engagement for companies where the Investment Team assesses there to be an area of weakness in their ESG approach that could be improved upon and either i) the company has an ESG Rating below or equal to Medium ESG Score (2), or ii) in the event that a company's allocated ESG Rating is downgraded to Medium ESG Score (2) or below by the Investment Team. The Investment Team may also implement enhanced engagement where they become aware of an ESG risk incident.

Enhanced engagement will be carried out with the company on a quarterly basis. Enhanced engagement will take place for 1 year (4 quarterly engagement meetings) or until sufficient evidence of improvement is gathered to support an increase of the ESG Rating of the company to a Low ESG Score (3) or above. If the company demonstrates insufficient progress over the course of the year to warrant an improvement in ESG Rating, this will be taken into account when reviewing any future opportunities with the borrower.

Sustainability-linked Loans

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.