



HSBC Securities (USA) Inc.

**Private Equity Funds  
and Direct Investments**

HSBC SECURITIES (USA) INC.  
452 FIFTH AVENUE, 14TH FLOOR  
NEW YORK, NY 10018  
(800) 662-3343  
WWW.US.HSBC.COM

This brochure provides information about the qualifications and business practices of HSBC Securities (USA) Inc. ("HSI" or the "Firm"). If you have any questions about the contents of this brochure, please direct your written inquiry to the address listed above, or call (800) 662-3343. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about HSI is also available on the SEC's website at <http://www.adviserinfo.sec.gov/>.

Please note that the use of the term "registered investment adviser" and description of HSI and/or our associates as "registered" does not imply a certain level of skill or training.

DATED March 30, 2012

2. MATERIAL CHANGES TO OUR PART 2A OF FORM ADV:  
FIRM BROCHURE

Pursuant to an Assignment and Assumption Agreement, dated as of March 26, 2012 (the “Assignment”), HSI was engaged provide advisory and management services to certain managed accounts and pooled investment vehicles with assets under management of approximately \$1.3 billion.

This Brochure, dated March 30, 2012, is a new document prepared according to the SEC’s new disclosure requirements and rules. In the future, this item will discuss only specific material changes that are made to the Brochure and provide clients with a summary of those changes.

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#### 4. ADVISORY BUSINESS

As of March 26, 2012, HSI entered into an Assignment and Assumption Agreement (the “Assignment”). Pursuant to the Assignment, HSBC Private Equity Advisors LLC, a Delaware limited liability company, agreed to transfer and assign to HSI, and HSI agreed to accept, all of its rights and obligations under Investment Management Agreements with respect to certain pooled investment vehicles, separately managed accounts and direct investments (together, “Private Equity Funds & Direct Investments” or “Private Equity”). Also, pursuant to an Investment Management and Subadvisory Agreement, dated as of November 30, 2011 (the “IMSA”), Graycliff Partners LP (“Graycliff” or the “Subadviser”) was engaged as Subadviser to the Private Equity Funds & Direct Investments.

HSI has been in business as an investment adviser since 2005. The Firm is a Delaware corporation headquartered in New York City, and an indirect, wholly owned subsidiary of HSBC Holdings plc.

##### **Advisory Services**

As of December 31, 2011, the Private Equity Funds & Direct Investments held approximately \$1.3 billion of nondiscretionary commitments across five principal strategies. The first and second types of investments focus on direct equity and mezzanine investments, respectively, primarily in lower middle market companies in the U.S. The third type focuses on Latin American investments in direct equity transactions. The fourth type involves fund of funds investments in U.S. and Latin American based private equity funds, and the last type involves mezzanine and equity investments in U.S. real estate.

The Firm also provides other investment management and advisory services, such as mutual fund asset allocation programs (the World Selection Spectrum Account Program and the Offshore World Selection Spectrum Account Program), and a Managed Portfolio Account Program (MPA), which is comprised of Separately Managed Account (SMA) and Unified Managed Account (UMA) programs. These programs are offered for a fee through HSI’s network of Financial Advisors and are described in greater detail in their respective Form ADV Part 2A Brochures.

The Firm is the administrative agent for an asset-backed commercial paper (“ABCP”) conduit called Bryant Park Funding, LLC (“BPF”). The functions that HSI performs for BPF are separated in four broad responsibilities: Origination and Structuring, Surveillance and Monitoring, Liability Distribution, and Conduit Management. These programs are described in greater detail in the respective Form ADV Part 2A Brochures.

##### **Assets under Management**

HSI manages assets only on a non-discretionary basis. As of December 31, 2011, HSI managed approximately \$5.9 billion] in assets under management, including approximately \$1.3 billion in assets held in Private Equity, and \$4.6 billion in other client assets.

## 5. FEES AND COMPENSATION

All fees charged by the Firm with respect to the Private Equity Funds & Direct Investments are negotiable in the Firm's sole and absolute discretion. Fees will be charged on a fixed annual dollar amount basis for certain pools of capital, and on a percentage asset basis for others. Regarding the latter, management fees will be based on total committed capital amounts during the investment period, and will be based on invested capital thereafter; the annual fee charged will depend on the specific investment type but ranges from 0.25% to 2%. Each client will be invoiced directly on a quarterly basis for all fees incurred.

The Firm may charge Private Equity Funds & Direct Investments fees quarterly in advance or in arrears depending on the specific agreement with each client. Fees payable for any period shorter than a full quarter will be prorated based on the number of days in the period. If a Firm client pays the Firm a fee for any period that is determined by the Firm to be more than the amount the client should have paid for the period, the Firm will refund the excess payment or offset subsequent fees by the amount of the excess payment, depending on the specific agreement with the client.

In addition, the Firm will receive a performance fee as described in Item 6.

In addition to paying management and performance fees, the Private Equity Funds & Direct Investments and their investors may also be subject to other investment expenses such as registration and custodial fees, commissions and related costs, interest costs, insurance costs, indemnification and litigation costs, taxes, duties and other governmental charges, legal fees, internal and external accounting fees, audit and tax preparation fees, and transaction and due diligence expenses (whether or not the transaction or investment is consummated). Investors will be allocated their pro rata share of such additional fees and expenses for the time period they are invested.

The Firm and its affiliates may receive certain transaction and similar fees from entities in which a client invests. In certain instances, a portion of the management fees payable by clients of the Firm may be reduced by the net proceeds of all such fees allocable to that client.

Neither the Firm nor any of its supervised persons accepts compensation for the sale of securities or other investment products.

## 6. PERFORMANCE BASED FEES AND SIDE BY SIDE MANAGEMENT

A performance fee may be charged Private Equity Funds & Direct Investments, generally of up to 20% of the excess of distributions to clients or investors in a pooled vehicle over invested capital, a specified return to investors, fees and expenses. Neither the Firm nor any of its supervised persons manage both accounts that are charged a performance-based fee and accounts that are charged another type of fee on a side-by-side basis.

The fact that the Firm or its supervised persons may in part be compensated based on the performance of investments may create an incentive for the Firm to recommend investments to

or make investments on behalf of clients that are riskier or more speculative than would be the case in the absence of a performance-based compensation arrangement. However, the Firm will provide its investment advisory services to each of its clients in accordance with the investment strategy disclosed in the client's offering materials or advisory agreements, as applicable, to help ensure that its clients and their investors are aware of the investment strategy and the risks associated with the strategy.

The Firm does not charge performance fees to our clients with respect to other investment advisory and managed products.

## 7. TYPES OF CLIENTS AND ACCOUNT REQUIREMENTS

HSI services the following types of clients:

- Individuals and High Net Worth Individuals;
- Trusts, Estates or Charitable Organizations;
- Pension and Profit Sharing Plans;
- Corporations, Limited Liability Companies and/or other business types

The Firm's clients with respect to Private Equity are partnerships and other pooled investment vehicles, and banks and other financial institutions. Investors in the partnerships and pooled investment vehicles consist primarily of:

- Banks and other financial institutions
- Corporations
- High net worth individuals
- Trusts and estates

The investors in the Firm's Private Equity products are subject to applicable suitability requirements. The Firm requires that each outside investor in a Private Equity investment be an "accredited investor" as defined in Regulation D under the U.S. Securities Act of 1933, as amended, and a "qualified purchaser" as defined in the U.S. Investment Company Act of 1940, as amended.

## 8. METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

Day-to-day management of the Private Equity Funds & Direct Investments is performed by the Subadviser pursuant to the IMSA.

The Subadviser performs fundamental analysis, and targets companies in the lower middle market in the strategies described in Item 4. The Subadviser believes this sector of the economy presents an attractive investment opportunity due to (1) lower entry valuations and more exit opportunities, (2) opportunities for substantial growth and (3) general scarcity of available capital. The Subadviser targets transactions involving management & leveraged buyouts, acquisitions, consolidations, divestitures, growth capital, recapitalizations and generational

transfers. The Subadviser seeks meaningful alignment with management (economically and fundamentally) and chooses businesses with strong free cash flow generation.

The Subadviser's multi-manager or fund of funds investment strategies generally target investments that, based on the Subadviser's fundamental analysis, are expected to (1) outperform the broader public markets and comparable alternative investments and (2) provide opportunities for substantial capital appreciation.

The Subadviser's real estate investment strategies generally focus on opportunistic transactions where the Subadviser believes the underlying assets have been undermanaged and undercapitalized. The Subadviser believes that these transactions generally provide a better risk-adjusted return. The Subadviser may also invest in more stabilized income producing assets and select hospitality transactions.

The Subadviser's personnel generally meet on a weekly basis to discuss potential and pending transactions. If discussions have advanced beyond the preliminary evaluation stage, a brief memorandum to the entire team is prepared. Should the transaction reach the stage where the transaction team proposes to move forward with a transaction, it will prepare a detailed memorandum on the transaction for the Subadviser's investment committee and convene a meeting of the Subadviser's investment committee. The Subadviser's investment committee will then discuss the opportunity in depth with the transaction team and decide whether to authorize the transaction. In addition to the general investment thesis, deal tactics and potential exit strategies will also be discussed.

Although private equity investments offer the opportunity for significant capital gains, such investments involve a high degree of business and financial risk that can result in substantial losses. Investing in securities involves risk of loss that clients should be prepared to bear. These risks include the following:

- Lack of end market demand (due to either general macroeconomic or sector specific distress)
- Internal cost overruns
- Changes in legal, fiscal, and regulatory regimes
- Dependence on key personnel
- Illiquidity of investment
- Lack of client control
- Currency risk

Investors should carefully consider the following risks prior to investing in any private equity fund.

#### Risks of Private Equity Investments

The investment portfolio will generally consist of securities issued by companies whose securities are not publicly traded. Although private equity investments offer the opportunity for

significant capital gains, such investments involve a high degree of business and financial risk that can result in substantial losses.

#### Availability of Investment Opportunities

The business of identifying and structuring private investments is competitive and involves a high degree of uncertainty. In addition, the availability of investment opportunities generally will be subject to market conditions and the prevailing regulatory or political climates. As such, there can be no assurances that the Subadviser will be able to identify and complete attractive investments.

#### Future and Past Performance

The performance of prior investments recommended by or made on behalf of the Funds and Direct Investments by the investment professionals of the Adviser or Subadviser is not necessarily indicative of future results. On any given investment, loss of principal is possible.

#### Concentration of Investments

The Subadviser may advise clients to make multiple investments in one industry or one industry segment. As a result, the investment portfolios could become concentrated and aggregate returns may be affected substantially by the performance of a few holdings.

#### Investments in Junior Securities

The Subadviser generally will advise clients to invest in the most junior securities in a company's capital structure and, therefore, is subject to the greatest risk of loss. Generally, there will be no collateral to protect an investment.

#### Leverage

Investments with a leveraged capital structure will be subject to increased exposure to adverse economic factors, such as a significant rise in interest rates, a severe downturn in the economy or deterioration in the condition of the company or its industry. If an investment is unable to generate sufficient cash flow to meet principal and interest payments on its indebtedness, the value of the equity could be significantly reduced or even eliminated.

#### Long-Term Investments

The return of capital and the realization of gains, if any, will occur only upon the partial or complete disposition of an investment. Most investments will not be sold or distributed for a number of years after they are made. Prior to such time, there generally will be no current return on those investments.

#### Risks of Realization of Investments; Illiquidity

Given the nature of the investments recommended by or made on behalf of the Funds and Direct Investments by the Subadviser, there is a significant risk that the Private Equity Funds & Direct Investments will be unable to realize their investment objectives by sale or other disposition at attractive prices or otherwise will be unable to complete any exit strategy. In particular, these risks could arise from changes in the financial condition or prospects of the companies in which it has invested, changes in national or international economic or political conditions (including acts of war, terrorism or other calamity or crisis), adverse conditions in national or global

financial or capital markets, or changes in laws, regulations, fiscal policies or political conditions of countries in which investments are made or operate.

#### Non-Controlling Investments

Some investments may be minority positions in companies in which the Subadviser and the Private Equity Funds & Direct Investments have no right to appoint a director or otherwise exert significant influence or protect its position. In such cases, the Subadviser will rely significantly on the management teams and boards of directors of such companies, which may include representation by other investors whose interests may conflict with those of the Private Equity Funds & Direct Investments.

#### Limitations on Transfer; No Market For Investor Interests

Investors in the Private Equity Funds & Direct Investments will not be permitted to transfer or pledge their interests without the consent of the general partner or managing member of the Fund. Furthermore, the transferability of interests is subject to certain restrictions contained in the relevant governing documents of the Private Equity Funds & Direct Investments and will be affected by restrictions imposed under applicable securities laws. In general, withdrawals by investors are not permitted. There is currently no efficient market for interests in private equity funds, and it is not expected that one will develop.

#### Non-United States Investments

Certain companies in which the Private Equity Funds & Direct Investments invest may be based and may operate outside the United States. Investments in non-United States securities involve certain risks not typically associated with investing in United States securities, including risks relating to: (a) currency exchange matters, including fluctuations in the rate of exchange between the United States dollar and the various other currencies; (b) differences between the United States and non-United States securities markets, including potential price volatility in and relative liquidity of some non-United States securities markets, the absence of uniform accounting, auditing and financial reporting standards, practices and disclosure requirements and less government supervision and regulation; (c) certain economic, social and political risks, including potential exchange control regulations and restrictions on foreign investment and repatriation of capital, the risks of political, economic or social instability and the possibility of expropriation or confiscatory taxation; and (d) the possible imposition of non-United States taxes on income and gains recognized with respect to such securities.

#### Consequences of Failure to Make Payment in Full

If an investor in one of the Funds fails to fund any installment of its capital commitment or to make any other payment when due, the defaulting investor may be required, among other things, to forfeit a substantial portion of its capital account in the Fund and its rights to future profits (but not losses) that otherwise would have been allocable to the investor in the Fund. The general partner or managing member of the Fund may designate a person or entity to assume the entire unpaid balance of the defaulting investor's capital commitment and succeed to all of the rights of the defaulting investor's interest. In addition, the general partner or managing member of the Fund may take other actions provided in the governing documents of the Fund and pursue any available legal or equitable remedies, with the expenses of collection of the unpaid amount, including attorneys' fees, to be paid by the defaulting investor.

### Imposition of Tax Regardless of Cash Distributions

Investors in the Private Equity Funds & Direct Investments will be required to recognize for United States income tax purposes their pro rata share of taxable net income, whether or not they received distributions that cover such tax liabilities. Taxable income may be generated for an investor even though the value of the investor's interest has declined.

For a more detailed discussion of material information relating to the Private Equity Funds & Direct Investments, including, without limitation, risks and conflicts associated with their investment strategies, please refer to the private offering memoranda of HSBC Private Equity Investors Cayman L.P., HSBC Private Equity Access Fund, L.P., HSBC USA Private Equity Investments Limited, HSBC Latin America Private Equity Investors L.P., HSBC Latin America Institutional Fund, L.P., HSBC Latin America Private Equity Investments Limited, HSBC Latin America Partners, L.P., and HSBC Private Equity Partners II USA LP.

## 9. DISCIPLINARY INFORMATION

In the past, we have entered into certain settlements with our regulators and other third parties and have been the subject of adverse legal and disciplinary events. Below are summaries of certain events that may be material to your decision of whether to retain us for as an investment adviser. You may find other information on our Form ADV Part 1, available at <http://www.adviserinfo.sec.gov/>.

The Federal Reserve Bank of Chicago reviewed and assessed the effectiveness of HSBC North America Holdings, Inc.'s ("HNAH") complex-wide Corporate Governance and Compliance Risk Management practices, policies, and internal controls, and identified deficiencies. HNAH entered into a consent cease and desist order on October 4, 2010 and agreed to take affirmative action to strengthen HNAH's corporate governance and compliance risk management practices, policies, and internal controls.

FINRA alleged that during the period from May 31, 2006 through February 28, 2008, except as otherwise noted, HSI violated certain NASD, FINRA, and MSRB rules by (1) making negligent misrepresentations and omissions of material facts to clients concerning the safety and liquidity of Auction Rate Securities ("ARS"); (2) using advertising and marketing materials that were not fair and balanced and did not provide a sound basis for evaluating the facts about purchasing ARS; (3) selling restricted, and therefore unsuitable, ARS to certain non-qualified clients; (4) failing to retain certain emails from May 2004 to April 2009, and failing to retain certain internal instant messages from February 2007 to September 2008; and (5) failing to maintain adequate supervisory procedures concerning its sales and marketing activities regarding ARS and its retention of certain emails and instant messages.

The matter was finalized by Acceptance, Waiver and Consent ("AWC") on April 22, 2010. HSI was censured, paid a fine of \$1.5 million, and made repurchase offers to certain eligible investors. In determining the sanctions in this matter, FINRA took into account HSI's voluntary repurchase of ARS from its clients in 2008. As of July 2008, HSI repurchased more than ninety

percent of its then current clients' ARS holdings and in October 2008 offered to repurchase all of the remaining ARS held in those clients' HSBC Securities accounts.

FINRA alleged that HSI violated NASD Rules 2110 and 3010. During the period January 2004 through June 2006, clients who maintained escrow accounts with the firm's bank affiliate allegedly were charged commissions for fixed income securities trades executed by the firm on their behalf, which were higher than the commissions they were charged in the past and in certain instances, higher than industry standards. FINRA alleged that the firm failed to take adequate steps to assess the fairness of the commissions; lacked adequate written guidelines for mark-ups and commissions on trades for fixed income products, and also failed to establish and maintain adequate procedures to monitor the appropriateness of commissions charged these clients in that the firm failed to (A) establish adequate written guidelines for mark-ups and commissions on fixed income products; (B) give adequate guidance in reference to determining what is a fair mark-up or commission on fixed income products; (C) include trades executed for clients in branch examination reviews; and (D) established reasonable procedures for monitoring fixed income security mark-ups and commissions.

The matter was finalized by Acceptance, Waiver and Consent ("AWC") on May 14, 2008. HSI was censured and paid a fine of \$200,000.

On May 20, 2010, the Firm submitted a letter of Acceptance, Waiver and Consent to FINRA in which, without admitting or denying guilt, the Firm consented to findings that it: (1) failed to establish and maintain a supervisory system and written procedures regarding the sale of collateralized mortgage obligations ("CMOs") to clients that were reasonably designed to achieve compliance with applicable securities laws and regulations and with FINRA rules; (2) failed to establish and maintain a system of written procedures reasonably designed to supervise whether the sales of CMOs were suitable for its clients and the attendant risks of the products were fully explained whenever a registered representative recommended a CMO investment; (3) failed to offer certain educational materials to certain clients before the sale of a CMO and (4) recommended and sold inverse floater CMOs to clients for whom such products were unsuitable. HSI consented to a sanction of a censure and a \$375,000 fine. FINRA acknowledged that, independent of the imposed sanction, affected clients received full restitution from the firm.

A Regulatory Action was initiated by the New York Stock Exchange Division of Enforcement for a Principal Sanction of Civil and Administrative Penalties and Fine of Censure and Undertaking. The New York Stock Exchange Division of Enforcement initiated this on or about July 27, 2007 against HSBC Securities (USA) Inc. ("HSBC"). The docket and case number was NYSE Hearing Board Decision 07-150. The principal product type claimed was Callable Range Accrual Certificates of Deposit.

The New York Stock Exchange Division of Enforcement alleged that HSI violated: (1) NYSE Rule 476(a)(6) for engaging in conduct inconsistent with just and equitable principles of trade by: (a) recommending and selling LIBOR CDs to clients for whom such products were

unsuitable; (b) failing to accurately advise clients about the risks associated with the LIBOR CDs; and/or (c) making material misrepresentations regarding certain material features of the LIBOR CDs and/or the manner in which the products were likely to perform; (2) NYSE Rule 401(a) by failing to adhere to principles of good business practice by recommending and selling the LIBOR CD products to clients for whom they were not suitable; and (3) NYSE Rule 342(a) and (b) by: (a) failing to establish and maintain appropriate procedures to reasonably supervise whether the sale of callable LIBOR CDs were suitable for its clients, and (b) failing to adequately supervise its personnel in order to reasonably detect and prevent misrepresentations regarding material features of LIBOR CDs, and/or the manner in which they were likely to perform.

On October 8, 2007, HSI agreed to a censure and fine in the amount of \$500,000 and an undertaking requiring the firm to review the purchases of the outstanding LIBOR CDs (that existed as of June 1, 2007) and offer a remediation plan, reviewed and approved by NYSE enforcement, in accordance with the terms of the stipulation and consent to penalty.

#### 10. OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

The principal business of our firm is that of a full service broker-dealer. We engage in a full range of primary and secondary securities activity in the U.S. and international markets, including acting as a primary dealer in corporate bonds, U.S. and international equities, and as a broker in futures and options. We are registered with the Securities and Exchange Commission, the Financial Industry Regulatory Authority, and various other regulatory bodies. Some of our management persons are registered, or have an application pending to register, as a registered representatives of HSI.

HSI is registered as a futures commission merchant, and some of our management persons are associated persons of this entity.

#### **Material Relationships with Related Persons**

HSI and/or our management persons have a material relationship with the following related person(s) as follows:

Our firm acts as an introducing broker in respect to the Spectrum and MPA Programs, using the clearing and execution facilities of our third party clearing agent, Pershing LLC, in respect of all securities transactions executed within a client's account, subject in all cases to best execution obligations and applicable law.

AMUS provides investment advice to registered investment companies and other institutions. AMUS is a wholly-owned subsidiary of HSBC Bank USA, N.A ("HSBC Bank"). AMUS acts as the general partner or manager to certain registered investment companies, some of which may be included as investments in the Managed Portfolio Account and Spectrum Account programs. We may offer to our non-advisory clients, shares of investment companies to which AMUS serves as investment adviser. HSI has policies and procedures that are reasonably designed to

mitigate conflicts of interests and comply with the regulatory requirements in selling securities including mutual funds.

Our investment banking division provides investment banking services to the HSBC Group's major corporate clients. Financial Advisor representatives of our firm may conduct business on the premises of HSBC Bank.

In addition, Financial Advisors of the Company may be located in branches of HSBC Bank, and clients of HSBC Bank may be investment advisory clients. Clients are informed both verbally and in writing that securities products are not a deposit or other obligation of the bank or any of its affiliates; not FDIC insured or insured by any federal government agency of the United States; not guaranteed by the bank or any of its affiliates; and are subject to investment risk, including possible loss of principal invested.

HSBC Bank is a national bank organized and existing under the laws of the United States and a member of the Federal Reserve. HSBC Bank, with which we have entered into agreements, provides certain office space and certain administrative service such as payroll and benefits processing to HSI. Certain employees and officers of HSI are officers of HSBC Bank and report into the bank's Fiduciary Committee.

Our firm and representatives are also licensed insurance agents with HSBC Insurance Agency USA, Inc. and HSI. In California, HSI conducts insurance business as HSBC Securities Insurance Services. In this capacity, we may offer advisory clients of our firm insurance products for which we receive compensation. HSI has policies and procedures that are reasonably designed to mitigate conflicts of interests and comply with the regulatory requirements in selling insurance products.

HSBC's Investment Banking Group may offer sponsorship or syndication of limited partnerships. However this is not offered through the Firm's investment advisory business or clients.

#### 11. CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

The Firm has adopted a Code of Ethics and Staff Dealing Policies and Procedures that governs employee personal securities transactions ("Code of Ethics"), prohibits trading on inside information, and requires employees to comply with all relevant securities laws. The Firm also has adopted a Code of Ethics Supplement for employees of the Firm who are access person of the Funds and Investments. The Code of Ethics reflects our belief in the absolute necessity to conduct business at the highest ethical and professional levels. Our firm requires all personnel to report their personal securities accounts to the Compliance Department and requires pre-approval of personal trades in accordance with the Firm's policies and procedures. Firm personnel are required to submit an annual acknowledgement and certification attesting to their compliance and reporting requirements as well as compliance with all other aspects of our Code of Ethics. The Code of Ethics encourages internal reporting and protects employees who report violations

from retaliation. Any violations of the code must be reported to the Chief Compliance Officer or other designated personnel. A copy of our firm's Code of Ethics will be furnished upon request.

Our firm and its employees may buy or sell securities for its or their own account, including the same securities that it recommends to clients, and the same or different times as client trades on those securities, in accordance with the Code of Ethics.

## 12. BROKERAGE PRACTICES

The Firm does not engage in direct brokerage with respect to the Private Equity Funds & Direct Investments.

## 13. REVIEW OF ACCOUNTS OR FINANCIAL PLANS

The Firm's Private Equity Investment Committee meets on a quarterly basis to perform formal reviews of existing portfolio companies and investments. Other key investment staff and the Chief Compliance Officer also participate in the review of accounts.

Investors in the Private Equity Funds & Direct Investments generally will receive quarterly reports which will include investment performance and may include market commentary. Investors in the Private Equity Funds & Direct Investments who are not related persons may also receive annual audited financial statements.

## 14. CLIENT REFERRALS AND OTHER COMPENSATION

Currently, neither the Firm nor any related person directly or indirectly compensates any person for client referrals to the Private Equity Funds & Direct Investments, but the Firm may in the future enter into traditional arrangements with independent placement agents to compensate such agents for client referrals.

The Firm does not receive any economic benefits from any person or entity other than the Firm's clients for providing investment advice or other investment advisory services to the Firm's clients.

We do not pay referral fees (non-commission based) to independent solicitors (non-registered representatives) for the referral of their clients to our Firm.

## 15. CUSTODY

With respect to Private Equity Funds & Direct Investments, the Firm does not have custody of any client funds or securities. HSBC Bank USA, N.A., a related person of the Firm, serves as qualified custodian to Private Equity.

16. INVESTMENT DISCRETION

With respect to Private Equity Funds & Direct Investments, the Firm does not have investment discretion in connection with its advisory services, but it maintains the authority to manage certain clients' accounts on a discretionary basis, subject to and in accordance with any investment guidelines, limitations, other provisions and terms set forth in the applicable governing documents of the clients or advisory agreements, as applicable.

17. VOTING CLIENT SECURITIES

With respect to Private Equity Funds & Direct Investments, we do not and will not accept the proxy authority to vote client securities. Clients will receive proxies or other solicitations directly from their custodian or a transfer agent. In the event that proxies are sent to our Firm, we will forward them on to you and ask the party who sent them to mail them directly to you in the future. Clients may call, write or email us to discuss questions they may have about particular proxy votes or other solicitations.

18. FINANCIAL INFORMATION

We do not require nor do we solicit prepayment of more than \$1,200 in fees per *client*, six months or more in advance. Therefore we have not included a balance sheet for our most recent fiscal year. There are no financial conditions to likely impair our ability to meet contractual obligations to our clients, and we have not been the subject of a bankruptcy petition at any time during the past ten years.