

HSBC's Three Decades of Building Hedge Fund Portfolios

Marketing Communication for Professional and Eligible Clients only.

May 2026

Hedge fund investing has become increasingly institutionalized and resource-intensive, requiring access to specialized managers alongside deep due diligence, portfolio construction, risk management, and ongoing oversight capabilities. Managing roughly \$36 billion allocated to external hedge fund strategies, HSBC Asset Management has built one of the world's largest multi-strategy hedge fund platforms, with its flagship fund of hedge fund strategy marking its 30-year anniversary this year.

The strategy offers insight into how the team approaches manager selection, portfolio construction, and strategic allocation decisions. The strategy offers diversified exposure to approximately 25 to 30 underlying hedge funds across several broad strategy categories, combining top-down macro views with bottom-up manager selection. Behind the strategy sits HSBC Asset Management's global hedge fund research platform, which forms the foundation of the investment process and supports both customized institutional mandates and the flagship fund of hedge fund strategy.

A Global Research Platform Screening Thousands of Managers

"The engine room from an investment point of view is really the research team," explains Tim Gascoigne, Senior Hedge Fund Investment Specialist at HSBC Asset Management's Alternatives business. The broader hedge fund investment platform comprises approximately 42 professionals globally, including more than 20 specialists focused on investment and operational due diligence. These teams are based close to the major hedge fund hubs worldwide and collectively monitor more than 7,000 hedge funds across strategies and geographies.

The manager research process progressively narrows this global hedge fund universe into a curated buy list of around 120 approved managers. The process combines investment and operational due diligence with ongoing monitoring, aiming to identify managers capable of delivering persistent risk-adjusted returns across market environments.

"The objective of the strategy is to provide an interesting absolute return with low beta and low correlation to other asset classes," says Gascoigne. "Since launch, it has delivered around 7.5 percent annualized returns. It is not only about diversification, but also long-term capital growth."

This document provides a high-level overview of the recent economic environment. It is for marketing purposes and does not constitute investment research, investment advice nor a recommendation to any reader of this content to buy or sell investments. It has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of its dissemination. There is no guarantee that HSBC AM Alternatives will successfully pick outperforming managers. There is no guarantee that HSBC AM Alternatives will make similar investments. Past performance does not predict future returns. Diversification does not ensure a profit or protect against loss.

Combining Top-Down Allocation With Bottom-Up Manager Selection

While the research process starts with thousands of hedge funds globally, portfolio construction combines bottom-up manager selection with top-down strategic allocation views. The team groups hedge fund opportunities into broad categories including long/short equity, discretionary and systematic macro, equity market neutral, CTAs, event-driven strategies, and multi-manager platforms. They then adjust exposures depending on the market environment and forward-looking opportunity set.

Once a quarter, we formally assess the opportunity set across strategies looking forward over the next six months,” explains Gascoigne. “That assessment is based on internal discussions, research work, and extensive dialogue with hedge fund managers.” The objective is to identify where market conditions create more favorable opportunities for specific hedge fund strategies.

The team currently maintains constructive views on discretionary macro and equity market neutral strategies, against a backdrop of elevated geopolitical uncertainty, higher rates, and greater dispersion across markets. According to Gascoigne, the return of a more normalized rate environment has materially improved the opportunity set for several active hedge fund strategies that struggled during the ultra-low-rate period. “As rates have moved away from zero, the cost of capital matters again, which naturally creates differentiation across companies and sectors.”

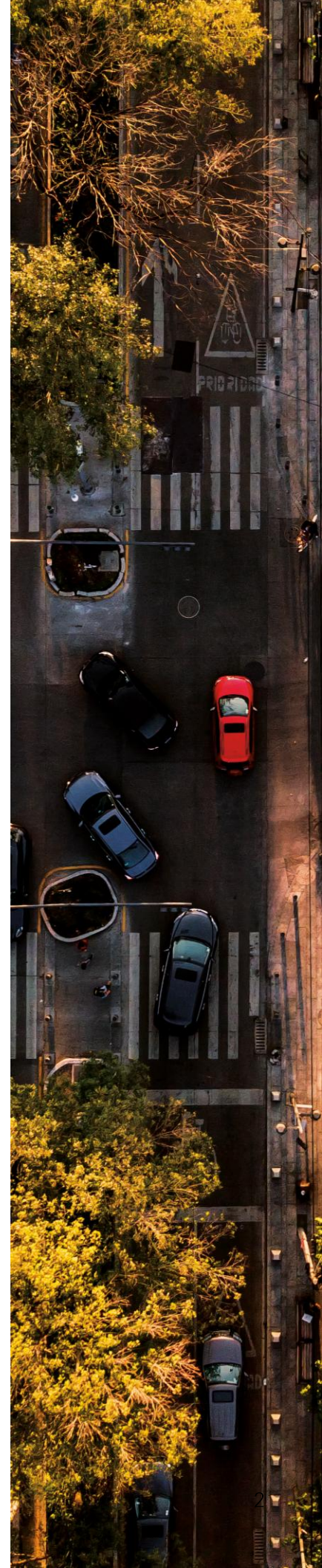
Meanwhile, the team remains broadly neutral on CTAs, viewing them primarily as liquid diversifiers during stressed markets. “We don’t pretend that we can forecast the prevalence of trends across markets,” says Gascoigne. “But CTAs remain useful because they are liquid, directionally agnostic, and can provide diversification benefits during difficult market environments.”

The team also retains a constructive stance on event-driven strategies amid rising corporate activity, and is broadly neutral on credit strategies. Gascoigne notes that spreads have tightened meaningfully, reducing the overall opportunity set in traditional credit. Within the space, the team currently finds structured credit somewhat more compelling, given the ability to move higher up the capital structure while maintaining attractive returns. By contrast, opportunities in distressed credit look more limited at this stage of the cycle, with default activity and broader distress levels remaining relatively subdued.

Multi-manager platforms remain core holdings within the strategy, offering diversified sources of alpha and access to trading teams and strategies that can be difficult to access independently. “Large multi-PM firms have become increasingly important within the industry,” notes Gascoigne. “Many leading managers in that segment have been closed for years, which is where longstanding relationships and an established platform can help.”

Overall, the team maintains a neutral to positive view across most hedge fund strategy categories, reflecting what Gascoigne views as a more favourable environment for active hedge fund investing more broadly. He points to higher interest rates, elevated geopolitical uncertainty, greater dispersion across markets and rising levels of corporate activity as key factors shaping the opportunity set for managers.

Any forecast, projection or target where provided is indicative only and is not guaranteed in any way. HSBC Asset Management accepts no liability for any failure to meet such forecast, projection or target. The views expressed above were held at the time of preparation and are subject to change without notice. This information shouldn't be considered as a recommendation to buy or sell specific investments mentioned.



Black-Litterman and Portfolio Construction

Portfolio construction begins with a neutral allocation framework derived from hedge fund industry benchmarks using the Black-Litterman model, before incorporating HSBC Asset Management's own strategic views to tilt allocations toward preferred strategies. "We start with an equilibrium portfolio and then adjust allocations based on our top-down views," explains Gascoigne.

Even so, he emphasizes that manager selection remains the dominant driver of long-term returns. According to the team's internal analysis, approximately 90 percent of HSBC AM's fund of hedge fund strategy's historical outperformance relative to the broader hedge fund composite index has come from bottom-up manager selection rather than tactical allocation shifts. "The vast majority of the value-add comes from identifying and accessing the right managers," he says. "That's really where the persistent edge has historically come from."

Top-down positioning can be particularly important during periods of market volatility. Gascoigne points to 2022 as an example, when the team increased exposure to more defensive "risk-off" strategies such as macro, equity market neutral, and multi-manager platforms amid rising rates and simultaneous weakness across equities and fixed income. "That environment tended to favour strategies less dependent on traditional market beta," he explains. "Having that tilt helped us generate positive performance in 2022."

Scale, Longstanding Relationships, and Access

The hedge fund industry remains highly heterogeneous and operationally complex, making manager access, due diligence, portfolio construction, and ongoing monitoring critical components of successful investing. Having spent three decades investing in the space and built a platform overseeing roughly \$36 billion allocated to external hedge funds, the team believes its scale and longstanding manager relationships provide a meaningful competitive advantage.

According to Gascoigne, access remains one of the key differentiators within the industry. Approximately 70 percent of the holdings in the fund of hedge fund strategy are either hard-closed or soft-closed to new investors, including many of its largest underlying positions. "When you have a product and a research platform that have been established for a long time, you naturally build relationships and access that are difficult to replicate," says Gascoigne. "The research platform is deep, and we also benefit from operating within a large global organization".

Any forecast, projection or target where provided is indicative only and is not guaranteed in any way. HSBC Asset Management accepts no liability for any failure to meet such forecast, projection or target. The views expressed above were held at the time of preparation and are subject to change without notice. This information shouldn't be considered as a recommendation to buy or sell specific investments mentioned.



Important information

The views expressed above were held at the time of preparation and are subject to change without notice. Any forecast, projection or target where provided is indicative only and is not guaranteed in any way. HSBC Asset Management accepts no liability for any failure to meet such forecast, projection or target. This information shouldn't be considered as an investment advice. The value of investments and any income from them can go down as well as up and investors may not get back the amount originally invested. Index returns assume reinvestment of all distributions and do not reflect fees or expenses. You cannot invest directly in an index. Diversification does not ensure a profit or protect against loss. Past performance does not predict future returns. For informational purposes only and should not be construed as a recommendation to invest in the specific country, product, strategy, sector, or security. Investors in hedge funds should bear in mind that these products can be highly speculative and may not be suitable for all clients. The value of investments and any income from them can go down as well as up and investors may not get back the amount originally invested. The return may increase or decrease as a result of currency fluctuations. There are several key issues that one should consider before making an investment into hedge funds. The risks specific to this type of investment may include, but are not limited to:

Regulation

The hedge fund industry is lightly regulated, with the majority of funds domiciled in offshore jurisdictions. Hedge funds are generally classified as "unregulated" and are not typically subject to the same levels of scrutiny and protection as a traditional investment fund. A thorough due diligence process can mitigate these concerns.

Gating

In event that redemptions requests on a particular dealing date are much higher than the normal level and full satisfaction would jeopardise the longer term portfolio balance, a gate or partial execution of redemption requests may be implemented generally on a pro-rata basis.

Side pocket

There may be instances when certain assets in a fund portfolio could become less liquid and the fund manager may segregate these illiquid positions from the main portfolio into a side pocket (or a separate vehicle).

Suspension of redemption

Suspension of redemption is a temporary halt in exiting the fund during a given redemption window. This is a stronger measure than gating because there is no dealing for the fund. This is generally used under special circumstances such as when liquidity conditions have markedly deteriorated in a short period of time or when there are heavy asset outflow such as the loss of a core investor.

Access

Hedge funds operate larger investment minima than traditional investment funds. Investors are often unable to access a hedge fund unless they were willing to invest US\$500,000 to US\$2million.

Liquidity

Hedge funds typically have much longer dealing cycles than traditional investment funds. Depending on the strategy being utilised, a hedge fund may only allow subscriptions and redemptions on a monthly or quarterly basis. Furthermore, some hedge funds have long lock-up periods, where an investor is not permitted to redeem from the hedge fund unless a period of 6 months, a year or even 2 years has passed. Some may allow a redemption before the lock-up period is over, but the investor would have to pay a hefty penalty to be able to do this.

Transparency

Many hedge fund managers are wary of regularly publishing their positions in the belief that this will remove any advantage that they have over their peers. This can pose a problem to the investor, as he or she cannot be certain to which stocks, geographies, markets or even strategies he or she will be exposed to when investing in the hedge fund. However, trusted investors who have built strong relationships with the hedge funds can access this information for the majority of funds, enabling thorough monitoring of the investment.

Manager failure

Over time, a number of hedge funds will close or fail, due to weak performance or operational difficulties. An investor must take this into consideration before making an investment, seeking professional advice to help minimise the risk of investing in a fund that is likely to fail.

Alternatives

There are additional risks associated with specific alternative investments within the portfolios; these investments may be less readily realisable than others and it may therefore be difficult to sell in a timely manner at a reasonable price or to obtain reliable information about their value; there may also be greater potential for significant price movements.

Follow us on:

LinkedIn:

[HSBC Asset Management](#)

Website:

assetmanagement.hsbc.com

Important Information

For Professional Clients and intermediaries within countries and territories set out below; and for Institutional Investors and Financial Advisors in the US. This document should not be distributed to or relied upon by Retail clients/investors.

The value of investments and the income from them can go down as well as up and investors may not get back the amount originally invested. The performance figures contained in this document relate to past performance, which should not be seen as an indication of future returns. Future returns will depend, inter alia, on market conditions, investment manager's skill, risk level and fees. Where overseas investments are held the rate of currency exchange may cause the value of such investments to go down as well as up. Investments in emerging markets are by their nature higher risk and potentially more volatile than those inherent in some established markets. Economies in emerging markets generally are heavily dependent upon international trade and, accordingly, have been and may continue to be affected adversely by trade barriers, exchange controls, managed adjustments in relative currency values and other protectionist measures imposed or negotiated by the countries and territories with which they trade. These economies also have been and may continue to be affected adversely by economic conditions in the countries and territories in which they trade.

The contents of this document may not be reproduced or further distributed to any person or entity, whether in whole or in part, for any purpose. All non-authorised reproduction or use of this document will be the responsibility of the user and may lead to legal proceedings. The material contained in this document is for general information purposes only and does not constitute advice or a recommendation to buy or sell investments. Some of the statements contained in this document may be considered forward looking statements which provide current expectations or forecasts of future events. Such forward looking statements are not guarantees of future performance or events and involve risks and uncertainties. Actual results may differ materially from those described in such forward-looking statements as a result of various factors. We do not undertake any obligation to update the forward-looking statements contained herein, or to update the reasons why actual results could differ from those projected in the forward-looking statements. This document has no contractual value and is not by any means intended as a solicitation, nor a recommendation for the purchase or sale of any financial instrument in any jurisdiction in which such an offer is not lawful. The views and opinions expressed herein are those of HSBC Asset Management at the time of preparation and are subject to change at any time. These views may not necessarily indicate current portfolios' composition. Individual portfolios managed by HSBC Asset Management primarily reflect individual clients' objectives, risk preferences, time horizon, and market liquidity. Foreign and emerging markets: investments in foreign markets involve risks such as currency rate fluctuations, potential differences in accounting and taxation policies, as well as possible political, economic, and market risks. These risks are heightened for investments in emerging markets which are also subject to greater illiquidity and volatility than developed foreign markets. This commentary is for information purposes only. It is a marketing communication and does not constitute investment advice or a recommendation to any reader of this content to buy or sell investments nor should it be regarded as investment research. It has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of its dissemination. This document is not contractually binding nor are we required to provide this to you by any legislative provision.

All data from HSBC Asset Management unless otherwise specified. Any third-party information has been obtained from sources we believe to be reliable, but which we have not independently verified.

HSBC Asset Management is the brand name for the asset management business of HSBC Group, which includes the investment activities that may be provided through our local regulated entities. HSBC Asset Management is a group of companies in many countries and territories throughout the world that are engaged in investment advisory and fund management activities, which are ultimately owned by HSBC Holdings Plc. (HSBC Group).

- In Australia, this document is issued by HSBC Bank Australia Limited ABN 48 006 434 162, AFSL 232595, for HSBC Global Asset Management (Hong Kong) Limited ARBN 132 834 149 and HSBC Global Asset Management (UK) Limited ARBN 633 929 718. This document is for institutional investors only and is not available for distribution to retail clients (as defined under the Corporations Act). HSBC Global Asset Management (Hong Kong) Limited and HSBC Global Asset Management (UK) Limited are exempt from the requirement to hold an Australian financial services license under the Corporations Act in respect of the financial services they provide. HSBC Global Asset Management (Hong Kong) Limited is regulated by the Securities and Futures Commission of Hong Kong under the Hong Kong laws, which differ from Australian laws. HSBC Global Asset Management (UK) Limited is regulated by the Financial Conduct Authority of the United Kingdom and, for the avoidance of doubt, includes the Financial Services Authority of the United Kingdom as it was previously known before 1 April 2013, under the laws of the United Kingdom, which differ from Australian laws;
- In Bermuda, this document is issued by HSBC Global Asset Management (Bermuda) Limited, of 37 Front Street, Hamilton, Bermuda which is licensed to conduct investment business by the Bermuda Monetary Authority;
- In France, Belgium, Netherlands, Luxembourg, Portugal, Greece, Finland, Norway, Denmark, Spain and Sweden this document is issued by HSBC Global Asset Management (France), a Portfolio Management Company authorised by the French regulatory authority AMF (no. GP99026);
- In Germany, this document is issued by HSBC Global Asset Management (Deutschland) GmbH which is regulated by BaFin (German clients) respectively by the Austrian Financial Market Supervision FMA (Austrian clients);
- In Hong Kong, this document is issued by HSBC Global Asset Management (Hong Kong) Limited, which is regulated by the Securities and Futures Commission. This content has not been reviewed by the Securities and Futures Commission;
- In India, this document is issued by HSBC Asset Management (India) Pvt Ltd. which is regulated by the Securities and Exchange Board of India;
- In Italy, this document is issued by HSBC Global Asset Management (France), a Portfolio Management Company authorised by the French regulatory authority AMF (no. GP99026), through its Italian branch, regulated by Banca d'Italia and Commissione Nazionale per le Società e la Borsa (Consob);

Important Information

- In Japan, this document is issued by HSBC Asset Management (Japan) Ltd (JRN 3010001124868), regulated by the Financial Services Agency;
- In Malta, this document is issued by HSBC Global Asset Management (Malta) Limited which is regulated and licensed to conduct Investment Services by the Malta Financial Services Authority under the Investment Services Act;
- In Mexico, this document is issued by HSBC Global Asset Management (Mexico), SA de CV, Sociedad Operadora de Fondos de Inversión, Grupo Financiero HSBC which is regulated by Comisión Nacional Bancaria y de Valores;
- In the United Arab Emirates, this document is issued by HSBC Investment Funds (Luxembourg) S.A. – Dubai Branch (Level 20, HSBC Tower, PO Box 66, Downtown Dubai, United Arab Emirates) regulated by the Capital Market Authority (CMA) in the UAE to conduct investment fund management, portfolios management, fund administration activities (CMA Category 2 license No.20200000336) and promotion activities (CMA Category 5 license No.20200000327).
- In the United Arab Emirates, this document is issued by HSBC Global Asset Management MENA, a unit within HSBC Bank Middle East Limited, U.A.E Branch, PO Box 66 Dubai, UAE, regulated by the Central Bank of the U.A.E. and the Capital Market Authority in the UAE under CMA license number 602004 for the purpose of this promotion and lead regulated by the Dubai Financial Services Authority. HSBC Bank Middle East Limited is a member of the HSBC Group and HSBC Global Asset Management MENA are marketing the relevant product only in a sub-distributing capacity on a principal-to-principal basis. HSBC Global Asset Management MENA may not be licensed under the laws of the recipient's country of residence and therefore may not be subject to supervision of the local regulator in the recipient's country of residence. One or more of the products and services of the manufacturer may not have been approved by or registered with the local regulator and the assets may be booked outside of the recipient's country of residence.
- In Singapore, this document is issued by HSBC Global Asset Management (Singapore) Limited, which is regulated by the Monetary Authority of Singapore. The content in the document/video has not been reviewed by the Monetary Authority of Singapore;
- In Switzerland, this document is issued by HSBC Global Asset Management (Switzerland) AG. This document is intended for professional investor use only. For opting in and opting out according to FinSA, please refer to our website; if you wish to change your client categorization, please inform us. HSBC Global Asset Management (Switzerland) AG having its registered office at Gartenstrasse 26, PO Box, CH-8002 Zurich has a licence as an asset manager of collective investment schemes and as a representative of foreign collective investment schemes. Disputes regarding legal claims between the Client and HSBC Global Asset Management (Switzerland) AG can be settled by an ombudsman in mediation proceedings. HSBC Global Asset Management (Switzerland) AG is affiliated to the ombudsman FINOS having its registered address at Talstrasse 20, 8001 Zurich. There are general risks associated with financial instruments, please refer to the Swiss Banking Association ("SBA") Brochure "Risks Involved in Trading in Financial Instruments";
- In Taiwan, this document is issued by HSBC Global Asset Management (Taiwan) Limited which is regulated by the Financial Supervisory Commission R.O.C. (Taiwan);
- In Turkiye, this document is issued by HSBC Asset Management A.S. Turkiye (AMTU) which is regulated by Capital Markets Board of Turkiye. Any information here is not intended to distribute in any jurisdiction where AMTU does not have a right to. Any views here should not be perceived as investment advice, product/service offer and/or promise of income. Information given here might not be suitable for all investors and investors should be giving their own independent decisions. The investment information, comments and advice given herein are not part of investment advice activity. Investment advice services are provided by authorized institutions to persons and entities privately by considering their risk and return preferences, whereas the comments and advice included herein are of a general nature. Therefore, they may not fit your financial situation and risk and return preferences. For this reason, making an investment decision only by relying on the information given herein may not give rise to results that fit your expectations.
- In the UK, this document is issued by HSBC Global Asset Management (UK) Limited, which is authorised and regulated by the Financial Conduct Authority;
- In the US, this document is issued by HSBC Securities (USA) Inc., an HSBC broker dealer registered in the US with the Securities and Exchange Commission under the Securities Exchange Act of 1934. HSBC Securities (USA) Inc. is also a member of NYSE/FINRA/SIPC. HSBC Securities (USA) Inc. is not authorized by or registered with any other non-US regulatory authority. The contents of this document are confidential and may not be reproduced or further distributed to any person or entity, whether in whole or in part, for any purpose without prior written permission.
- In Chile, operations by HSBC's headquarters or other offices of this bank located abroad are not subject to Chilean inspections or regulations and are not covered by warranty of the Chilean state. Obtain information about the state guarantee to deposits at your bank or on www.cmfchile.cl;
- In Colombia, HSBC Bank USA NA has an authorized representative by the Superintendencia Financiera de Colombia (SFC) whereby its activities conform to the General Legal Financial System. SFC has not reviewed the information provided to the investor. This document is for the exclusive use of institutional investors in Colombia and is not for public distribution;
- In Costa Rica, the Fund and any other products or services referenced in this document are not registered with the Superintendencia General de Valores ("SUGEVAL") and no regulator or government authority has reviewed this document, or the merits of the products and services referenced herein. This document is directed at and intended for institutional investors only.
- In Peru, HSBC Bank USA NA has an authorized representative by the Superintendencia de Banca y Seguros in Perú whereby its activities conform to the General Legal Financial System - Law No. 26702. Funds have not been registered before the Superintendencia del Mercado de Valores (SMV) and are being placed by means of a private offer. SMV has not reviewed the information provided to the investor. This document is for the exclusive use of institutional investors in Perú and is not for public distribution;
- In Uruguay, operations by HSBC's headquarters or other offices of this bank located abroad are not subject to Uruguayan inspections or regulations and are not covered by warranty of the Uruguayan state. Further information may be obtained about the state guarantee to deposits at your bank or on www.bcu.gub.uy.

Copyright © HSBC Global Asset Management Limited 2026. All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, on any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of HSBC Asset Management.

Content ID: D072236; Expiry Date: 31.05.2027

