

HSBC Specialist Funds Limited

Annual Report June 2010

HSBC Specialist Funds Limited

Contents

Short Duration Fixed Income Fund	1
Manager's Report	
Independent Auditors' Report	2
Statements	
Statement of Assets and Liabilities	3
Statement of Net Assets	4
Statements of Operations	6
Statements of Changes in Net Assets	7
Notes to the Financial Statements	8
Management and Administration	16

Short Duration Fixed Income Fund

Manager's Report

for the year ended June 30, 2010

Market Overview

The Federal Open Market Committee (FOMC) left the target fed funds rate unchanged at each of their March, April, and June meetings, and reiterated their commitment to keep "exceptionally low" rates for an "extended period". The target rate has remained set at a range, of '0% - 0.25%', since December 2008, although we have seen in recent months a shift from the middle of this range, to the top end. Economic activity continues to strengthen, and overall GDP grew at an average 3.5% annualized per quarter, since the start of 2010. This however, is expected to lose momentum, as temporary boosts commonly associated with the start of economic expansion subside.

The broadening European financial crisis, threw yet another wrench in the economic global economic recovery process. Just as investors were beginning to feel more confident, names such as Portugal, Ireland, Spain and Greece began dominating the headlines. Yield spreads began widening sharply for most non-Government sectors, while at the same time we saw 'flight to quality', with investors rushing to the safety of US Treasuries. Although the start to 2010 was full of robust growth, a recent run of weaker-than-expected economic data appears to point towards another slowdown in economic growth for the second half of this year.

Portfolio Overview

The Fund, in keeping with the HSBC approach favoring safety and security, has adopted a conservative positioning by investing in the higher quality names available in our investable universe. The Fund has held a defensive duration positioning of 1.20 years, maintaining a fixed to floating coupon mix of 70% / 30% respectively. This positioning will help the Fund maintain a competitive return when rates begin to rise which is expected for Q4 2011, but could potentially be some time in 2012. As a result, we have been actively working to extend the duration closer to the benchmark duration of approximately 1.80 years, given the recent weaker than expected economic data which is indicating that interest rates may be held lower to the longer end of our forecast.

Outlook

The US economy continues to show signs that it is strengthening, however stubbornly high unemployment, and weakness in other key economic components, will continue to put downward pressure on inflation. Fed officials will likely back away from recent talk of "exiting" their accommodative policy stance and start considering what new measures they can pursue to stimulate economic activity. Currently, the consensus market expectation is for the Federal Reserve to maintain rates as they are before raising them by approximately 0.25% during the second half of 2011.

HSBC Global Asset Management (Bermuda) Limited

This Manager's Report contains certain forward-looking statements with respect to the financial markets. These statements should not be considered personal financial advice.



KPMG

Crown House
4 Par-la-Ville Road
Hamilton HM 08, Bermuda
Mailing Address:
P.O. Box HM 906
Hamilton HM DX, Bermuda

Telephone 441 295-5063
Fax 441 295-9132
www.kpmg.bm

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders of
HSBC Specialist Funds Limited (“the Funds”)

We have audited the accompanying statement of assets and liabilities of the Short Duration Fixed Income Fund, including the statement of net assets as of June 30, 2010 and the related statements of operations and changes in net assets for the period March 8, 2010 to June 30, 2010. We have also audited the statements of operations and changes in net assets of the US Dollar Income Fund for the period July 1, 2009 to May 31, 2010. These financial statements are the responsibility of the Funds’ management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Funds’ internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of HSBC Specialist Funds Limited as of June 30, 2010, the results of its operations and the changes in its net assets for the period ended June 30, 2010 for the Short Duration Fixed Income Fund, and for the period ended May 31, 2010 for the US Dollar Income Fund, in conformity with accounting principles generally accepted in the United States of America.

Chartered Accountants
Hamilton, Bermuda
September 29, 2010

HSBC Specialist Funds Limited
Statement of Assets and Liabilities
as at June 30, 2010

Short Duration
Fixed Income Fund
USD (note 1)

Assets	
Investments at fair value (notes 3(b), 3(c), 11, 12 & 15)	136,434,422
Cash and cash equivalents (notes 3 & 15)	5,276,057
Interest receivable	632,364
Prepaid expenses	27,507
	142,370,350
Liabilities	
Due to broker	4,800,000
Redemptions payable	429,500
Administration and custodian fees payable (notes 5 & 6)	31,846
Management fees payable (note 4)	24,232
Accounts payable and accrued expenses	63,470
	5,349,048
Net assets	137,021,302
Net assets attributable to:	
Class A Shares	32,768,834
Class I Shares	104,252,468
	137,021,302
Shares outstanding (note 10)	
Class A Shares	327,442
Class I Shares	1,041,189
Net asset value per share	USD
Class A Shares	100.08
Class I Shares	100.13

The accompanying notes form an integral part of these Financial Statements

HSBC Specialist Funds Limited

Statement of Net Assets

as at June 30, 2010

Short Duration Fixed Income Fund

	Liquidity Period	Nominal Value	Purchase Price USD	Fair Value USD	% of Net Assets
Certificate of Deposit					
Bank of Nova Scotia (Reg) FRN 03/12/2012	Daily	4,000,000	3,999,898	3,999,898	2.92
Intesa Sanpaolo Spa (Reg) FRN 11/04/2011	Daily	2,000,000	1,982,416	1,982,416	1.44
Royal Bank of Canada NY 0.36% 08/12/2010	Daily	3,000,000	2,999,860	2,999,860	2.19
			8,982,174	8,982,174	6.55
Commercial Paper					
BNZ International Funding UCP 08/11/2010	Daily	2,000,000	1,998,861	1,998,861	1.46
NRW Bank UCP 09/07/2010	Daily	1,000,000	998,999	998,999	0.73
Natixis US Finance Co. UCP 09/10/2010	Daily	3,000,000	2,996,448	2,996,448	2.18
Nordea North America Inc. UCP 09/10/2010	Daily	2,000,000	1,998,106	1,998,106	1.46
Svenska Handelsbank Inc. UCP 09/10/2010	Daily	3,000,000	2,997,100	2,997,100	2.19
			10,989,514	10,989,514	8.02
Fixed Income Note					
Australia & New Zealand Banking Group Ltd. (144a) 2.40% 01/11/2013	Daily	2,000,000	2,004,775	2,020,238	1.48
Bank of America Corp. (Reg) 3.125% 06/15/2012	Daily	2,000,000	2,073,072	2,087,532	1.52
Barclays Bank Plc. (144a) 2.70% 03/05/2012	Daily	4,240,000	4,322,570	4,333,267	3.16
Barclays Bank Plc. (Reg) 2.50% 01/23/2013	Daily	3,000,000	2,954,706	2,993,031	2.19
Barclays Bank Plc. (Reg) 5.45% 09/12/2012	Daily	4,600,000	4,939,716	4,891,677	3.57
Citigroup Inc. (Reg) 6.50% 01/18/2011	Daily	2,000,000	2,056,002	2,049,496	1.50
European Investment Bank (Reg) 2.00% 02/10/2012	Daily	5,000,000	5,068,030	5,079,630	3.71
European Investment Bank (Reg) 3.25% 05/15/2013	Daily	900,000	937,447	943,769	0.69
European Investment Bank (Reg) 4.625% 03/21/2012	Daily	1,200,000	1,273,108	1,272,632	0.93
Export Development Canada 1.75% 09/24/2012	Daily	3,950,000	3,995,818	4,012,240	2.93
Fannie Mae (Reg) 1.125% 03/22/2012	Daily	2,000,000	1,998,704	2,004,073	1.46
Fannie Mae (Reg) 1.375% 07/19/2013	Daily	4,800,000	4,800,000	4,800,000	3.50
Fannie Mae (Reg) 1.80% 03/15/2013	Daily	2,000,000	1,999,548	2,005,500	1.46
Freddie Mac (Reg) 1.30% 05/10/2012	Daily	1,000,000	999,535	1,001,458	0.73
Freddie Mac (Reg) 1.50% 07/30/2012	Daily	4,150,000	4,151,247	4,154,320	3.03
Freddie Mac (Reg) 1.00% 12/22/2011	Daily	2,000,000	2,000,000	2,004,206	1.46
KFW (Reg) 3.25% 03/15/2013	Daily	2,000,000	2,081,863	2,097,006	1.53
Lloyds TSB Bank Plc. (144a) 2.80% 04/02/2012	Daily	2,000,000	2,048,308	2,048,804	1.50
Met Life Global Funding I (Reg) 2.875% 09/17/2012	Daily	1,510,000	1,535,451	1,550,377	1.13

The accompanying notes form an integral part of these Financial Statements

HSBC Specialist Funds Limited

Statement of Net Assets (Continued)

as at June 30, 2010

Short Duration Fixed Income Fund	Liquidity Period	Nominal Value	Purchase Price USD	Fair Value USD	% of Net Assets
Fixed Income Note (Continued)					
Met Life Global Funding I (144a) 2.875% 09/17/2012	Daily	500,000	507,908	514,470	0.38
Morgan Stanley (Reg) 6.75% 04/15/2011	Daily	5,000,000	5,193,982	5,181,805	3.78
National Australia Bank (144a) FRN 5.35% 06/12/2013	Daily	5,000,000	5,404,819	5,428,670	3.96
Nordea Bank (144a) 2.50% 11/13/2012	Daily	5,000,000	5,072,355	5,099,075	3.72
Ontario (Province of) (Reg) 5.125% 07/17/2012	Daily	500,000	539,005	540,207	0.39
Royal Bank of Canada 2.10% 07/29/2013	Daily	3,600,000	3,599,251	3,647,124	2.66
Royal Bank of Scotland (144a) 2.625% 05/11/2012	Daily	3,500,000	3,553,732	3,573,605	2.61
Shell International Finance (Reg) 1.875% 03/25/2013	Daily	5,000,000	5,000,548	5,041,555	3.68
United Parcel Service (Reg) 4.50% 01/15/2013	Daily	1,700,000	1,825,969	1,835,409	1.34
			81,937,469	82,211,176	60.00
Floating Rate Note					
BNP Paribas / BNP US MTN (Reg) FRN 06/11/2012	Daily	4,700,000	4,753,318	4,702,956	3.43
BNP Paribas / BNP US MTN (Reg) FRN 11/09/2011	Daily	1,600,000	1,587,329	1,586,688	1.16
Bank of Scotland Plc. (144a) FRN 12/08/2010	Daily	4,500,000	4,495,101	4,498,313	3.28
Berkshire Hathaway Inc. (Reg) FRN 02/11/2013	Daily	3,100,000	3,105,803	3,105,828	2.27
General Electric Capital Corp. (Br) FRN 03/20/2014	Daily	800,000	751,663	754,544	0.55
General Electric Capital Corp. (Reg) FRN 06/20/2014	Daily	1,000,000	939,251	943,633	0.69
General Electric Capital Corp. (Reg) FRN 12/20/2013	Daily	2,000,000	1,915,231	1,908,320	1.39
General Electric Capital Corp. FRN 12/20/2013	Daily	2,000,000	1,944,015	1,921,380	1.40
General Electric Capital Corp. FRN 03/20/2013	Daily	1,200,000	1,158,485	1,157,376	0.85
Lloyds TSB Bank Plc. (Reg) FRN 04/02/2012	Daily	1,250,000	1,269,614	1,269,389	0.93
National Australia Bank (144a) FRN 01/08/2013	Daily	1,600,000	1,594,999	1,595,531	1.16
Santander US Debt (144a) FRN 03/30/2012	Daily	5,000,000	5,000,000	4,908,750	3.58
Svenska Handelsbanken (144a) FRN 09/14/2012	Daily	4,385,000	4,422,082	4,409,525	3.22
Wachovia Corp. (Reg) FRN 10/15/2011	Daily	1,500,000	1,493,796	1,489,325	1.09
			34,430,687	34,251,558	25.00
Total investments			136,339,844	136,434,422	99.57
Other net assets				586,880	0.43
Total net assets				137,021,302	100.00

The accompanying notes form an integral part of these Financial Statements

HSBC Specialist Funds Limited
Statements of Operations
for the period ended June 30, 2010

	US Dollar Income Fund USD (note 1)	Short Duration Fixed Income Fund USD (note 1)
Income		
Dividend income	674,298	-
Interest income	52,585	671,744
Other income	4,542	-
	731,425	671,744
Expenses		
Administration and custodian fees (notes 5 & 6)	77,808	64,111
Management fees (note 4)	67,361	61,945
Audit fees	23,596	13,584
Directors' fees (note 8)	13,948	5,897
Interest expense	-	260,128
Bank charges	292	-
Other expenses	17,651	18,141
	200,656	423,806
Net investment income	530,769	247,938
Net realized (losses) gains on sale of investments	(4,803,836)	4,507
Net change in unrealized gains on investments	6,787,598	94,578
	1,983,762	99,085
Net increase in net assets resulting from operations	2,514,531	347,023

The accompanying notes form an integral part of these Financial Statements

HSBC Specialist Funds Limited

Statements of Changes in Net Assets

for the period ended June 30, 2010

US Dollar Income Fund USD (note 1)

Net assets at start of the period	17,134,705
Net increase in net assets from operations	
Net investment income	530,769
Net realized losses on sale of investments	(4,803,836)
Net change in unrealized gains on investments	6,787,598
	2,514,531
Subscriptions and redemptions	
Proceeds on issue of shares	9,456,172
Payments on redemption of shares	(28,483,850)
	(19,027,678)
Dividends (note 14)	(621,558)
Net assets at end of the period	-

Short Duration Fixed Income Fund

	Class A USD	Class I USD	Total
Net assets at start of the period	-	-	-
Net increase in net assets from operations			
Net investment income	28,164	219,774	247,938
Net realized gain on sale of investments	132	4,375	4,507
Net unrealized gains on investments	31,562	63,016	94,578
	59,858	287,165	347,023
Subscriptions and redemptions			
Proceeds on issue of shares	73,523,779	103,965,303	177,489,082
Payments on redemption of shares	(40,814,803)	-	(40,814,803)
	32,708,976	103,965,303	136,674,279
Net assets at end of the period	32,768,834	104,252,468	137,021,302

The accompanying notes form an integral part of these Financial Statements

HSBC Specialist Funds Limited

Notes to the Financial Statements

for the period ended June 30, 2010

1. The Fund

HSBC Specialist Funds Limited (the "Fund") is an open-ended exempted mutual fund company incorporated with limited liability and unlimited duration in Bermuda on September 5, 2001 in accordance with the Companies Act 1981 of Bermuda.

The Fund is managed by HSBC Global Asset Management (Bermuda) Limited (the "Manager"), a wholly-owned subsidiary of HSBC Bank Bermuda Limited (the "Bank"), a member of the HSBC Group.

The shares of the Fund are divided into several classes ("Classes") for which the Fund maintains separate accounts. The assets of each Class of the Fund are held exclusively for the benefit of the holders of the shares of the relevant Classes. However, all assets of the Fund are subject to the general creditors of the Fund, in that the assets of each Class may be exposed to the liabilities of other Classes within the Fund. At June 30, 2010, the Directors were not aware of any such specific existing or contingent liabilities. The following Class is currently available:

	Date of Inception
Short Duration Fixed Income Fund	March 8, 2010

US Dollar Income Fund commenced on April 30, 2005. On January 29, 2010, the Fund's Board of Directors have decided that it is in the best interest of the shareholders of the US Dollar Income Fund to combine their assets with the HSBC Fund of Funds Limited Bond Class (the "Bond Fund"). On February 4, 2010, the shares of the US Dollar Income Fund invested the full value of its investments in shares of the Bond Fund. On June 1, 2010, all shares of the US Dollar Income Fund were redeemed by way of a compulsory redemption with the proceeds paid by way of an in-kind distribution of shares in the Bond Fund of \$22,886,663. The investments were valued at fair value at the time of the contribution.

2. Significant Accounting Policies

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). The significant accounting and reporting policies adopted by the Fund are as follows:

- (a) Investment transactions and income
Investment transactions are recorded on the trade date. Realized gains and losses on investment transactions are calculated on a weighted average cost basis. Realized and unrealized gains and losses arising from investment transactions are included in the statements of operations.

Discounts and premiums on debt securities are amortized over the life of the respective securities using the effective interest rate method.
- (b) Valuation of investments
Investments are valued at fair value. Investments in unit trusts or shares in mutual or money market funds are valued at fair value at the last available price as quoted by the management of the respective trust or fund. Investments in floating rate notes, fixed income notes and preferred stocks are valued at fair market value.

In accordance with US GAAP, fair value is defined as the price that the Fund would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date. Accounting guidelines for fair value measurements establishes a framework for measuring fair value, using a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability. Inputs may be observable or unobservable and refer broadly to the assumptions that market participants would use in pricing the asset or liability. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Fund. Unobservable inputs reflect the Fund's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. Each investment is assigned a level based upon the observability of the inputs which are significant to the overall valuation. The three-tier hierarchy of inputs is summarized below:

- Level 1 – observable prices and quoted prices in active markets for identical investments
- Level 2 – other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)
- Level 3 – significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)

HSBC Specialist Funds Limited

Notes to the Financial Statements (Continued)

for the period ended June 30, 2010

2. Significant Accounting Policies (continued)

- (c) Cash and cash equivalents
Cash and cash equivalents include cash balances, money market funds, and short-term fixed deposits with maturity dates of less than 30 days from the date of purchase.
- (d) Interest and dividend income
Interest income is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date net of withholding tax.
- (e) Expenses
The Fund bears all operating expenses which are allocated between all Classes in proportion to the respective net asset value of each Class unless the expense is solely attributable to a specific Class upon which it is allocated to the respective Class.
- (f) Use of estimates
The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.
- (g) Foreign currency translation
Assets and liabilities denominated in currencies other than the base currency of each Class are translated into the base currency at the rate of exchange prevailing at the date of the financial statements. Transactions during the year in currencies other than the base currency have been translated at the rate of exchange prevailing on the date of the transaction. Realized and unrealized gains and losses on translation of investment balances are included in the statements of operations under "net realized gains/(losses) on sale of investments" and "net change in unrealized gains and losses on investments", respectively. All other realized and unrealized gains and losses arising from foreign currency translation are included in the line item to which they relate.
- (h) Mandatory redeemable financial instruments
Financial instruments, mandatorily redeemable at the option of the holder, are classified as liabilities when a redemption request has been received and the redemption amount has been determined.
- (i) Taxation
The Fund adopted the provisions of FASB Interpretation No. 48, now included in ASC Subtopic 740-10 ("FIN 48"), on July 1, 2008. As a result of the implementation of ASC Subtopic 740-10 (FIN 48), the Fund was not required to recognize any amount for uncertain tax positions.
- (j) Adoption of Accounting Standards Codification
In June 2009, the Financial Accounting Standards Board ("FASB") established the FAS Accounting Standards Codification (the "Codification") as the single source of authoritative accounting principles recognized by the FASB in the presentation of financial statements in conformity with US GAAP. The codification did not change US GAAP but rather organized it into a hierarchy where all guidance within the Codification carries an equal level of authority. The Codification became effective in September 2009. Adoption of the Codification did not have a material effect on the Fund's financial statements.

3. Cash and Cash Equivalents and Bank Overdraft

- (a) Cash and cash equivalents
Cash balances are held with the Bank. Cash equivalents comprise investments in HSBC Corporate Money Funds Limited.

	Short Duration Fixed Income Fund USD
Cash at bank	5,030,162
Money market fund	245,895
	<u>5,276,057</u>

HSBC Specialist Funds Limited

Notes to the Financial Statements (Continued)

for the period ended June 30, 2010

3. Cash and Cash Equivalents and Bank Overdraft (continued)

(b) Bank overdraft

Under an agreement dated July 7, 2006, the Bank made available an overdraft facility to the US Dollar Income Fund. The maximum amount that may be advanced is the lesser of \$2,000,000 or 10% of the Fund's assets held in the Bank's custody.

Under the terms of the agreement, all assets of the Fund held in the Bank's custody are pledged as security against advances made by the Bank. The amount outstanding is due upon demand and interest is payable on overdrawn balances at an amount equal to the Bank's Base Rate plus 125 basis points. This overdraft facility was terminated on May 4, 2010.

(c) Foreign exchange transactions facility

Under an agreement dated July 7, 2006, the Bank made available a foreign exchange facility to the Fund, up to a maximum of the lesser of \$15,000,000 or 100% of the NAV. The facility for US Dollar Income Fund was terminated on May 4, 2010.

4. Manager

Under an agreement dated January 17, 2002, the Manager agreed to act as Manager of the Fund and to be responsible for the day-to-day management.

US Dollar Income Fund

The Manager is entitled to receive from the Fund out of the assets attributable to the US Dollar Income Fund, a monthly management fee calculated at a rate of up to 0.50% per annum of the average net asset value of the Fund on each valuation day and to be reimbursed for its out-of-pocket expenses. The management fee for the period was calculated at a rate of 0.50% of the average net asset value of the Fund during the year. The management fee is calculated and paid as at the last business day of the month.

For the year ended June 30, 2010, the Manager invested certain of the Fund's assets in various other HSBC Funds. The Manager received additional management fees on the assets directly from those funds in accordance with their respective management agreements. Management fees have been waived since February 2010.

Short Duration Fixed Income Fund

The Manager is entitled to receive from the Fund, out of the assets attributable to the Short Duration Fixed Income Fund, a monthly management fee calculated at a rate of up to 1% per annum (currently 0.50% for Class A Shares and 0.40% for Class I Shares) of the average net assets value of the Fund on each valuation day and to be reimbursed for its out-of-pocket expenses. The management fee is calculated daily and paid on the last business day of the month. The fees and expenses payable to the Custodian and Administrator by the Fund will proportionately reduce amounts payable by the Fund to the Manager.

5. Administrator

Under an agreement dated January 16, 2002 between the Fund and HSBC Securities Services (Bermuda) Limited (the "Administrator"), a wholly-owned subsidiary of the Bank, the Administrator agreed to act as share registrar, transfer agent and the secretary, and to provide accounting and administrative services to the Fund.

The Administrator is entitled to receive fees from the Fund for services provided as agreed from time to time between the Fund and the Administrator.

The Administrator is also entitled to receive from the Fund an amount equal to the out-of-pocket expenses incurred in carrying out its duties.

US Dollar Income Fund

The Administrator was entitled to receive fees for services from the US Dollar Income Fund at annual rate of 0.1% up to \$100,000,000 in Net Assets or a minimum of \$48,000 per annum as provided for in the administration agreement. Administration fees were waived for the month of May 2010.

HSBC Specialist Funds Limited

Notes to the Financial Statements (Continued)

for the period ended June 30, 2010

5. Administrator (continued)

Short Duration Fixed Income Fund

The Administrator is entitled to receive fees for services from the Short Duration Fixed Income Fund at the annual rate of 0.125% up to \$250,000,000 in Net Assets or a minimum fee of \$120,000 per annum as provided for in the administration agreement.

6. Custodian

Under an agreement dated January 16, 2002, the Bank was appointed Custodian for the Fund. Pursuant to a novation agreement dated July 7, 2006, HSBC Institutional Trust Services (Bermuda) Limited was appointed as Custodian to replace the Bank. The Custodian is entitled to receive fees from the Fund for services provided at such rates agreed from time to time between the Fund and the Custodian. The Custodian is also entitled to receive from the Fund an amount equal to the out-of-pocket expenses incurred in carrying out its duties.

7. Taxation

At the present time, no income, corporation, profit, withholding or capital gains taxes are levied in Bermuda and, accordingly, no provision for such taxes has been recorded by the Fund. In the event that such taxes are levied, the Fund has received an undertaking from the Bermuda Government, under the Exempted Undertaking Tax Protection Act 1966, exempting it from all such taxes until March 28, 2016.

8. Directors' Fees

Each of the Directors is entitled to receive from the Fund a fee at such a rate as may be set from time to time by the Board of Directors, provided such remuneration shall not exceed an aggregate amount of \$15,000 per annum without prior consent of the shareholders in a general meeting. The Directors may also be reimbursed all travel, hotel and other expenses properly incurred by them in attending meetings of the Fund. No such fees will be payable where the Director is employed by the Bank or any of its subsidiaries or affiliates.

For the year ended June 30, 2010, Mr. John A. Hawkins, Mr. William D. Thomson and Ms. Julie E. McLean each received an annual fee of \$5,000.

9. Directors' Interests

As at June 30, 2010, Directors held nil shares in the Fund.

10. Share Capital

The present authorized share capital of USD100,000 of the Fund is divided into 9,999,900 voting participating shares ("Shares") of USD0.01 par value each and 100 non-voting, non-participating founders' shares of USD0.01 par value each. The Manager holds all founders' shares, nil paid. The founders' shares are not entitled to vote unless there are no other shares in issue, and are not entitled to any dividends. Participating shares may be subscribed for and redeemed on a monthly basis. During the period, the Fund issued Class A Shares and Class I Shares of Short Duration Fixed Income Fund Class initially at USD100.00 per share. The minimum initial subscription for Class A Shares in the Fund is USD1,000,000 and the minimum initial subscription for Class I Shares is USD25,000,000.

	US Dollar Income Fund (note 1)	Short Duration Fixed Income Fund (note 1)	
		Class A	Class I
Shares in issue July 1, 2009	2,386,058	-	-
Shares issued during the period	1,169,323	735,976	1,041,189
Shares redeemed during the period	(3,555,381)	(408,534)	-
Shares in issue June 30, 2010	-	327,442	1,041,189

As of June 30, 2010, HSBC Bank Bermuda Limited held shares representing 36.5% of the net assets of Short Duration Fixed Income Fund.

HSBC Specialist Funds Limited

Notes to the Financial Statements (Continued)

for the period ended June 30, 2010

11. Cost of Investments

Cost of Investments as at June 30, 2010	USD
Short Duration Fixed Income Fund	136,339,844

12. Financial Instruments and Associated Risks

Market Risk

Market risk arises primarily from uncertainty around the future prices of financial instruments held by the Fund and represents the loss the Fund might incur through holding such instruments in the face of price movements. The Manager allocates the Fund's portfolio of investments with a view to minimizing the risk associated with particular countries and industry sectors.

Currency Risk

Currency risk is the risk that future changes in exchange rates will make financial instruments held by the Fund less valuable. The investments of each Class are denominated in the related base currency thus minimizing currency risk.

Interest Rate Risk

The Fund is exposed to interest rate risk to the extent that the fair value of the Fund's financial instruments may fluctuate with movements in interest rates. The Fund manages interest rate risk by investing in short duration debt instruments and floating rate notes. The Fund may also use forward contracts for hedging purposes and as independent profit opportunities.

Liquidity Risk

The Fund mainly invests in debt securities and investee funds. Debt securities are not publicly traded nor is there a liquid market. The Fund's investments in other investment companies are not traded in an organized public market. As a result, the Fund may not be able to quickly liquidate its investments in other investment companies at their stated fair value in order to meet its liquidity requirements, including redemption requests from its shareholders. The Fund manages liquidity risk by investing mainly in funds with daily redemptions or in debt securities that can be sold daily.

Credit Risk

Credit risk is the risk that a counterparty will fail to discharge its obligation or commitment related to financial instruments it has issued. Financial assets that potentially expose the Fund to credit risk consist primarily of cash and cash equivalents, investments and interest receivable. The extent of the Fund's exposure to credit risk in respect of these financial assets approximate the carrying values as recorded in the statement of assets and liabilities. Credit risk is reduced by dealing with reputable counterparties.

In the normal course of business, the Fund purchases and sells various financial instruments, which may result in both market and credit risks. Some of the other investment funds in which the Fund invests may deal or trade in derivative financial instruments as their principal investment activity or use these instruments as part of their investment strategy or may borrow for any purpose including to increase investment capacity, cover expenses, make redemption payments or clear transactions. This may result in market and credit risks to those other investment companies in excess of the amount invested in these instruments. However, the Fund's risk is limited to the net asset value of its investments in those other investment funds.

HSBC Specialist Funds Limited

Notes to the Financial Statements (Continued)

for the period ended June 30, 2010

13. Investments in Other Investment Funds

The investments in other investment funds (the "investee funds") are valued at their fair value. The fair value represents the amount the Fund would have received if it had liquidated its investments. The Fund has the ability to liquidate its investments periodically depending on the provisions of the respective investee fund's offering documents (see statement of net assets).

The investee funds in which the Fund has invested utilize a variety of financial instruments in their trading strategies including equity and debt securities of U.S. and foreign issuers, options, futures contracts, forward contracts, and swap contracts. Several of these financial instruments contain varying degrees of off-balance sheet risk whereby changes in market values of the securities underlying the financial instruments may be in excess of the amounts recorded on each investee fund's balance sheet. However, due to the nature of the Fund's interests in the investee fund, such risks are limited to the Fund's investment in each investee fund.

Complete information about the underlying investments held by the investee funds is not readily available, so it is unknown whether the investee funds hold any single investment whereby the Fund's proportionate share exceeds 5% of the Fund's net assets as of June 30, 2010.

14. Dividends

The Directors' intention is to declare dividends with respect to the US Dollar Income Fund. Dividends are paid quarterly and are automatically reinvested in the form of additional shares in the same Class, unless the shareholder elects for payment in cash. With respect to the Short Duration Fixed Income Fund, it is the intention of the Directors not to make distributions of net income by way of dividends.

During the period ended May 31, 2010 the Directors declared the following dividends with respect to the US Dollar Income Fund:

	USD
Dividends declared	621,558

15. Fair Value Measurements

The following table summarizes the valuation of the Fund's investments by investment type by the fair value hierarchy levels as of June 30, 2010.

Short Duration Fixed Income Fund

	Level 1	Level 2	Level 3	Total
Assets (at fair value)				
Investments:				
Certificate of Deposit	\$ -	\$ 8,982,174	\$ -	\$ 8,982,174
Commercial Paper	-	10,989,514	-	10,989,514
Fixed Rate	-	82,211,176	-	82,211,176
Floating Rate	-	34,251,558	-	34,251,558
Total investments	-	136,434,422	-	136,434,422
Cash equivalents	245,895	-	-	245,895
Total	\$ 245,895	\$ 136,434,422	\$ -	\$ 136,680,317

The US Dollar Income Fund did not hold any investments at June 30, 2010.

HSBC Specialist Funds Limited

Notes to the Financial Statements (Continued)

for the period ended June 30, 2010

15. Fair Value Measurements (continued)

US Dollar Income Fund

The following is a reconciliation of assets for which Level 3 inputs were used in determining value:

	LEVEL 3					Net Change in Unrealized Appreciation for Investments Still Held at June 30, 2010
	Beginning Balance July 1, 2009	Net Realized Gains (Losses) & Change in Unrealized Appreciation (Depreciation)	Net Purchases, Sales and Settlements	Net Transfers In and/or (Out) of	Ending Balance June 30, 2010	
Assets (at fair value)						
Investments in investee funds:						
High Yield Funds	\$ 118,030	\$ (22,270)	\$ (95,760)	\$ -	\$ -	\$ -
	<u>\$ 118,030</u>	<u>\$ (22,270)</u>	<u>\$ (95,760)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

16. Financial Highlights

Schedule of Financial Highlights for Short Duration Fixed Income Fund for the period ended June 30, 2010

	USD (note 1)	
	Class A	Class I
Selected per share data		
Net asset value at inception	100.00	100.00
Income (loss) from investment operations		
Net investment income	0.15	0.23
Net realized losses on sale of investments and net unrealized losses on investments	(0.07)	(0.10)
Total from investment operations	<u>0.08</u>	<u>0.13</u>
Net asset value at end of the period	<u>100.08</u>	<u>100.13</u>
Total return	0.08 %	0.13 %
Ratios to average net assets		
Total expenses	1.34 %	1.31 %
Net investment income	0.79 %	0.76 %

Ratios to average net assets have been annualized. An individual shareholder's return may vary from the above, based on the timing of subscriptions and redemptions.

HSBC Specialist Funds Limited
Notes to the Financial Statements (Continued)
for the period ended June 30, 2010

17. Subsequent Event

The Directors' have assessed and evaluated all subsequent events arising from the date of the statement of assets and liabilities up until September 29, 2010 and have concluded that no additional disclosure is required.

HSBC Specialist Funds Limited Management and Administration for the period ended June 30, 2010

Directors and Officers

Guillermo H. Konecny, Director and President
Head of Global Banking and Markets
HSBC Bank Bermuda Limited

William D. Thomson, Director and Vice President
Retired Executive Vice President
HSBC Bank Bermuda Limited

Wayne P. Chapman, Director
Head of Group Private Banking
HSBC Bank Bermuda Limited

John A. Hawkins, Director
Retired Executive Vice President
HSBC Bank Bermuda Limited

Julie E. McLean, Director
Director
Conyers, Dill & Pearman Limited

Michael L. Schrum, Director
Chief Financial Officer
HSBC Bank Bermuda Limited

Secretary and Registered Office

HSBC Securities Services (Bermuda) Limited
6 Front Street
Hamilton HM 11, Bermuda

Manager

HSBC Global Asset Management (Bermuda) Limited
6 Front Street
Hamilton HM 11, Bermuda

Banker

HSBC Bank Bermuda Limited
6 Front Street
Hamilton HM 11, Bermuda

Custodian

HSBC Institutional Trust Services (Bermuda) Limited
6 Front Street
Hamilton HM 11, Bermuda

Administrator

HSBC Securities Services (Bermuda) Limited
6 Front Street
Hamilton HM 11, Bermuda

Auditors

KPMG
Crown House
4 Par-la-Ville Road
Hamilton HM 08, Bermuda

Legal Advisers

Conyers, Dill & Pearman Limited
Clarendon House
2 Church Street
Hamilton HM 11, Bermuda

Client Services

Telephone: (441) 299 6900
Facsimile: (441) 299 6061
Email: ifs.investor.services@us.hsbc.com

Sales Team

Telephone: (441) 299 6799
Facsimile: (441) 299 6537
Email: asset.management@hsbc.bm

www.hsbc.bm

We are a principal member of the HSBC Group, one of the world's largest banking and financial services organisations with around 8,000 offices in 87 countries and territories.

HSBC Bank Bermuda Limited
6 Front Street
Hamilton HM 11
Bermuda

HSF_FS_2010 October 2010

Issued by HSBC Bank Bermuda Limited

© Copyright HSBC Bank Bermuda Limited 2010. All Rights Reserved.

HSBC Bank Bermuda Limited is licensed to conduct investment business by the Bermuda Monetary Authority.