



## Private Equity Funds and Direct Investments

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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 [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)

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

**Item 2: Material Changes to Part 2A of Form ADV Firm Brochure**

There was one material change made to HSI's Form ADV Part 2A (commonly referred to as the "Brochure") since the last annual update of the Brochure dated March 2019.

The material change is in Item 9 under Disciplinary Information to address the HSBC Securities (USA) Inc. to address the ("HSI") settlement with the U.S. Securities and Exchange Commission ("SEC") on March 16th, 2020, concerning HSI's disclosures to advisory clients and prospective clients from November 2015 through August 2017 regarding how it compensates its dually registered investment adviser and broker representatives ("IARs"). The SEC determined that HSI's disclosures were false and misleading because they failed to disclose conflicts of interest about how IARs' compensation was determined. Please review Item 9 for full details.

**In addition, the following non-material changes will be highlighted:**

**Item 4: Advisory Business:**

- Added reference to the amendment of the Investment Management and Subadvisory Agreement between HSI, HSBC Capital (USA) Inc. and Graycliff Partners LP.

**Item 10; Other Financial Industry Activities and Affiliations:**

- Updated section describing HSI's retail investment advisory business.
- Updated disclosure relating to HSBC Global Asset Management (USA) Inc.

**Item 11; Code of Ethics, Participation of Interest in Client Transactions and Personal Trading:**

- Removed reference to Code of Ethics Supplement.

**Item 3: Table of Contents:**

<b>Section:</b>	<b>Page(s):</b>
Item 1: Cover Page	1
Item 2: Material Changes to Part 2A of Form ADV Firm Brochure	2
Item 3: Table of Contents	3
Item 4: Advisory Business	4
Item 5: Fees and Compensation	6
Item 6: Performance-Based Fees and Side-By-Side Management	7
Item 7: Types of Clients and Account Requirements	7
Item 8: Methods of Analysis, Investment Strategies and Risk of Loss	8
Item 9: Disciplinary Information	13
Item 10: Other Financial Industry Activities and Affiliations	16
Item 11: Code Of Ethics, Participation or Interest in Client Transactions and Personal Trading	18
Item 12: Brokerage Practices	18
Item 13: Review of Accounts or Financial Plans	18
Item 14: Client Referrals and Other Compensation	18
Item 15: Custody	19
Item 16: Investment Discretion	19
Item 17: Voting Client Securities	19
Item 18: Financial Information	19

**Item 4: Advisory Business**

The information provided in this Form ADV Part 2A only applies to the Private Equity Business managed by HSI. The Firm also provides investment advisory services outside of the services noted above and has a specific Form ADV Part 2A for those other services. As the Private Equity Business contains covered funds, as defined under the Volcker Rule (which is discussed further below), and HSI is deemed a banking entity thereunder, the Firm must comply therewith.

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.

Since March 26, 2012, HSI operates under an Assignment and Assumption Agreement (the “Assumption Agreement”) with HSBC Private Equity Advisors LLC for HSI to serve as the registered investment adviser of the Private Equity Business. Pursuant to the Assumption Agreement, HSBC Private Equity Advisors LLC, transferred and assigned to HSI all of its rights and obligations with respect to certain pooled investment vehicles, separately managed accounts and direct investments (the “Private Equity Funds & Direct Investments” or “Private Equity”). This transaction was completed to transfer certain fund advisory contracts to HSI in order to benefit from its status as a registered adviser under the U.S. Investment Advisors Act.

Also, pursuant to an Investment Management and Subadvisory Agreement, dated as of November 30, 2011 (the “IMSA”) amongst certain HSBC entities and the entity now known as Graycliff Partners LP (“Graycliff” or the “Subadviser”), Graycliff was engaged as Subadviser to HSI for the Private Equity Funds & Direct Investment vehicles and assets (“the Private Equity Business”). Graycliff is an independent entity that is registered with the SEC as an investment advisor and may manage the Private Equity Business side by side with their other client accounts and funds. The IMSA sets forth the rights and obligations of Graycliff, HSI and HSBC Capital (USA) Inc. (“HCUS,” an affiliate of HSI) with respect to the provision by Graycliff of investment management services in respect of the Private Equity Funds & Direct Investments that are owned by HCUS and the provision of subadvisory services by Graycliff in respect of the Private Equity Funds & Direct Investments for which HSI acts as manager (“the Investment Manager”). Among other things, the IMSA established committees (HSBC Review Committee and the Third-Party Funds Committee) comprised of representatives of HSBC Markets (USA) Inc. (HSI’s corporate parent) and Graycliff, to review and approve investments and related changes in respect of the Private Equity Business.

The IMSA was amended on July 29, 2019 as Graycliff adding additional financial reporting and accounting services to the list of services being provided by Graycliff.

**Advisory Services**

As of December 31, 2019, the Private Equity Business held approximately \$ 202 million of discretionary assets under management across five principal strategies. The Private Equity Business does not tailor advisory services to the individual needs of investors in the Funds.

The first and second strategies focus on direct equity and mezzanine investments, respectively, primarily in lower middle market companies in the U.S. The third strategy focuses on Latin American investments

in direct equity transactions. The fourth strategy involves fund of funds investments in U.S. and Latin American based private equity funds, and the fifth strategy involves U.S. real estate equity investments.

### **Assets under Management**

HSI manages the Private Equity Business only on a discretionary basis. As of December 31, 2019, HSI managed approximately \$3.9 billion in overall assets under management (including wrap fee accounts as separately covered under other Form ADV Parts and appendices), including the approximately \$202 million in assets managed in the Private Equity Business.

**Item 5: Fees and Compensation**

All fees charged by the Firm with respect to the Private Equity Business are documented in the respective limited partnership agreements. Fees are charged on a fixed annual dollar amount basis for certain pools of capital and on a percentage of assets under management basis for others, as per the respective limited partnership agreements. Regarding the latter, management fees are based on total committed capital amounts during the investment period and on invested capital thereafter; the annual fee charged depends on the specific investment type but ranges from 0.25% to 2%. Each investor in the limited partnerships is invoiced directly on a quarterly basis for all fees incurred.

The Firm charges its fees quarterly in advance or in arrears, depending on the specific limited partnership agreement with the investor. Fees payable for any period shorter than a full quarter are prorated based on the number of days in the period. If an investor pays a fee amount for any period that is determined by the Firm to be more than the amount the investor 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 investor.

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

In addition to paying management and performance fees, the investors are subject to other investment expenses such as registration and custodial fees, expenses 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). These fees are detailed in the limited partnership documentation. Investors are allocated their pro rata share of such additional fees and expenses for the time period they are invested.

Neither the Firm nor any of its supervised persons accepts compensation for the sale of securities or other investment products, as outlined in Items 6 and 14 below. No securities or other investment products are sold to investors in the limited partnerships associated with the Private Equity Business.

**Item 6: Performance Based Fees and Side by Side Management**

The Firm charges a performance fee, generally of up to 20% of the excess of distributions by a pooled vehicle over invested capital. With regard to the Private Equity Business, 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. This is the only business of HSI that charges performance fees.

The Firm does not charge performance fees to its clients with respect to the Firm's retail investment advisory and managed products and different business personnel manage the retail advisory products than those personnel who are involved with the Private Equity Business.

**Item 7: Types of Clients and Account Requirements**

The Firm's clients with respect to the Private Equity Business are partnerships and other pooled investment vehicles, 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 Business are subject to applicable suitability and know your customer requirements. The Firm requires that each investor in the Private Equity Business 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. Furthermore, all funds have been closed to new and existing investors since May 1, 2010.

**Item 8: Method of Analysis, Investment Strategies and Risk of Loss**

Day-to-day management of the Private Equity Business is performed by the Subadviser, pursuant to the IMSA, while HSI provides oversight of the Subadviser through a quarterly and annual certification and diligence process designed to keep abreast of any compliance matters and regulatory updates pertaining to Graycliff's activities as HSI's subadviser.

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 and 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)
- Changes in legal, fiscal, and regulatory regimes
- Dependence on key personnel
- Illiquidity of investment
- Lack of client control
- Currency risk



- Cybersecurity risk

Investors should carefully consider the following risks prior to investing in any private equity fund. All funds have been closed to new and existing investors since May 1, 2010.

#### Risks of Private Equity Investments

The investment portfolio generally consists 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. The Private Equity Funds invests in shares of private companies. The private equity investments may be subject to more rapid change in value than would be the case if they were required to maintain a diversified portfolio. Also, there is heavy reliance on the management of the private companies and there can be no assurance that such management will operate successfully or be willing to implement any necessary restructuring improvements.

#### 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 is generally 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 is not necessarily indicative of future results. On any given investment, loss of principal is possible.

#### Concentration of Investments

The Private Equity Business may have made 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 Private Equity Business may have invested in the junior securities in a company's capital structure and, therefore, may be subject to the greatest risk of loss. Generally, there are no collateral to protect an investment.

#### Leverage

Investments with a leveraged capital structure are 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 made by the Private Equity Business, there is a significant risk that the Private Equity Business will be unable to realize its investment objectives by sale or other disposition at attractive prices or otherwise will be unable to complete an 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 are minority positions in companies in which the Subadviser or the Private Equity Business have no right to appoint a director or otherwise exert significant influence or protect its position. In such cases, the Private Equity Business relies 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 Business.

Limitations on Transfer; No Market For Investor Interests

Investors in the Private Equity Business will not be permitted to transfer or pledge their interests without the consent of the general partner of the Fund. Furthermore, the transferability of interests is subject to certain restrictions contained in the relevant governing documents of the Private Equity Business 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 Business has invested are based and 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

Some investors in the Private Equity Business 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.

Dodd-Frank Act/Volcker Rule Risk

The "Volcker Rule" contained in Section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act will limit the ability of HSI, which is deemed a banking entity to sponsor, invest in or serve as investment manager of the Private Equity Business. As the Federal Reserve currently treats HSI as a nonbank subsidiary of HSBC, HSI is required to conform its activities to the requirements of the Volcker Rule for which the Private Equity Business contains legacy covered funds as defined therein. With respect to the legacy covered funds and relationships, the Federal Reserve has granted a five-year conformance extension to HSI and its banking entity affiliates, until July 2022, to completely wind down the funds or conform to the requirements of the Volcker Rule. Therefore, the Volcker Rule may have a material adverse effect on the Private Equity Business' ability to accomplish its investment objectives.

For a more detailed discussion of material information relating to the Private Equity Business, 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 Latin America Private Equity Investors L.P.; HSBC Latin America Institutional Fund, L.P.; HSBC Latin America Partners, L.P.; and HSBC Private Equity Partners II USA LP.

Cybersecurity Risk

With the increased use of technology such as the Internet to conduct business, HSI, as with all businesses and digital platforms that store, process, transmit or transact information via networked technology, is susceptible to a breach of confidentiality, loss of data integrity or disruption in availability of its networked systems.

Cyber vulnerability continues to be leveraged by criminals to perpetrate crimes at an increasing rate, often exceeding traditional offense, and poses a significant threat to economic, social and geopolitical stability for private firms and countries. HSI faces sophisticated cyber threats from state-sponsored attackers, hackers for hire, organized cyber syndicates, and other threat actors seeking our critical corporate and customer information.

Cyber incidents can result from deliberate internal or external attacks. Cyber-attacks can include, but are not limited to, gaining unauthorized access to computer systems (e.g., through "hacking" or malicious software (aka Malware) denial-of-service attacks on websites (i.e., efforts to make

network services unavailable to intended users). Unintentional cyber incidents can occur, such as the inadvertent release of confidential information that could result in the violation of applicable privacy laws.

A failure in or a breach of our operational or security systems or infrastructure, or those of our third party vendors and other service providers, including as a result of cyberattacks, could disrupt our businesses, result in the disclosure or misuse of confidential or proprietary information, and may adversely impact our businesses.

Data quality and integrity are critical for decision making, enterprise risk management and operational processes, as well as for complying with applicable regulation. Our businesses are dependent on our ability to process a large number of complex transactions, most of which involve, in some fashion, networked computing devices. If any of our financial, accounting, data processing or other recordkeeping systems and management controls fail, or are subject to cyberattack that could compromise integrity, availability or confidentiality of our systems or data, we could be materially adversely affected.

Cyber security failures or breaches at HSI or at service providers (including, but not limited to, subadvisers, accountants, custodians, transfer agents and administrators), and the issuers of securities in which HSI invests on behalf of its clients, could result in the loss or theft of client data or funds, the inability to access electronic systems, loss or theft of proprietary information or corporate data, physical damage to a computer or network system, or costs associated with system repairs.

Cyber security failures or breaches can result in financial losses, interfere with our ability to calculate a fund's net asset value, impede our trading, and prevent clients and shareholders from transacting business. These failures or breaches can cause violations of applicable privacy and other laws, regulatory fines, penalties, reputational damage, reimbursement or other compensation costs, or additional compliance costs. In addition, we could incur substantial costs to prevent any cyber incidents in the future.

HSI relies on cybersecurity risk controls that are managed enterprise wide for HSBC plc in order to ensure that threats are identified and mitigated properly. While HSBC plc. (a corporate parent company of HSI) has preventative, detective and mitigation technologies in place as well as mature business continuity and resiliency plans in the event of cyber-attacks, it is not possible to identify and create mitigation measures for every type of event that might result in a service disruption.

### **Fund Valuation Process**

Valuations for the Funds listed below are reviewed by PricewaterhouseCoopers ("PwC") as part of the annual audit of the Funds' financial statements. Following the completion of the audit by PwC, the following Funds' financial statements are distributed to their respective investors within a specific period of time:

HSBC Private Equity Partners II USA LP  
HSBC Private Equity Investors Cayman, LP

HSBC Private Equity Access Fund, LP  
HSBC Latin America Partners LP  
HSBC Latin America Private Equity Investors LP  
HSBC Latin America Institutional Fund LP

**Item 9: Disciplinary Information**

In the past, HSI has entered into certain settlements with 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 a decision of whether to retain HSI as an investment adviser. More information is available on HSI's Form ADV Part 1, available at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

On March 16, 2020, HSBC Securities (USA) Inc. ("HSI") entered into a settlement with the U.S. Securities and Exchange Commission ("SEC") concerning HSI's disclosures to advisory clients and prospective clients from November 2015 through August 2017 regarding how it compensates its dually registered investment adviser and broker representatives ("IARs"). The SEC determined that HSI's disclosures were false and misleading because they failed to disclose conflicts of interest about how IARs' compensation was determined. The SEC's Order recognizes that HSI disclosed to all brokerage customers in its Customer Agreement that conflicts of interest between customers and IARs may arise with respect to recurring income HSI receives. But in separate disclosures to advisory customers, HSI stated that IARs were compensated based solely on non-financial factors, and not on the fees paid to HSI. The SEC found that HSI did consider financial factors in setting IAR's discretionary bonuses, including the amount of quarterly advisory fees Spectrum and Managed Portfolio Account ("MPA") program clients paid to HSI, which gave IARs an incentive to generate those fees. The SEC further determined that HSI lacked sufficient policies and procedures reasonably designed to prevent violations pertaining to its representations about IARs' compensation. On March 16, 2020, without admitting or denying the SEC's findings, HSI agreed to a censure and to pay a fine of \$725,000. HSI amended its disclosures in March 2018 and was not required to engage in any remediation.

On June 30, 2017, HSI agreed to a settlement with FINRA regarding allegations that it failed to maintain electronic brokerage records in non-erasable and non-rewritable format known as the "Write Once, Read Many" ("WORM") format that is intended to prevent the alteration or destruction of broker-dealer records stored electronically. HSI failed to retain in WORM format brokerage order memoranda records relating to approximately 12.36 million transactions in preferred exchange-traded funds, equities, and fixed income products. Other affected records included a limited number of HSI's general ledger, certain internal audit records, risk management control records, unusual activity reports and certain policy manuals. The findings also stated that HSI failed to notify FINRA at least 90 days prior to retaining a vendor to provide electronic storage. HSI is alleged to have failed to implement an audit system regarding the inputting of records in electronic storage media. HSI is also alleged to have failed to obtain an attestation from its third-party vendor. Additionally, HSI failed to establish maintain and enforce written supervisory procedures reasonably designed to achieve compliance with applicable U.S. Securities and Exchange Commission Rule for record retention requirements. HSI's written supervisory procedures failed to specify how the Firm should supervise its compliance with record retention requirements under the rule.

On June 30, 2017, without admitting or denying the findings, the Firm agreed to a censure and fine of \$1.5 million. The Firm also consented to a written plan of how it will undertake a comprehensive review of the adequacy of its policies and procedures.

In February 2016, HSBC Finance Corporation, HSBC Bank USA, HSBC Mortgage Services Inc. and HSBC North America Holdings entered into an agreement with the U.S. Department of Justice, the U.S. Department of Housing and Urban Development, the Consumer Financial Protection Bureau, other federal agencies ("federal parties") and the state Attorneys General of 49 states and the District of Columbia ("state parties") to resolve civil claims related to past residential mortgage loan origination and servicing practices. The settlement is similar to prior national mortgage settlements reached with other U.S. mortgage servicers and includes the following terms: \$100 million to be allocated among participating federal and state parties, and \$370 million in consumer relief. In addition, the settlement agreement sets forth national mortgage servicing standards to which HSBC U.S. affiliates will adhere. All except \$32 million of the settlement is allocable to HSBC Finance Corporation. This matter was settled within the amount reserved.

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' HSI accounts.

On May 20, 2010, HSI submitted a letter of Acceptance, Waiver and Consent to FINRA in which, without admitting or denying guilt, it 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 HSI.



**Item 10: Other Financial Industry Activities and Affiliations**

The principal business of HSI aside from investment management is that of a full service broker-dealer. HSI engages in a full range of primary and secondary securities activity in the U.S. and international markets, including acting as a primary dealer for corporate bonds, U.S. and international equities, and as a broker in futures and options. HSI is registered with the Securities and Exchange Commission, the Financial Industry Regulatory Authority, and other regulatory bodies. Some of HSI 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 HSI management persons are associated persons of HSI.

Certain employees of HSI are registered representatives of HSI in its capacity as a broker-dealer.

**Material Relationships with Related Persons**

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

As discussed in detail in item 4, pursuant to the IMSA, Graycliff was engaged as Subadviser to HSI for the Private Equity Business. Graycliff is an independent subadviser that is registered with the SEC as a registered investment advisor and manages the Private Equity Business side by side with their other client accounts and funds. The IMSA sets forth the rights and obligations of Graycliff, HSI and HCUS with respect to the provision by Graycliff of investment management services in respect of the Private Equity Funds and Direct Investments that are owned by HCUS and the provision of subadvisory services by Graycliff in respect of the Private Equity Funds & Direct Investments for which HSI acts as Investment Manager. Among other things, the IMSA established committees (HSBC Review Committee and the Third-Party Funds Committee) comprised of representatives of HSBC Markets (USA) Inc. (HSI's corporate parent) and Graycliff, to review and approve investments and related changes in respect of the Private Equity Business.

HSI's investment banking division provides investment banking services to the HSBC Group's major corporate clients. Investment Adviser Representatives of HSI may conduct business on the premises of HSBC Bank.

In addition, Investment Adviser Representatives of HSI 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.



In regards to HSI's investment advisory business, HSI acts as investment adviser as well as introducing broker in respect to HSBC Spectrum (mutual fund asset allocation program) and the Managed Portfolio Account (a third party wrap fee program), using the clearing and execution facilities of its third party clearing agent, Pershing® LLC ("Pershing"), in respect of all securities transactions executed within a client's account, subject in all cases to best execution obligations and applicable law.

HSBC Global Asset Management (USA) Inc. ("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 investment adviser and/or administrator to certain registered investment companies (mutual funds) and other institutions specifically money market funds., some of which are included as investment options in the HSBC Spectrum and Managed Portfolio Account programs.

HSI may offer to its retail 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.

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 HSI has 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 to the bank's Fiduciary Committee.

HSI and its 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, HSI may offer advisory clients of the Firm insurance products for which it receives 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.

HSI, member NYSE, FINRA, SIPC is a sub-distributor of the HSBC Mutual Funds. AMUS uses the services of HSI to facilitate the distribution of HSBC mutual funds. Affiliates of AMUS receive fees for providing various services to the funds.

**Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

HSI has adopted a Code of Ethics and Staff Dealing Policies and Procedures that governs employee personal securities transactions (“Code of Ethics”), designates access persons, protects material nonpublic information, and requires employees to comply with all relevant securities laws. The Code of Ethics reflects HSI’s belief in the absolute necessity to conduct business at the highest ethical and professional levels. HSI 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 its Code of Ethics. The Code of Ethics encourages internal reporting and protects employees who report violations from retaliation. Any violations of the Code of Ethics must be reported to the Chief Compliance Officer or other designated personnel. A copy of HSI’s Code of Ethics will be furnished upon request.

HSI 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.

**Item 12: Brokerage Practices**

The Firm does not engage in any brokerage with respect to the Private Equity Business, as these non-public investments and are not sold, purchased, or traded on open exchanges.

**Item 13: Review of Accounts or Financial Plans**

Committees established by the IMSA (HSBC Review Committee and the Third-Party Funds Committee) meet periodically 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 investments.

Investors (and/or related persons) in the Private Equity Business generally receives quarterly reports which will include investment performance and may include market commentary, as well as annual audited financial statements. Non related persons may also receive annual audited financial statements, as deemed necessary for regulatory purposes.

**Item 14: Client Referrals and Other Compensation**

Neither the Firm nor any related person directly or indirectly compensates any person (including independent solicitors) through referral fees (non-commission or commission based) for client referrals to the Private Equity Funds and Direct Investments. 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. To the extent a client seeks to exit its position in the fund and retains a broker, the client would be responsible for the selection and compensation of such broker.

**Item 15: Custody**

HSBC Bank USA, N.A., an affiliate of HSI, is the custodian of the assets of the Private Equity Business.

Since HSI has the authority to withdraw the assets of the Private Equity Business under certain conditions, HSI is deemed to have custody of the assets of the Private Equity Business under the Rule 206(4)-2 of the Investment Advisers Act of 1940 (also known as the Custody Rule). Accordingly, HSI and HSBC Bank USA, N.A. are subject to a surprise custody audit on an annual basis. HSI has retained PwC to perform the surprise custody audit.

**Item 16: Investment Discretion**

With respect to Private Equity Funds & Direct Investments, the Firm has investment discretion in connection with its advisory services.

**Item 17: Voting Client Securities**

With respect to Private Equity Funds & Direct Investments, the Private Equity Business does not invest in publicly traded companies, and therefore no proxies are generated by the company. In the event that a proxy is required, investors will receive proxies or other solicitations directly from their custodian, a transfer agent, or Graycliff. In the event that proxies are sent to HSI, they are forwarded to investors and the party who sent them is advised to mail them directly in the future.

**Item 18: Financial Information**

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



## Private Equity Funds and Direct Investments

### **Item 1– Cover Page**

#### **Part 2B of Form ADV: Brochure Supplement**

Andre G. Brandao  
HSBC Securities (USA) Inc.  
452 Fifth Avenue  
New York, NY 10018

**March 2020**

This brochure provides information about Andre G. Brandao that supplements the HSBC Securities (USA) Inc. (“HSI”) Private Equity Funds and Direct Investments Brochure. You should have received a copy of that Brochure.

If you have any questions about the contents of this brochure supplement, 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 [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)

HSI is an investment adviser registered with the SEC. Please note that the use of the term “registered investment adviser” and description of HSI and/or associates as “registered” does not imply a certain level of skill or training. The oral or written communications of an adviser provide you with information from which you determine to hire or retain an adviser.

**Item 2 – Educational Background and Business Experience**

Andre Brandao, born in 1964, holds a Computer Science degree from Mackenzie University, Sao Paulo, Brazil.

Mr. Brandao was appointed Chairman of the Board, Director, CEO and President of HSBC Securities (USA) Inc. on January 9, 2019. Mr. Brandao previously served in the same capacity from July 13, 2018 to October 10, 2018. Mr. Brandao was appointed Chairman of the Board, CEO and President of HSBC Capital (USA) Inc. on July 13, 2018.

Mr. Brandao was appointed Head of Global Banking and Markets for the Americas on July 13, 2018, and is responsible for the business in Canada, the US and Latin America. He was appointed a Group General Manager in January 2013 and is a member of both Global Banking and Markets and HSBC North America Holdings (HNAH) Executive Committees.

Mr. Brandao was previously Head of Global Banking and Markets for Europe (HBEU) starting in July 2016. Prior to that, he was Country CEO of HSBC Brazil from May 2012 to July 2016.

Mr. Brandao joined HSBC in February 1999 in Global Markets in Brazil and made his career within Global Banking and Markets in Latin America and the US.

Mr. Brandao has 32 years of experience in the financial markets and prior to joining HSBC, he spent 11 years at Citibank in both Sao Paulo and New York.

**Item 3 – Disciplinary Information**

There are no material legal or disciplinary events for this professional. Additional information about Andre Brandao may be found on the Financial Industry Regulatory (FINRA) website at [www.finra.org/brokercheck](http://www.finra.org/brokercheck) or the Securities Exchange Commission (SEC) website [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

**Item 4– Other Business Activities**

Mr. Brandao is not engaged in any investment-related business or occupation other than his duties at HSBC Securities (USA) Inc.

**Item 5– Additional Compensation**

Mr. Brandao does not receive additional compensation for advisory services outside of HSBC Securities (USA) Inc.

**Item 6– Supervision**

Investment decisions are made by the “HSBC Review Committee” and “Third-Party Funds Committee” formed under the IMSA. The following two persons have been appointed by HSBC Markets (USA) Inc. to serve on the committees:

Andre Brandao, Chairman of the Board, CEO, and President of HSBC Capital (USA) Inc., 212-525-5000.

Irfan A. Khan, CFA, Global Banking and Markets, HSBC Securities (USA) Inc., 212-525-6112

**Item 1– Cover Page**

**Part 2B of Form ADV: Brochure Supplement**

Irfan A. Khan, CFA  
HSBC Securities (USA) Inc.  
452 Fifth Avenue  
New York, NY 10018

**March 2020**

This brochure provides information about Irfan A. Khan that supplements the HSBC Securities (USA) Inc. (“HSI”) Private Equity Funds and Direct Investments Brochure. You should have received a copy of that Brochure.

If you have any questions about the contents of this brochure supplement, 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 [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)

HSI is an investment adviser registered with the SEC. Please note that the use of the term “registered investment adviser” and description of HSI and/or associates as “registered” does not imply a certain level of skill or training. The oral or written communications of an adviser provide you with information from which you determine to hire or retain an adviser.

**Item 2 – Educational Background and Business Experience**

Irfan A. Khan, CFA, born in 1972, holds a Master of Business Administration from the University of North Carolina's Kenan-Flagler Business School at Chapel Hill with a concentration in investment management. Since 2001, Mr. Khan has held the Chartered Financial Analyst (CFA) designation and is a member of the CFA Institute and the CFA Society New York.

Mr. Khan is a senior executive in HSBC's Global Banking & Markets business, a principal business line of HSBC Holdings plc, and is based in New York City. Prior to his current role, Mr. Khan was associated with HSBC Global Asset Management (USA) Inc. for over 8 years. Mr. Khan joined the HSBC Group in 2005. Prior to joining the HSBC Group, Mr. Khan worked at Morgan Stanley Capital International, J.P. Morgan and Bear Stearns. Mr. Khan has over 20 years of work experience in financial markets encompassing equity research, institutional sales and trading, and investment management. Mr. Khan was appointed a director of HSBC Capital (USA) Inc. on March 10, 2017.

**Item 3 – Disciplinary Information**

There are no material legal or disciplinary events for this professional.

**Item 4– Other Business Activities**

Mr. Khan is not engaged in any investment-related business or occupation other than his duties at HSBC Securities (USA) Inc.

**Item 5– Additional Compensation**

Mr. Khan does not receive additional compensation for advisory services outside of HSBC Securities (USA) Inc.

**Item 6– Supervision**

Investment decisions are made by the "HSBC Review Committee" and "Third-Party Funds Committee" formed under the IMSA. The following two persons have been appointed by HSBC Markets (USA) Inc. to serve on the committees:

Andre Brandao, Chairman of the Board, CEO and President of HSBC Capital (USA) Inc.,  
212-525-5000

Irfan A. Khan, CFA, Global Banking and Markets, HSBC Securities (USA) Inc., 212-525-6112