HSBC Alternative Investments Limited

Registration No: 2845800

Annual Report and Financial Statements for the year ended 31 December 2019

HSBC

HSBC Alternative Investments Limited

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Contents

Strategic Report

Principal activities

The Principal activity of HSBC Alternative Investments Limited ('the Entity') is to provide advisory or discretionary services to various Hedge Fund, Private Equity and Real Estate portfolios held on behalf of investors principally originated and managed within the HSBC Group. There have been no changes in the Entity's nature of business during the year, and no change is anticipated.

Principal place of business

The Entity is a private company incorporated in England and Wales, United Kingdom. Its registered office address is 8 Canada Square, London E14 5HQ. The Entity is a wholly owned subsidiary of HSBC Holdings plc.

Review of the Company's business

Profit before tax for the year increased by 14.6% from $32,666 thousand to $37,513 thousand, reflecting an increase of 10.87% in net operating income to $56,512 thousand (2018: $50,969 thousand) and 3.80% in total operating expenses to $18,999 thousand (2018: $18,303 thousand). Total assets under management increased by 20.10% to $16,735 million and total assets under advisory increased by 1.32% to $6,685 million.

Performance

The Entity's results for the year under review are as detailed in the income statement shown on page 7 of these financial statements. Net assets decreased by 21.36% to $59,634 thousand (2018: $75,836 thousand) as the Entity paid dividends totalling $46,500 thousand during the financial year.

Key performance indicators

The Directors use Key Performance Indicators ('KPIs') to monitor the business. As well as the income statement and the balance sheet, these indicators include measures to identify the returns on different categories of assets and the risks to which the Entity is exposed.

Financial KPIs

	2019	2018
Profit before tax (US$'000)	**37,513**	32,666
Net assets (US$'000)	**59,634**	75,836
Cost efficiency ratio (%)	**33.6**	38.2
Return on equity (%)	**62.9**	43.1
Assets under management (AUM) ($'m)	**16,735**	13,933
Assets under advisory contract ($'m)	**6,685**	6,598

Cost efficiency is measured as total operating expenses divided by operating income before loan impairment and other credit risk provisions.

Principal risks and uncertainties

The COVID-19 outbreak has had, and continues to have, a material impact on businesses around the world and the economic environments in which they operate. There are a number of factors associated with the outbreak and its impact on global economies that could have a material adverse effect on (among other things) the profitability, capital and liquidity of financial institutions such as the Entity. Should the COVID-19 outbreak continue to cause disruption to economic activity globally through 2020, there could further impacts on our income due to equity markets volatility and weakness.

Any and all such events mentioned above could have a material adverse effect on our business, financial condition, results of operations, prospects, liquidity and capital position, as well as on our customers, employees and suppliers.

HSBC has been mobilizing and taking steps to minimize COVID-19's effects on day-to-day operations. To date in 2020, we have invoked business continuity plans which include alternate workplace arrangements to ensure the safety and health of our employees and customers. So far we have been able to maintain an acceptable level of service with minimal disruption to our customers.

The principal financial risks and uncertainties facing the Entity are credit risk, market risk, liquidity risk and funding risk. These risks, the exposure to such risks and management of risk are set out in Note 23 of the financial statements.

The most important non-financial types of risk are operational risk, conduct and regulatory risk, including financial crime compliance, reputational risk and cyber risk. The Directors have put in place procedures to monitor and manage these risks.

Operational risk is relevant to every aspect of the Entity's business and covers a wide spectrum of issues. Losses arising from fraud, unauthorised activities, errors omission, inefficiency, systems failure or from external events all fall within the definition of operational risk.

All employees must safeguard the reputation of the Entity by maintaining the highest standards of conduct at all times and by being aware of the issues, activities or associations that pose a threat to the reputation of the Entity. The long term success of the Entity is closely linked to the confidence of its stakeholders. Safeguarding and building upon the Entity's reputation is the responsibility of every employee. Any lapse in standards of integrity, compliance, customer service or operating efficiency represents a potential reputational risk. The Entity always aspires to the highest standards of conduct and, as a matter of routine, takes account of reputational risk to its business.

The Board is responsible for setting the risk appetite for the Entity within the context of the HSBC Group's direction. The Board has considered the principal risks facing the Entity and the exposure in relation to each of those risks. The Entity also has its own established governance framework, with clear terms of reference for the Board and Risk Committee ('RC') and a clear organisation structure, with documented delegated authorities and responsibilities. The Entity's Board has delegated certain activities related to the establishment and monitoring of implementation of risk management strategy and appetite as well as relate policies and control standards to the Chief Risk Officer ('CRO') of the Entity.

The RC has approved a risk management framework and structure established by the Entity. The framework defines the principal risk categories and sets out the methodology for the identification, assessment, mitigation and reporting of risks. A risk management structure is in place which embeds risk management into the Entity.

The RC reviews the key risks facing the Entity by receiving regular report as to the current status of each risk.

The financial services industry remains closely regulated and the UK regulators may take actions that could result in changes to industry practices, sales and pricing. The Entity maintains a strong compliance culture and monitors the regulatory environment closely to proactively adapt to changes and reduce risks to the Entity.

The Entity has processes in place to identify, evaluate and manage the operational risk inherent in its business activities. Operational losses are monitored and assessed to ensure that business improvements are identified and implemented as appropriate.

All of the Entity's activities involve, to varying degrees, the analysis, evaluation, acceptance and management of risk or combinations of risks.

As an asset management business, the Directors consider it appropriate to differentiate between those financial risks which directly impact the Entity and those which indirectly impact the Entity due to risks borne by the Entity in relation to its asset holdings and their valuations.

The Entity is responsible for managing assets in accordance with the mandates specified by the Entity's clients and these assets are subject to varying financial risks (e.g. market, credit and liquidity). While these risks could result in financial loss or gain through a change in asset value, these risks and rewards are fully borne by or fall to the benefit of the Entity's clients.

However, as the majority of the Entity's revenue is quantified as a percentage of assets under management (generally on a quarterly or monthly basis), the Entity's income is impacted by movements in client assets which are caused by these same financial risks. As a result of the direct link of revenues to the value of client assets, the Entity's interests are aligned to those of its clients.

A key risk to the Entity is that of poor investment performance, which could lead to the subsequent loss of client mandates. A key role of the Investment Oversight Committees (reporting to the Executive Committee) is to monitor and challenge the performance of its investment managers. The management of this risk is also overseen within the RC (reporting to the Board).

The Entity does not hedge its revenue exposure to market risks arising from movements in the value of client assets.

Section 172(1) statement

Section 172 of the Companies Act 2006 (the "Act") requires a director of a Entity to act in the way he or she considers, in good faith, would be most likely to promote the success of the Entity for the benefit of its members as a whole. As part of the Entity's deliberations and decision making process, the Board also takes into account the (i) likely consequences of any decision in the long term; (ii) the interests of the Entity's employees; (iii) the need to foster the Entity's business relationships with suppliers, customers and others; (iv) the impact of the Entity's operations on the community and the environment; and (v) the desirability of the Entity maintaining a reputation for high standards of business conduct.

The Board considers its stakeholders to be the people who work for us, contract with us, own us, regulate us and live in the societies we serve. During 2019, the directors gave careful consideration to the factors set out above in discharging their duties under section 172 of the Act. The Board recognises that building strong relationships with our stakeholders will help deliver the Entity's strategy in line with its long-term values, and operate the business in a sustainable way.

The Board is committed to effective engagement with its stakeholders. Depending on the nature of the issue in question, the relevance of each stakeholder group may differ and, as such, as part of the Entity's engagement with stakeholders, the Board seeks to understand the relative interests and priorities of each group and to have regard to these, as appropriate, in its decision-making. The Board acknowledges however, that not every decision it makes will necessarily result in a positive outcome for all stakeholders.

During the year, the Board has received management reports and presentations on issues concerning customers, the environment, communities, suppliers, employees, regulators and governments. These are taken into account in the Board's discussions and decision-making process.

The majority of decisions made by the Board during the year are deemed to be routine in nature and are taken on a cyclical basis. The Board keeps the Entity strategy under regular review and being a material subsidiary of the HSBC Group takes into account the Group strategic priorities, as appropriate. The principal stakeholder of the Entity is the Entity's parent entity. The principal decision taken by the Entity during the year was the declaration of a dividend. In making the decision, the Board took into consideration the profits available for distribution, the dividend policy, the capital position, the long-term interests of the Entity and the interests of the Group as a whole.

On behalf of the Board

S P F Ward
Director
07 April 2020

8 Canada Square
London E14 5HQ

Report of the Directors

Directors

The Directors of the Entity who were in office during the year and up to the date of signing the financial statements were as follows:

Name	Appointed	Resigned
E R Stokes (Chairman)	08 July 2016	
X F Baraton	12 August 2016	
R B M Heyworth	01 December 2017	
H D C Lee	06 October 2015	
S P Parkinson	28 October 2014	13 January 2020
S P F Ward	15 August 2016	
F B Azpilicueta	14 October 2019	

The Articles of Association of the Entity provide that in certain circumstances the Directors are entitled to be indemnified out of the assets of the Entity against claims from third parties in respect of certain liabilities arising in connection with the performance of their functions, in accordance with the provisions of the UK Companies Act 2006. Indemnity provisions of this nature have been in place during the financial year but have not been utilised by the Directors. All Directors have the benefit of Directors' and officers' liability insurance.

Dividends

Two interim dividends of $25m and 21.5m (2018: $nil) were paid on the ordinary share capital during the year. The Directors do not recommend the payment of a final dividend in respect of the year ended 31 December 2019 (2018: nil).

Significant events since the end of the financial year

No significant events affecting the Entity have occurred since the end of the financial year, other than as disclosed in Note 27.

Future developments

The COVID-19 pandemic has caused uncertainty in global stock markets which could have an impact on the Entity's revenue, profitability and employees. At the present time, this impact cannot predicted or measured.

The UK left the EU on 31 January 2020 and entered a transition period until 31 December 2020, during which negotiations will take place on the future relationship between the UK and the EU. At this stage it remains unclear what that relationship will look like. Our priority is to ensure we continue to support our clients and people through this period of uncertainty, and help minimise any disruption.

Mitigating actions

- We have undertaken an impact assessment to understand the range of potential implications for our customers, our products and our business. Where necessary, we have identified actions, including evolving our business models, to ensure we can continue to serve our customers.
- We actively monitor our portfolio to identify areas of stress, supported by stress testing analyses. Vulnerable sectors are subject to additional management review to determine if any adjustments to risk policy or appetite are required.
- We continue to stay very close to our clients, via proactive communications and dedicated channels to respond to customer queries.
- We will be supporting our EEA staff resident in the UK with their settlement applications.
- We will continue to work with regulators, governments and our clients in an effort to manage risks as they arise, particularly across the most impacted sectors.

Going concern basis

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Entity has the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including future projections of profitability, cash flows and capital resources.

Since early January 2020, the COVID-19 outbreak has spread across the globe and has been classified by the World Health Organisation as a Pandemic. This is causing ongoing disruption to business and economic activity, and is resulting in substantial and substantive government and central banks relief actions and support measures in many countries to protect the economy. These events have also increased the level of operational risk in our business due to the impact on our business operations, employees, customers and suppliers. Whilst it cannot be predicted how long the disruption will continue or the full extent of the impact on the Entity and its clients, the Directors have considered the impact in carrying out their assessment of the principal risks the Entity faces.

Financial risk management

The financial risk management objectives and policies of the Entity, together with an analysis of the exposure to such risks, as required under Part 1 of Schedule 7 of the Large and Medium-sized *Companies and Groups (Accounts and Reports) Regulations* 2008, are set out in Note 23.

Employment of people with a disability

The Entity is committed to providing equal opportunities to employees. The employment of people with a disability is included in this commitment. The recruitment, training, career development and promotion of people with a disability are based on the aptitudes and abilities of the individual. Should employees become disabled during employment with us, efforts are made to continue their employment and, if necessary, appropriate training, reasonable equipment and facilities are provided.

Employment policy

The Entity continues to regard communication with its employees as a key aspect of its policies. Information is given to employees about employment matters and about the financial and economic factors affecting the Entity's performance through management channels, oral communication and by way of attendance at internal seminars and training programmes. Employees are encouraged to discuss operational and strategic issues with their line management and to make suggestions aimed at improving performance. The involvement of employees in the performance of the Entity is further encouraged through a profit participation scheme.

Stakeholder engagement

The Board understands the importance of effective engagement with all of its stakeholders to the long-term success of the Entity. The size and distribution of our stakeholders, particularly customers, means that stakeholder engagement often takes place at an operational level rather. For further information on the Entity's key stakeholders and the manner in which the Board takes their interests into consideration when making decisions, see the section 172 statement on page 2.

Capital management

The Entity defines capital as total shareholders' equity. It is the Entity's objective to maintain a strong capital base to support the development of its business and to meet regulatory capital requirements at all times. There were no changes to the Entity's approach to capital management during the year.

The Entity is regulated by the UK Financial Conduct Authority ('FCA'). The FCA's General Prudential sourcebook ('GENPRU') provides rules for calculating the actual capital and minimum capital resources requirements of the Entity. The Entity is expected to maintain capital at above the minimum requirement at all times.

It is the Entity's policy to maintain a strong capital base to support the development of its business and to meet regulatory capital requirements at all times. The Entity recognises the impact on shareholder returns of the level of equity capital employed within the business and seeks to maintain a prudent balance between the advantages and flexibility afforded by a strong capital position and the higher returns on equity possible with greater leverage. The Entity manages its own capital within the context of the approved annual HSBC Group capital plan, which determines the optimal amount of capital required to support planned business growth.

Regulatory capital

The composition of regulatory capital is as shown:

	2019	2018
	US$'000	US$'000
Total equity	**29,336**	49,387
Less: deductions	**–**	(10,144)
Total capital after deductions	**29,336**	39,243
Minimum capital	**(4,508)**	(4,041)
Surplus Capital	**24,828**	35,202

The Entity held capital resources above the minimum requirement throughout the year.

Independent auditors

Pursuant to section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and PricewaterhouseCoopers LLP ('PwC') will therefore continue in office.

Statement of directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the *Annual Report and Financial Statements*, in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Entity and of the profit or loss of the Entity for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Entity will continue in business.

The directors are also responsible for safeguarding the assets of the Entity and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Entity's transactions and disclose with reasonable accuracy at any time the financial position of the Entity and enable them to ensure that the financial statements comply with the Companies Act 2006.

Directors' confirmations

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the Entity's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Entity's auditors are aware of that information.

On behalf of the Board

S P F Ward
Director
07 April 2020

8 Canada Square
London E14 5HQ

Independent auditors' report to the members of HSBC Alternative Investments Limited

Opinion

In our opinion, HSBC Alternative Investments Limited's financial statements:

- give a true and fair view of the state of the Entity's affairs as at 31 December 2019 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the *Annual Report and Financial Statements* (the *'Annual Report'*), which comprise: the balance sheet as at 31 December 2019; the income statement, the statement of cash flows, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis of opinion

We conducted our audit in accordance with International Standards of Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of our opinion.

Independence

We remained independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relations to which ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- *the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant* doubt about the Entity's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Entity's ability *to continue as a going concern.*

Reporting on other information

The other information comprises all of the information in the *Annual Report* other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Report of the Directors, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and out work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Report of the Directors for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Entity and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Report of the Directors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' responsibility statement, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Entity or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Entity's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Entity, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Colleen Local

Colleen Local (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
07 April 2020

Financial statements

Income statement for the year ended 31 December 2019

	Notes	2019 US$'000	2018 restated US$'000
Interest income		**979**	892
Interest expense		**–**	–
Net interest income	2	**979**	892
Fee and commission income		**62,640**	55,511
Fee and commission expense		**(8,010)**	(5,481)
Net fee income	3	**54,630**	50,030
Other operating income	4	**903**	47
Net operating income before loan impairment charges and other credit risk provision		**56,512**	50,969
Net operating income		**56,512**	50,969
Employee compensation and benefits	5	**(10,624)**	(9,929)
General and administrative expenses	7,8	**(8,375)**	(8,374)
Total operating expenses		**(18,999)**	(18,303)
Operating profit		**37,513**	32,666
Profit before tax		**37,513**	32,666
Tax credit	9	**(7,198)**	(6,208)
Profit for the year		**30,315**	26,458

All operations are continuing. There has been no comprehensive income or expense other than the profit for the year as shown above (2018: nil)

See Note 1.1(h) for details about restatement for changes in accounting policies.

Balance sheet at 31 December 2019
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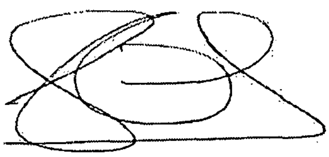
		2019	2018
	Note	US$'000	US$'000
Assets			
Cash and cash equivalents	*12*	**50,574**	68,469
Trade and other receivables	*16*	**15,381**	23,370
Prepayments and accrued income	*17*	**16,053**	5,966
Deferred tax assets	*10*	**76**	104
Total assets		**82,084**	97,909
Liabilities and equity			
Liabilities			
Trade and other payables	*18*	**13,905**	10,212
Accruals and other liabilities	*19*	**1,321**	642
Current tax liabilities		**7,224**	11,219
Total liabilities		**22,450**	22,073
Equity			
Called up share capital	*22*	**1,079**	1,079
Share premium account		**2,156**	2,156
Retained earnings		**56,399**	72,601
Total equity		**59,634**	75,836
Total liabilities and equity		**82,084**	97,909

The accompanying notes on pages 12 to 24 form an integral part of these financial statements.

These financial statements on pages 8 to 24 were approved by the Board of Directors on 07 April 2020 and signed on its behalf by:



S P F Ward
Director

Statement of cash flows for the year ended 31 December 2019

	Note	2019	2018
		US$'000	US$'000
Cash flows from operating activities			
Profit before tax		**37,513**	32,666
Adjustments for:			
Non-cash items included in profit before tax	*13*	**(17)**	(511)
Change in operating assets	*13*	**(2,098)**	1,179
Change in operating liabilities	*13*	**4,372**	(6,518)
Tax paid		**(11,165)**	–
Net cash generated from operating activities		**28,605**	26,816
Cash flows from financing activities			
Dividends paid		**(46,500)**	–
Net cash used in financing activities		**(46,500)**	–
Net (decrease)/increase in cash and cash equivalents		**(17,895)**	26,816
Cash and cash equivalents brought forward		**68,469**	41,149
Effect of exchange rate changes on cash and cash equivalents		**–**	504
Cash and cash equivalents carried forward		**50,574**	68,469

Statement of changes in equity for the year ended 31 December 2019

	Called up share capital	Share Premium	Retained earnings	Total equity
	US$'000	US$'000	US$'000	US$'000
At 01 Jan 2019	**1,079**	**2,156**	**72,601**	**75,836**
Profit for the year	–	–	30,315	30,315
Total comprehensive income for the year	–	–	30,315	30,315
Dividends to shareholders	–	–	(46,500)	(46,500)
Net impact of equity-settled share-based payments	–	–	(17)	(17)
At 31 Dec 2019	**1,079**	**2,156**	**56,399**	**59,634**

	Called up share capital	Share Premium	Retained earnings	Total equity
	US$'000	US$'000	US$'000	US$'000
At 01 Jan 2018	1,079	2,156	46,152	49,387
Profit for the year	–	–	26,458	26,458
Total comprehensive income for the year	–	–	26,458	26,458
Dividends to shareholders	–	–	–	–
Net impact of equity-settled share-based payments	–	–	(9)	(9)
At 31 Dec 2018	1,079	2,156	72,601	75,836

Equity is wholly attributable to equity shareholders of HSBC Alternative Investments Limited.

Notes on the financial statements

1. Basis of preparation and significant accounting policies

The financial statements of the Entity have been prepared in accordance with the Companies Act 2006 as applicable to companies using International Financial Reporting Standards ('IFRSs'). The principal accounting policies applied in the preparation of these financial statements have been consistently applied to all of the years presented, unless otherwise stated.

1.1. Basis of preparation

(a) Compliance with International Financial Reporting Standards

The financial statements of the Entity have been prepared in accordance with IFRSs as issued by the International Accounting Standards Board ('IASB'), including interpretations issued by the IFRS Interpretations Committee, and as endorsed by the European Union ('EU').

At 31 December 2019, there were no unendorsed standards effective for the year ended 31 December 2019 affecting these financial statements, and the Company's application of IFRSs results in no differences between IFRSs as issued by the IASB and IFRSs as endorsed by the EU.

Standards adopted during the year ended 31 December 2019

IFRS 16 'Leases'

IFRS 16 'Leases' became effective on 1 January 2019. IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases were previously accounted for under IAS 17 'Leases'. Lessees recognise a right of use ('ROU') asset and a corresponding financial liability on the balance sheet. The asset is amortised over the length of the lease, and the financial liability measured at amortised cost. Lessor accounting remains substantially the same as it was under IAS 17. At 1 January 2019, the entity did not hold any leases and therefore no significant impact is expected from this standard.

Amendment to IAS 12 'Income Taxes'

An amendment to IAS 12 was issued in December 2017 as part of the annual improvement cycle. The amendment clarifies that an Entity should recognise the tax consequences of dividends where the transactions or events that generated the distributable profits are recognised. At 1 January 2019, the Entity did not hold any perpetual subordinated contingent convertible capital securities and therefore no impact is expected from this amendment.

(b) Future accounting developments

Minor amendments to IFRSs

The IASB published a number of minor amendments to IFRSs which are effective from 1 January 2020, some of which have been endorsed for use in the EU. The Entity expects they will have an insignificant effect, when adopted, on the financial statements of the Entity.

Major new IFRSs

IFRS 17 'Insurance Contracts'

IFRS 17 'Insurance Contracts' was issued in May 2017, and sets out the requirements that an entity should apply in accounting for insurance contracts it issues and reinsurance contracts it holds. IFRS 17 is currently effective from 1 January 2021. However, the IASB is considering delaying the mandatory implementation date by one year and may make additional changes to the standard. At 1 January 2019, the Entity did not hold any insurance contracts and therefore no significant impact is expected from this standard.

(c) Foreign currencies

The functional currency of the Entity is US dollars, which is also the presentational currency of the financial statements of the Entity.

Transactions in foreign currencies are recorded at the rate of exchange on the date of the transaction. Assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date except non-monetary assets and liabilities measured at historical cost, which are translated using the rate of exchange at the initial transaction date. Exchange differences are included in other comprehensive income or in the income statement depending on where the gain or loss on the underlying item is recognised.

Unless otherwise specified, all US$ symbols represent US dollars.

(d) Presentation of information

All amounts have been rounded to the nearest thousand unless otherwise stated.

(e) Critical accounting estimates and judgements

The preparation of financial information requires the use of estimates and judgements about future conditions. In view of the inherent uncertainties and the high level of subjectivity involved in the recognition or measurement of items, highlighted as the 'critical accounting estimates and judgements' in section 1.2 to follow, it is possible that the outcomes in the next financial year could differ from those on which management's estimates are based. This could result in materially different conclusions from those reached by management for the purposes of these financial statements.

Management's selection of the Entity's accounting policies which contain critical estimates and judgements reflects the materiality of the items to which the policies are applied and the high degree of judgement and estimation uncertainty involved.

(f) Going concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Entity has the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including future projections of profitability, cash flows and capital resources.

(g) Use of estimates and assumption about future conditions

The preparation of financial information requires the use of estimates and assumptions about future conditions.

These estimates and assumptions required management to make judgements about the carrying value used in obtaining Net Asset Value ('NAV'), on which revenues are generated, are not readily available from sources other than the underlying fund administrator, due to the time lag between the financial statements being prepared and the release of the final NAV. These estimates and assumptions are based on historical experiences and other factors that are considered to be relevant. Actual results may differ from these estimates.

The Entity will continue to review whether these estimates that have been made represent an accurate representation of the financial information provided. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. In the opinion of management, all normal and recurring adjustments considered necessary for a fair presentation of the Entity's income statement, balance sheet and statement of cash flows in these financial statements have been made.

(h) Changes to the accounting policy

The Entity has changed its accounting policy for classification of certain fund related expenses to make the financial statements more reliable and relevant by adopting the policies of its ultimate parent HSBC Holdings plc and other HSBC group entities. Where the fund related service provider expenses are directly incremental to the generation of income, these expenses are now recognised within "Fee and commission expense" in the Income Statement. Previously these expenses were recognised within "General and administrative expenses".

In applying materiality to financial statement disclosures, we consider both the amount and nature of each item to assess whether a prior year restatement is required. The prior period financial statements items in the table below have been reclassified to conform to the current period presentation.

Comparative balances have been restated as follows:

Income Statement

	2018 restated	2018
	US$'000	US$'000
Interest income	**892**	892
Interest expense	**–**	–
Net interest income	**892**	892
Fee and commission income	**55,511**	55,511
Fee and commission expense	**(5,481)**	(3,588)
Net fee income	**50,030**	51,923
Other operating income	**47**	47
Net operating income before loan impairment charges and other credit risk provision	**50,969**	52,862
Net operating income	**50,969**	52,862
Employee compensation and benefits	**(9,929)**	(9,929)
General and administrative expenses	**(8,374)**	(10,267)
Total operating expenses	**(18,303)**	(20,196)
Operating profit	**32,666**	32,666
Profit before tax	**32,666**	32,666
Tax expense	**(6,208)**	(6,208)
Profit for the year	**26,458**	26,458

1.2. Summary of significant accounting policies

(a) Employee compensation and benefits

Share-based payments

The Entity enters into both equity-settled and cash-settled share-based payment arrangements with its employees as compensation for the provision of their services.

The vesting period for these schemes may commence before the grant date if the employees have started to render services in respect of the award before the grant date. Expenses are recognised when the employee starts to render service to which the award relates.

Cancellations result from the failure to meet a non-vesting condition during the vesting period, and are treated as an acceleration of vesting recognised immediately in the income statement. Failure to meet a vesting condition by the employee is not treated as a cancellation, and the amount of expense recognised for the award is adjusted to reflect the number of awards expected to vest.

Post-employment benefit plans

The HSBC group operates a number of pension schemes including defined benefit, defined contribution, and post-employment benefit schemes.

Payments to defined contribution schemes are charged as an expense as the employees render service.

Defined benefit pension obligations are calculated using the projected unit credit method. The net charge to the income statement mainly comprises the service cost and the net interest on the net defined benefit asset or liability, and is presented in operating expenses.

Remeasurement of the net defined benefit asset or liability, which comprise actuarial gains and losses, return on plan assets excluding interest and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income. The net defined benefit asset or liability represents the present value of defined benefit obligations reduced by the fair value of plan assets, after applying the asset ceiling test, where the net defined benefit surplus is limited to the present value of available refunds and reductions in future contributions to the plan.

The cost of obligations arising from other post-employment plans is accounted for on the same basis as defined benefit pension plans.

(b) Tax

Income tax comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case the tax is recognised in the same statement in which the related item appears.

Current tax is the tax expected to be payable on the taxable profit for the year and on any adjustment to tax payable in respect of previous years. The Entity provides for potential current tax liabilities that may arise on the basis of the amounts expected to be paid to the tax authorities.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the balance sheet, and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax is calculated using the tax rates expected to apply in the periods as the assets will be realised or the liabilities settled.

Current and deferred tax are calculated based on tax rates and laws enacted, or substantively enacted, by the balance sheet date.

Critical accounting estimates and judgements

The recognition of deferred tax assets depends on judgements

Judgements	Estimates
• Assessing the probability and sufficiency of future taxable profits, future reversals of existing taxable temporary differences and ongoing tax planning strategies • In the absence of a history of taxable profits, assessing the expected future profitability and the applicability of tax planning strategies, including corporate reorganisations	

(c) Financial instruments measured at amortized cost

Trade and other receivables, Prepayments and accrued income

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment is established when there is objective evidence that the Entity will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is *the difference between the asset's carrying value and the present value of estimated future cash flows,* discounted at the original effective interest rate. When a trade receivable is uncollectable, it is written off against trade receivables and the amount of the loss is recognised in the income statement. Subsequent recoveries of amounts previously written off are credited to the income statement.

Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Entity by other group companies prior to the *end of the financial year, which are unpaid.* The amounts are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

Accruals and other financial liabilities

The amounts are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(d) Called up share capital

Financial instruments issued are generally classified as equity when there is no contractual obligation to transfer cash or other financial assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax.

(e) Cash and cash equivalents

Cash and cash equivalents include highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are normally those with less than three months' maturity from the date of acquisition.

(f) Operating income

Interest income and expense

Interest income and expense for all financial instruments, excluding those classified *as held for trading or designated at fair value* are recognised in 'Interest income' and 'Interest expense' in the income statement using the effective interest method.

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

Interest on impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Non-interest income and expense

Fee income is earned from a diverse range of services provided by the Entity to its customers. This is recognised in the accounting period when the services are rendered at an amount that reflects the consideration to which the Entity expects to be entitled in exchange for fulfilling its performance obligations to customers. The principles applied to the revenue recognition criteria use the five step model in IFRS 15. Revenue is determined based on the transaction price negotiated with the customer. Investment management services are satisfied over time as the services are provided and are typically based upon a percentage of the value of the client's assets under management. Any fees collected in advance are deferred and recognised as income over the period in which services are rendered.

Performance fee revenues will fluctuate from period to period and may not correlate with general market changes, since most of the fees are driven by relative performance to the respective benchmark rather than by absolute performance. Performance fee revenues are generated on certain management contracts when performance hurdles are achieved. Such fee revenues are recorded in operating revenues when the contractual performance criteria have been met and when it is probable that a significant reversal of revenue recognised will not occur in future reporting periods. Given the unique nature of each fee arrangement, performance fee contracts are evaluated on an individual basis to determine the timing of revenue recognition. Performance fees may arise from investment management activities that were initially undertaken in prior reporting periods.

Other operating income is earned from a diverse range of services provided by the Entity to its customers.

(g) Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2. Net interest income

	2019	2018
	US$'000	US$'000
Interest income		
Interest income on financial investments	**979**	892
Year ended 31 Dec	**979**	892

3. Net fee income

	2019	2018 restated
	US$'000	US$'000
Fund Performance fees	**4,378**	2,720
Investment advisory fees	**56,931**	52,224
Other fees	**1,331**	567
Total fee income	**62,640**	55,511
Return commission paid to group undertakings	**(3,357)**	(2,873)
Investment administration fees	**(4,653)**	(2,091)
Other fees	**–**	(517)
Total fee expenses	**(8,010)**	(5,481)
Year ended 31 Dec	**54,630**	50,030

Fund performance fees

Under management arrangements with underlying funds, the Entity may be entitled to a performance fee or its share thereof, which are recognised when the right to receive performance fee income is established.

Investment advisory fees

The Entity received Investment advisory fees for investment advice provided in the management of Real Estate, Private Equity and Hedge Funds. Investment advisory fees may also be payable by the Entity where it has delegated its management role either to a group undertaking or to a third party. Investment advisory fees are accounted for on an accruals basis.

Return commissions paid to group undertakings

The Entity pays, at its discretion, return commissions to group undertakings who introduce subscribers to funds under management. Return commissions fall into two categories: First a portion of the Placement fee (where applicable) and second as ongoing trailer commission based on the NAV of monies introduced by units and which remain associated with the particular unit. Commissions are accounted for on an accruals basis.

Investment administration fees

The Entity pays fees to a fellow subsidiary of the HSBC Group for administration services concerning funds under management known as Real Estate Club Deals, which involve a group of investors pooling assets together in a fund.

4. Other operating income

	2019	2018
	US$'000	US$'000
Other operating income	734	–
Total other operating income	**734**	–
Foreign exchange gain	169	47
Total other operating expenses	**169**	47
Net other operating income	**903**	47

5. *Employee compensation and benefits*

Total employee compensation

	2019	*2018*
	US$'000	US$'000
Wages and salaries including share-based payments	8,782	8,028
Social security costs	1,162	883
Post-employment benefits	680	1,018
Year ended 31 Dec	**10,624**	9,929

All employees acting on behalf of the Entity have contracts of service with the immediate parent HSBC Global Asset Management Limited. As these employees perform activities solely for the Entity, their remuneration and the number of employees have been disclosed in Note 5.

Average number of persons employed by the Entity during the year

	2019	2018
	Number	Number
Client/Product Services	28	25
Operations and Support	11	8
Year ended 31 Dec	**39**	33

Post-employment benefit plans

The Group operates pension plans throughout the world for its employees. Some are defined benefit pension plans, of which the largest is the HSBC Bank (UK) Pension Scheme ('the principal plan').

The principal plan

The principal plan has a defined benefit section and a defined contribution section. The defined benefit section was closed to future benefit accrual in 2016, with defined benefits earned by employees at that date continuing to be linked in their salary while they remain employed by HSBC.

From 1 July 2015 the defined benefit section was closed to contributions from ongoing pensionable service and all members became defined contribution members. As the Entity is unable to identify its share of defined benefit scheme assets and liabilities on a consistent and reasonable basis, as permitted by IAS 19 'Employee benefits', the scheme is accounted for by the Entity as if it were a defined contribution scheme. In the absence of a contractual agreement between the Entity and HSBC UK Bank plc, the principal sponsoring employer, Group policy requires the Entity to contribute to the scheme at a contribution rate which is determined by the Group.

The Group's balance sheet includes the net surplus or deficit being the difference between the fair value of plan assets and the discounted value of scheme liabilities at the balance sheet date for each plan. Surpluses are only recognised in the extent that they are recoverable through reduced contributions in the future or through potential future refunds from the schemes. In assessing whether a surplus is recoverable, the Group has considered its current right to obtain a future refund or a reduction in future contributions.

The plan is overseen by an independent corporate trustee, who has a fiduciary responsibility for the operation of the plan. Its assets are held separately from the assets of the Group. Full disclosure of the principal actuarial financial assumptions used to calculate the defined benefit plan at the end of the reporting period are disclosed on the financial statements of HSBC Holdings plc.

6. Share-based payments

Restricted Share Awards

Awards of Restricted Shares are made to employees on the basis of their performance, potential and retention requirements, to aid recruitment or as a part-deferral of annual bonuses. Shares are awarded without corporate performance conditions and generally vest between one and three years from the date of award, providing the employees have remained continually employed by HSBC for this period.

All employees acting on behalf of the Entity are paid restricted shares by the immediate parent HSBC Global Asset Management Limited. When the restricted shares are made to employees the immediate parent invoices the Entity for these benefits.

7. Directors' emoluments

The aggregate emoluments of the Directors of the Entity, computed in accordance with the Companies Act 2006 as amended by statutory instrument 2008 No.410, were:

	2019 US$'000	2018 US$'000
Salaries and other emoluments	**1,351**	1,221
Annual incentives [1]	**1,297**	1,355
Year ended 31 Dec	**2,648**	2,576

1 Awards made to executive Directors in respect of 2019 performance comprise a mixture of cash and HSBC Holdings plc ordinary shares. The amount shown comprised US $413,170 in cash, US$365,395 in deferred cash (vesting annually over a three-year period), US$309,216 in Restricted Shares and US$209,465 in deferred Restricted Shares (vesting annually over a three-year period) issued under the HSBC Share Plan.
Awards made to executive Directors in respect of 2018 performance comprise a mixture of cash and HSBC Holdings plc ordinary shares. The amount shown comprised US $442,862 in cash, US$461,473 in deferred cash (vesting annually over a three-year period), US$259,630 in Restricted Shares and US$190,571 in deferred Restricted Shares (vesting annually over a three-year period) issued under the HSBC Share Plan.

No Directors exercised share options over HSBC Holdings plc ordinary shares during the year (2018: 1).

Awards were made to 6 Directors under long-term incentive plans in respect of qualifying services rendered in 2019 (2018: 8 Directors). During 2019, 7 Directors received shares in respect of awards under long-term incentive plans that vested during the year (2018: 7).

Retirement benefits are accruing to 0 Directors under a defined benefit scheme (2018: 0) and are accruing to 5 Directors under money purchase schemes (2018: 5) in respect of Directors' qualifying services. Contributions of US$45,110 (2018:US$54,942) were made during the year to money purchase arrangements and US$0 to defined benefit schemes in respect of Directors' qualifying services (2018: US$0).

Discretionary bonuses for Directors are based on a combination of individual and corporate performance and are determined by the Remuneration Committee of the Entity's ultimate parent company, HSBC Holdings plc. The cost of any conditional awards under the HSBC Share Plan and the HSBC Plan 2011 ('the Plans') is recognised through an annual charge based on the fair value of the awards, apportioned over the period of service to which the award relates. Details of the Plans are contained within the Directors' Remuneration Report of HSBC Holdings plc.

Of these aggregate figures, the following amounts are attributable to the highest paid Director:

	2019 US$'000	2018 US$'000
Salaries and other emoluments	**455**	428
Annual incentives [1]	**535**	516
Year ended 31 Dec	**990**	944

1 Awards made to the highest paid Director in respect of 2019 performance comprise a mixture of cash and HSBC Holdings plc ordinary shares. The amount shown comprised US$160,635 in cash, US$107,090 in deferred cash (vesting annually over a three-year period), US$160,635 in Restricted Shares and US$107,090 in deferred Restricted Shares (vesting annually over a three-year period) issued under the HSBC Share Plan.
Awards made to the highest paid Director in respect of 2018 performance comprise a mixture of cash and HSBC Holdings plc ordinary shares. The amount shown comprised US$154,767 in cash, US$103,178 in deferred cash (vesting annually over a three-year period), US$154,767 in Restricted Shares and US$103,178 in Deferred Restricted Shares (vesting annually over a three-year period) issued under the HSBC Share Plan.

The highest paid Director received 33,012 (2018: 30,254) shares, in respect of qualifying services, as the result of awards under long-term incentive plans that vested during the year. The highest paid Director exercised nil share options over HSBC Holdings plc ordinary shares during the year.

Pension contributions of US$11,899 (2018: US$13,929) were made by the Entity in respect of services by the highest paid Director during the year.

8. Auditors' remuneration

	2019 US$'000	2018 US$'000
Audit fees for statutory audit		
- Fees relating to current year	**44**	30
- Other audit-related services pursuant to such legislation	**11**	11
Year ended 31 Dec	**55**	41

There were no non-audit fees incurred during the year (2018: nil).

9. Tax expense

Tax expense

	2019 US$'000	2018 US$'000
Current tax		
UK Corporation tax		
- For this year	**7,226**	6,283
- Adjustments in respect of prior years	**(54)**	(36)
Total current tax	**7,172**	6,247
Deferred tax		
- For this year	**(25)**	–
- Origination and reversals of temporary differences	**–**	(46)
- Effects of changes in tax rates	**3**	7
- Adjustments in respect of prior years	**48**	–
Total deferred tax	**26**	(39)
Year ended 31 Dec	**7,198**	6,208

The UK corporation tax rate applying to the Entity was 19.00% (2018: 19.00%).

A reduction in the main rate of UK corporation tax to 17% with effect from 1 April 2020 was enacted in the Finance (No2) Act 2016 on 6 September 2016. However, in the UK budget on 11 March 2020, it was announced that the cut in the tax rate to 17% will not occur and the UK Corporation Tax Rate will instead remain at 19%. As this was not substantively enacted by the balance sheet date, deferred tax balances as at 31 December 2019 continue to reflect the planned rate reduction. If the deferred tax asset as at 31 December 2019 were re-measured at 19% it would increase by $8,856.

In addition to the amount charged to the income statement, the aggregate amount of current and deferred tax relating to items that are credited directly to equity is $65 (2018: $2,378 charge).

Tax reconciliation

	2019 US$'000	(%)	2018 US$'000	(%)
Profit before tax	**37,513**		32,666	
Tax at 19% (2018: 19%)	**7,127**	**19.00**	6,207	19.00
Adjustment in respect of prior years	**(6)**	**(0.01)**	(36)	(0.11)
Impact due to changes in tax rates	**3**	**0.01**	7	0.02
Effects of group relief/other relief	**–**	**–**	–	–
Share options	**74**	**0.20**	30	0.09
Year ended 31 Dec	**7,198**	**19.00**	6,208	19.00

The effective tax rate for 2019 of 19.00% was the same as UK corporation tax rate of 19.00%.

10. Deferred tax asset

The following table shows the gross deferred tax assets and liabilities recognised in the Balance Sheet and the related amounts recognised in the Income Statement:

	Property, Plant and equipment US$'000	**Share based payments US$'000**	**Other temporary differences US$'000**	**Total US$'000**
At 01 Jan 2019	**9**	**9**	**86**	**104**
Income statement credit	**(2)**	**(5)**	**29**	**22**
Equity statement expense	**–**	**(2)**	**–**	**(2)**
Prior year adjustments	**–**	**–**	**(48)**	**(48)**
At 31 Dec 2019	**7**	**2**	**67**	**76**

	Property, Plant and equipment US$'000	Share based payments US$'000	Other temporary differences US$'000	Total US$'000
At 01 Jan 2018	9	38	29	76
Income statement credit	–	(18)	57	39
Equity statement expense	–	(11)	–	(11)
At 31 Dec 2018	9	9	86	104

There are no unrecognised deferred tax liabilities arising from the Entity's investments in subsidiaries.

11. Dividends

	2019		2018	
	$ per share	US$'000	$ per share	US$'000
Dividends paid on ordinary shares				
First interim dividend	41.53	25,000	–	–
Second interim dividend	35.71	21,500	–	–
Total	77.24	46,500	–	–

12. Cash and cash equivalents

	2019	2018
	US$'000	US$'000
Amounts held with other group undertakings	50,574	68,469
At 31 Dec	50,574	68,469

Amounts held with other group undertakings are unsecured and repayable on demand. Certain balance is interest bearing.

13. Reconciliation of profit before tax to Net cash flow

	2019	2018
	US$'000	US$'000
Profit before tax	37,513	32,666
Non-cash item included in profit and loss		
Share-based payment expense	(17)	(6)
Elimination for exchange differences	–	(505)
	(17)	(511)
Change in operating assets		
Change in prepayment and accrued income	(10,087)	4,526
Change in trade and other receivables	7,989	(3,347)
	(2,098)	1,179
Change in operating liabilities		
Change in accruals and other liabilities	679	(397)
Change in trade and other payables	3,693	(6,121)
	4,372	(6,518)
Tax paid for the year	(11,165)	–
Net cash flow generated from operating activities	28,605	26,816

14. Analysis of financial assets and liabilities by measurement basis

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost.

At 31 Dec 2019	FVPL $'000	FVOCI $'000	Amortised Cost $'000	Total $'000
Assets				
Cash and cash equivalents	–	–	50,574	50,574
Trade and other receivables	–	–	15,381	15,381
Prepayments and accrued income	–	–	16,053	16,053
Total financial assets	–	–	82,008	82,008
Total non-financial assets				76
Total assets				82,084
Liabilities				
Trade and other payables	–	–	13,905	13,905
Accruals and other liabilities	–	–	1,321	1,321
Total financial liabilities	–	–	15,226	15,226
Total non-financial liabilities				7,224
Total liabilities				22,450

At 31 Dec 2018	FVPL $'000	FVOCI $'000	Amortised Cost $'000	Total $'000
Assets				
Cash and cash equivalents	–	–	68,469	68,469
Trade and other receivables	–	–	23,370	23,370
Prepayments and accrued income	–	–	5,966	5,966
Total financial assets	–	–	97,805	97,805
Total non-financial assets				104
Total assets				97,909
Liabilities				
Trade and other payables	–	–	10,212	10,212
Accruals and other liabilities	–	–	642	642
Total financial liabilities			10,854	10,854
Total non-financial liabilities				11,219
Total liabilities				22,073

15. Fair value of financial instruments not carried at fair value

There are no material differences between the carrying value and the fair value of financial assets and liabilities at 31 December 2019 and 31 December 2018.

16. Trade and other receivables

	2019 US$'000	2018 US$'000
Amounts due from other group undertakings	13,775	23,214
Trade receivables	1,302	–
Other receivables	304	156
At 31 Dec	15,381	23,370

Amounts due from other group undertakings are unsecured, non-interest bearing and repayable on demand.

17. Prepayments and accrued income

	2019 US$'000	2018 US$'000
Hedge Funds Management Fees	9,898	710
Private Equity Management Fees	5,271	3,882
Real Estate Management Fees	1,671	2,156
Others	166	171
Prepayment and accrued income prior to provision	17,006	6,919
Provision	(953)	(953)
At 31 Dec	16,053	5,966

18. Trade and other payables

	2019 US$'000	2018 US$'000
Amounts due to other group undertakings	13,905	10,212
At 31 Dec	13,905	10,212

Amounts due to other group undertakings are non-interest bearing amounts and repayable on demand.

19. Accruals, deferred income and other financial liabilities

	2019 US$'000	2018 US$'000
Accruals	1,307	598
Share-based payment liabilities	14	44
At 31 Dec	1,321	642

20. Offsetting of financial assets and financial liabilities

As at 31 December 2019, there were no amounts subject to enforceable netting arrangements (2018: Nil).

21. Contingent liabilities, contractual commitments and guarantees

There were no contingent liabilities or financial guarantee contracts as at 31 December 2019 (2018: nil).

22. Called up share capital

	2019 Number	US$'000	2018 Number	US$'000
Issued, allotted and fully paid up				
Ordinary shares of £1 (2018: £1) each	602,000	1,079	602,000	1,079
As at 1 January and 31 December	**602,000**	**1,079**	602,000	1,079

23. Management of financial risk

All of the Entity's activities involve to varying degrees, the analysis, evaluation, acceptance and management of risks or combination of risks. The most important types of risk include financial risk, which comprises credit risk, liquidity risk and market risk. The management of financial risk and consideration of profitability, cash flows and capital resources form a key element in the Directors' assessment of the Entity as a going concern.

Credit risk management

Credit risk is the risk of financial loss if a customer or counterparty of the Entity fails to meet a payment obligation under a contract.

Within the overall framework of the HSBC Group policy, the Entity has an established risk management process encompassing credit approvals, the control of exposures, credit policy direction to the business, and the monitoring and reporting of exposures.

The management of the Entity is responsible for the quality of its credit portfolios and follows a credit process involving delegated approval authorities and credit procedures, the objective of which is to identify problem exposures in order to accelerate remedial action while building a portfolio of high quality risk assets. The Entity's credit risk rating systems and processes differentiate exposures in order to highlight those with greater risk factors and higher potential severity of loss. Regular reviews are undertaken to assess and evaluate levels of risk concentration.

The Entity risk rating system facilitates the internal ratings-based ('IRB') approach under Basel II to support calculation of the minimum credit regulatory capital requirement.

The risk arises from transactions with HSBC undertakings. The management of credit is undertaken in compliance with the Entity recharge strategy. The Entity operates within this and the credit risk exposures are reviewed and managed by the senior management of the Entity and the HSBC Group's Finance Exco. The maximum credit exposure of the Entity is limited to the carrying value of the dues from an HSBC Group company. Balances are primarily with the HSBC Group and third party and have low credit risk.

Summary of credit risk

The Entity's exposure to risk arises mainly from third party and intercompany fee receivables. An important measure of credit risk is in the ageing of fees receivable as reported below:

Aging of fees receivable

At 31 Dec 2019	Due within 90 days US$'000	Due 90days - 1 year US$'000	Due over 1 year US$'000	Total US$'000
Cash and cash equivalents	50,574	–	–	50,574
Trade and other receivables	10,780	1,876	2,725	15,381
Prepayments and accrued income	11,325	2,859	1,869	16,053
Net exposure	**72,679**	**4,735**	**4,594**	**82,008**

At 31 Dec 2018	Due within 90 days US$'000	Due 90days - 1 year US$'000	Due over 1 year US$'000	Total US$'000
Cash and cash equivalents	68,469	–	–	68,469
Trade and other receivables	16,346	7,024	–	23,370
Prepayments and accrued income	3,078	2,888	–	5,966
Net exposure	87,893	9,912	–	97,805

Liquidity risk management

Liquidity risk is the risk that the Entity does not have sufficient financial resources to meet obligations as they fall due or will have access to such resources only at an excessive cost. The risk arises from mismatches in the timing of cash flows.

The following is an analysis of undiscounted cash flows payable under various financial liabilities by remaining contractual maturities (excluding interest) at the balance sheet date:

	Carrying value US$'000	Contractual cash flows US$'000	On Demand US$'000	Due within 3 months US$'000	Due between 3-12 months US$'000	Due between 1-5 years US$'000	Due after 5 years US$'000	Total US$'000
Trade and other payables	13,905	13,905	13,905	–	–	–	–	13,905
Accruals, deferred income and other liabilities	1,321	1,321	1,321	–	–	–	–	1,321
Current tax liabilities	7,224	7,224	7,224	–	–	–	–	7,224
At 31 Dec 2019	**22,450**	**22,450**	**22,450**	–	–	–	–	**22,450**

	Carrying value	Contractual cash flows	On Demand	Due within 3 months	Due between 3-12 months	Due between 1-5 years	Due after 5 years	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Trade and other payables	10,212	10,212	10,212	–	–	–	–	10,212
Accruals, deferred income and other liabilities	642	642	642	–	–	–	–	642
Current tax liabilities	11,219	11,219	11,219	–	–	–	–	11,219
At 31 Dec 2018	22,073	22,073	22,073	–	–	–	–	22,073

Market risk management

Market risk is the risk that movements in market factors including interest rates, foreign exchange rates or equity and commodity prices will impact the Entity's income or the value of its portfolios.

The Entity's objective is to manage and control market rate exposures while maintaining a market profile consistent with its risk appetite.

The Entity manages market risk through risk limits approved by the HSBC Company Executive Committee and adopted by the Entity's Board. An independent risk unit develops risk management policies and measurement techniques, and reviews limit utilisation on a daily basis.

The Entity is exposed to currency risk in respect of income and cash balances denominated in a currency other than sterling. The Entity's exposure is kept to an acceptable level by managing the level of non-sterling cash balances on regular basis.

Interest rate risk

Bank interest on deposits held at HSBC Bank plc is the only source of interest exposure. The effective interest rate during 2019 was 2.27% (2018: 1.51%) and all set to mature within 1 year.

Foreign exchange risk

Currency sensitivity

A 5% strengthening of the US dollar against the following currencies as at 31 December 2019 would have reduced profits by the amounts shown below. A 5% weakening would have had the equal but opposite effects to the amounts shown below:

	2019	2018
	US$'000	US$'000
Euro	**179**	46
British Pound	**303**	795
Swiss franc	**54**	–
Singapore dollar	**2**	–
Chinese Yen	**1**	–
Hong Kong Dollars	**23**	–
Total reduction of profit before tax due to a 5% strengthening of US Dollar	**562**	841

Net structural foreign currency exposure

The Entity is exposed to currency risk in respect of income and cash balances denominated in a currency other than US Dollars. The Entity exposure is kept to an acceptable level by managing the level of non-US Dollar cash balances on a regular basis. The Entity's balance sheet comprises balances held in different currencies. At the reporting date the currency profile of the Entity balance sheet was:

	US dollars	**Sterling**	**Euro**	**Other**	**Total**
At 31 Dec 2019	**US$'000**	**US$'000**	**US$'000**	**US$'000**	**US$'000**
Total assets	**65,320**	**14,242**	**1,753**	**769**	**82,084**
Total liabilities and equity	**(69,608)**	**(11,670)**	**(659)**	**(147)**	**(82,084)**
Net exposure	**(4,288)**	**2,572**	**1,094**	**622**	**–**

	US dollars	Sterling	Euro	Other	Total
At 31 Dec 2018	US$'000	US$'000	US$'000	US$'000	US$'000
Total assets	91,626	5,688	595	–	97,909
Total liabilities and equity	(90,941)	(6,691)	(277)	–	(97,909)
Net exposure	685	(1,003)	318	–	–

24. Legal proceedings and regulatory matters

The Entity is party to legal proceedings and regulatory matters arising out of its normal business operations. The Entity considers that none of these matters are material.

25. Related party transactions

The Entity's related parties include the parent, fellow subsidiaries, post-employment benefit plans for the Entity's employees, Key Management Personnel, close family members of Key Management Personnel and entities which are controlled or significantly influenced by Key Management Personnel or their close family members.

(a) Transactions with Directors and other Key Management Personnel

Key Management Personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Entity and includes members of the Board of Directors.

No loans were made to Key Management Personnel for the year ended31 December 2019 (2018: none). Other than as described in Note 7, there are no transactions between the Entity and Key Management Personnel, which fall to be disclosed under IAS24 'Related Party Disclosure' between the Entity and the Key Management Personnel.

(b) Transactions with other related parties

Transactions details below include amounts due to/from HSBC Global Asset Management Limited

	2019		2018	
	Highest balance during the year [1]	Balance at 31 December	Highest balance during the year [1]	Balance at 31 December
	US$'000	US$'000	US$'000	US$'000
Trade and other payables	8,185	4,017	6,598	5,457

1 The disclosure of the highest balance and the highest balance during the year is considered the most meaningful information to represent transactions during the year.

	2019	2018
	US$'000	US$'000
Dividend paid	46,500	–

The Entity uses HSBC Global Asset Management Limited to pay its salaries and certain expenses, which are charged to the Income Statement against the appropriate line and the Entity remunerates HSBC Global Asset Management Limited the full amount without mark up.

Transactions details below include amounts due to/from other group undertakings.

	2019		2018	
	Highest balance during the year [1]	Balance at 31 December	Highest balance during the year [1]	Balance at 31 December
	US$'000	US$'000	US$'000	US$'000
Assets				
Cash and cash equivalents	69,726	50,574	68,469	68,469
Trade and other receivables	21,440	13,775	23,214	23,214
Liabilities				
Trade and other payables	11,098	9,888	4,755	4,755

1 The disclosure of the highest balance and the highest balance during the year is considered the most meaningful information to represent transactions during the year.

	2019	2018
	US$'000	US$'000
Income statement		
Interest income	979	892
Fee income	52,890	43,861
Fee expense	6,520	5,127
General and administrative expenses	8,734	6,467

The above transactions were made in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment or present other unfavourable feature.

26. Parent undertakings

The ultimate parent undertaking and ultimate controlling party is HSBC Holdings plc which is the parent undertaking of the largest group to consolidate these financial statements. HSBC Bank plc is the parent undertaking of the smallest group to consolidate these financial statements.

The immediate parent undertaking is HSBC Global Asset Management Limited. All companies are registered in England and Wales.

Copies of HSBC Holdings plc and HSBC Bank plc consolidated financial statements can be obtained from: HSBC Bank Plc, 8 Canada square, London E14 5HQ, United Kingdom, www.hsbc.com

27. Events after the balance sheet date

COVID-19 outbreak which emerged and spread to the UK in early 2020, has now become a global pandemic which has caused widespread market and economic disruption. The disruption has been evident in the recent global stock market fluctuations, however the long term outlook remains uncertain. At the present time, given the uncertainty, the full impact of the COVID-19 cannot be predicted or measured. The COVID-19 outbreak is considered to be a non-adjusting post balance sheet event as per IAS 10.