

HSBC Specialist Funds Limited

Annual Report June 2015

HSBC Specialist Funds Limited

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The accompanying report of KPMG Audit Limited ("KPMG") is for the sole and exclusive use of the Company. No person, other than the Company, is authorized to rely upon the report of KPMG unless KPMG expressly so authorizes. Further, the report of KPMG is as of September 17, 2015 and KPMG has carried out no procedures of any nature subsequent to that date which in any way extends that date.

Manager's Report

for the year ended June 30, 2015

Market Overview

The government's estimates for the US economy's growth over the last few years have been cut following the annual benchmark revision for GDP data. The disappointing data raise questions about the economy's underlying trend rate of growth, and whether the timing is right for a move by the Federal Reserve to a tighter monetary policy.

Fed officials have indicated that they intend to raise the federal funds rate later this year provided two conditions are fulfilled. First, they want to see more improvement in labor market conditions. Second, they want to be "confident" that PCE inflation is set to move back toward their 2.0% medium-term target. While labor market conditions have continued to improve this year, inflation continues to fall short of their target.

The growth of the Chinese economy has slowed recently and the drivers of growth have changed as well, away from investment in heavy industries and toward more consumer goods and services. This shift lowers the growth of demand for industrial materials and eases inflation pressures globally.

The unemployment rate, which averaged 6.1% in 2014, fell to 5.3% in June, taking it close to the 5.1% mid-point of the FOMC's central tendency range for the long-run, or non-inflationary, unemployment rate.

Portfolio Overview

Over twelve months ending June 30, 2015, two year U.S. Treasuries rose 18.6 bps to 0.64% from 0.46%, while three year U.S. Treasuries rose 13.7 bps to 1% from 0.87% over the same period. This indicates a relatively steep short duration yield curve. We have maintained a modest underweight in portfolio duration by increasing the portfolio's weighting in floating rate paper with quarterly reset rates, while reducing the weighting in longer duration fixed rate issues. This has enabled us to increase credit spread duration while maintaining interest duration lower than that of the benchmark index. We remain comfortable overweighting corporate credit duration under current macro conditions. Despite the less than robust global economy, conditions remain healthy enough to be supportive of the investment grade corporate sector. Corporate M&A activity along with the rush to issue debt in front of the anticipated rise in interest rates has led to record new issuance in the corporate bond market. This has resulted in some market indigestion through the second quarter of 2015.

Outlook

With a global macro and geo-political backdrop which remains slow and a bit uncertain, the Federal Reserve has lacked the confidence to raise short term interest rates. This has kept rates low in the short duration (1-3 year) portion of the curve, but volatility will continue to increase as we get closer to the eventual raising of the front end rate. Corporates generally remain attractive and defaults will continue to be below historical averages. We have maintained our overweight in corporate credit and continue to underweight U.S. Government debt. We also, continue to overweight floating rate notes in the 3-5 year portion of the curve to take advantage of attractive spreads, but will underweight duration on fixed rate investments. We remain defensive on overall duration at this point as there is a clear bias by the Federal Reserve toward raising short term rates.

HSBC Global Asset Management (Bermuda) Limited – September 2015

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



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Independent Auditors' Report

The Board of Directors and Shareholders of
HSBC Specialist Funds Limited

We have audited the accompanying financial statements of HSBC Specialist Funds Limited (comprised of the Short Duration Fixed Income Fund and the Alternative Fund), which comprise the statements of assets and liabilities, including the statements of net assets as of June 30, 2015, and the related statements of operations and changes in net assets for the year ended June 30, 2015 for the Short Duration Fixed Income Fund and the period from March 31, 2015 to June 30, 2015 for the Alternative Fund, and the related notes to the financial statements.

Managements' Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2015, and the results of its operations and changes in its net assets for the year ended June 30, 2015 for the Short Duration Fixed Income Fund and the period from March 31, 2015 to June 30, 2015 for the Alternative Fund in accordance with U.S. generally accepted accounting principles.

KPMG Audit Limited

Chartered Professional Accountants
Hamilton, Bermuda
September 17, 2015

HSBC Specialist Funds Limited

Statements of Assets and Liabilities

as at June 30, 2015

	Short Duration Fixed Income Fund USD	Alternative Fund USD
Assets		
Investments at fair value (notes 11, 12, 13 & 15)	211,763,663	129,036,302
Cash and cash equivalents (notes 3 & 15)	19,931,287	368,120
Amounts due from broker		375,000
Interest receivable	764,060	
Prepaid expenses	15,182	
	232,474,192	129,779,422
Liabilities		
Fund of Fund Alternative inter-fund payable		472,926
Redemptions payable		360,481
Administration and custodian fees payable (notes 5 & 6)	258,882	30,275
Dividends payable (note 14)	62,629	
Management fees payable (note 4)	52,542	314,760
Subscriptions received in advance		207,338
Accounts payable and accrued expenses	53,089	16,470
	427,142	1,402,250
Net assets	232,047,050	128,377,172
Net assets attributable to:		
Class AC Shares	87,211,546	125,290,998
Class AD Shares	6,529,675	
Class CC Shares	75,831,423	
Class CD Shares	101	
Class IC Shares	25,279,897	
Class ID Shares	37,194,408	
Class LC Shares		3,086,174
	232,047,050	128,377,172
Shares outstanding (note 10)		
Class AC Shares	836,491	537,400
Class AD Shares	64,014	
Class CC Shares	750,635	
Class CD Shares	1	
Class IC Shares	241,085	
Class ID Shares	364,178	
Class LC Shares		13,237
Net asset value per share		
	USD	USD
Class AC Shares	\$104.26	\$233.14
Class AD Shares	\$102.00	
Class CC Shares	\$101.02	
Class CD Shares	\$100.89	
Class IC Shares	\$104.86	
Class ID Shares	\$102.13	
Class LC Shares		\$233.14

The accompanying notes form an integral part of these Financial Statements



Director



Director

HSBC Specialist Funds Limited

Statements of Net Assets

as at June 30, 2015

Short Duration Fixed Income Fund	Nominal Value	Amortized Cost USD	Fair Value USD	% of Net Assets
Certificate of Deposit				
Rabobank Nederland NY (Ser YCD) (Reg) 0.71625% 05/06/2016	2,000,000	2,000,000	2,000,000	0.86
		2,000,000	2,000,000	0.86
Fixed Income Notes				
3M Co 1% 06/26/2017	1,000,000	998,138	1,001,965	0.43
ANZ National International NZ (144A) 1.4% 04/27/2017	1,000,000	999,910	1,001,245	0.43
Alibaba Group Holding (144A) (Reg) 1.625% 11/28/2017	2,000,000	2,004,284	1,999,750	0.86
America Movil SAB DE CV (Reg) 2.375% 09/08/2016	1,000,000	1,015,817	1,014,945	0.44
Apple Inc 1% 05/03/2018	3,000,000	2,991,384	2,970,330	1.28
Bank of Montreal (144A) (Reg) 1.95% 01/30/2017	3,000,000	3,046,619	3,048,525	1.31
Bank of America (Reg) 1.75% 06/05/2018	2,800,000	2,797,620	2,792,622	1.20
Barclays Bank Plc (144A) (Reg) 2.25% 05/10/2017	1,000,000	1,014,282	1,021,555	0.44
BAT International Finance PLC (144A) (Reg) 1.85% 06/15/2018	1,500,000	1,499,142	1,507,305	0.65
BK Nederlandse Gemeenten (144A) 0.875% 02/21/2017 Caisse	3,000,000	2,996,448	3,005,265	1.29
Centrale Desjardin (144A) 1.55% 09/12/2017	3,000,000	2,998,069	3,004,230	1.29
Chevron Corp 1.104% 12/05/2017	4,000,000	3,985,822	3,983,980	1.72
Chevron Phillips Chem Co (144A) 1.7% 05/01/2018	1,500,000	1,499,842	1,498,523	0.65
Cnooc Finance 2014 ULC 1.625% 04/30/2017	3,800,000	3,799,674	3,802,261	1.64
Coca-Cola Co/The (Reg) 0.75% 11/01/2016	2,500,000	2,498,713	2,500,963	1.08
Coca-Cola Co/The (Reg) 1.8% 09/01/2016	1,000,000	1,012,825	1,012,920	0.44
Cred Mutuel - CIC Home LO (144A) 1.5% 11/16/2017	3,750,000	3,751,531	3,768,206	1.62
Credit Agricole London (144A) 2.75% 06/10/2020	1,000,000	998,210	1,002,610	0.43
Credit Suisse New York (Reg) 1.7% 04/27/2018	2,000,000	1,997,924	1,989,160	0.86
DBS Bank Ltd/Singapore (144A) (Reg) 2.35% 02/28/2017	2,000,000	2,024,982	2,038,240	0.88
Daimler Finance NA LLC (144A) (Reg) 1.375% 08/01/2017	1,000,000	1,000,981	998,270	0.43
Daimler Finance NA LLC (144A) 1.65% 05/18/2018	3,000,000	2,996,310	2,983,365	1.29
Dexia Credit Local NY (144A) (Reg) 1.25% 10/18/2016	3,300,000	3,296,059	3,318,431	1.43
Fannie Mae (Reg) 0.875% 02/08/2018	8,000,000	7,963,228	7,979,840	3.44
Fannie Mae (Reg) 1.875% 09/18/2018	10,000,000	10,223,257	10,213,900	4.40
Federal Home Loan Bank (Reg) 1% 08/09/2017	2,350,000	2,349,239	2,345,006	1.01
Federal Home Loan Bank (Reg) 4.875% 05/17/2017	5,000,000	5,397,728	5,391,775	2.32
GDF Suez (144A) (Reg) 1.625% 10/10/2017	3,000,000	3,021,388	3,010,620	1.30
Goldman Sachs Group Inc (Reg) 6.15% 04/01/2018	3,000,000	3,333,232	3,331,560	1.44
HBOS Treasury Services (144A) 5.25% 02/21/2017	3,000,000	3,186,083	3,202,590	1.38
Hana Bank (144A) (Reg) 3.5% 10/25/2017	2,000,000	2,081,617	2,077,690	0.89

The accompanying notes form an integral part of these Financial Statements

HSBC Specialist Funds Limited

Statements of Net Assets (Continued)

as at June 30, 2015

Short Duration Fixed Income Fund (Continued)

	Nominal Value	Amortized Cost USD	Fair Value USD Assets	% of Net
Fixed Income Notes (Continued)				
Hutch Whampoa International 14 Ltd (144A) (BR) 1.625% 10/31/2017	4,000,000	3,992,811	3,989,560	1.72
IBM Corp 1.25% 02/06/2017	2,000,000	2,010,356	2,013,530	0.87
Industrial & Commercial Bank China NY 2.351% 11/13/2017	800,000	800,000	806,904	0.35
KFW (Reg) 1.25% 10/05/2016	1,000,000	1,006,937	1,008,975	0.43
Korea Gas Corp (144A) (Reg) 2.25% 07/25/2017	2,000,000	2,021,847	2,024,800	0.87
Met Life Global Funding I (144A) 1.5% 01/10/2018	2,900,000	2,892,258	2,897,128	1.25
Mizuho Bank Ltd (144A) (Reg) 1.7% 09/25/2017	2,500,000	2,497,321	2,502,599	1.08
National Australia Bank (144A) 2% 06/20/2017	1,500,000	1,499,080	1,524,953	0.66
New York Life Global FDG (144A) (Reg) 1.95% 02/11/2020	2,000,000	1,988,092	1,974,040	0.85
Norddeutsche Landesbank (144A) 0.875% 10/16/2015	2,000,000	1,999,471	2,002,410	0.86
Nordea Bank AB (144A) 3.125% 03/20/2017	1,000,000	1,021,498	1,032,365	0.44
Procter & Gamble Co (The) (Ser FIX) 0.75% 11/04/2016	2,500,000	2,499,899	2,503,350	1.08
Rabobank Nederland NY (Reg) 2.25% 01/14/2020	3,000,000	2,997,675	2,993,145	1.29
Royal Bank of Canada 1.2% 09/19/2017	3,500,000	3,492,877	3,499,178	1.51
Royal Bank of Canada 2.2% 07/27/2018	1,000,000	1,021,991	1,016,170	0.44
Scentre Group Trust 1/2 (144A) 2.375% 11/05/2019	850,000	845,824	847,352	0.36
Schlumberger Norge (144A) (Reg) 1.25% 08/01/2017	2,158,000	2,151,090	2,151,321	0.93
Shell International Finance (Reg) 2.125% 05/11/2020	1,300,000	1,297,317	1,299,168	0.56
Shell International Finance 0.9% 11/15/2016 Standard	3,000,000	2,998,286	3,006,960	1.30
Chartered Plc (144A) (Reg) 1.5% 09/08/2017 Statoil	2,000,000	1,999,178	1,996,010	0.86
ASA (Reg) 1.8% 11/23/2016	3,037,000	3,061,535	3,065,670	1.32
Sumitomo Mitsui Banking 1.5% 01/18/2018	2,000,000	1,997,010	1,988,460	0.86
Swedish Export Credit (Reg) 1.75% 10/20/2015	2,000,000	2,005,619	2,008,570	0.87
Toronto-Dominion Bank (Reg) 2.625% 09/10/2018	4,000,000	4,150,190	4,124,080	1.78
Total Capital (Reg) 3.125% 10/02/2015	975,000	981,348	980,850	0.42
Total Capital International 0.75% 01/25/2016	1,000,000	999,876	1,001,700	0.43
Toyota Motor Credit Corp (Reg) 1.75% 05/22/2017	2,000,000	2,022,663	2,026,690	0.87
Toyota Motor Credit Corp 0.875% 07/17/2015 UBS	2,000,000	1,999,984	2,000,310	0.86
London (144A) 0.75% 03/24/2016	4,000,000	3,997,468	4,004,260	1.73
		151,029,859	151,108,155	65.12

The accompanying notes form an integral part of these Financial Statements

HSBC Specialist Funds Limited

Statements of Net Assets (Continued)

as at June 30, 2015

Short Duration Fixed Income Fund (Continued)

	Nominal Value	Amortized Cost USD	Fair Value USD Assets	% of Net
Floating Rate Notes				
Apple Inc FRN 05/03/2018	2,000,000	1,995,986	2,002,470	0.86
Australia & New Zealand Banking Group NY FRN 05/15/2018	3,000,000	3,000,000	3,008,790	1.30
BP Capital Markets Plc FRN 05/10/2018	2,500,000	2,503,297	2,492,063	1.07
BPCE (Reg) FRN 06/23/2017	1,000,000	1,000,000	1,000,200	0.43
Commonwealth Bank of Australia (144A) FRN 09/20/2016 Credit Agricole London (144A) FRN	3,500,000	3,502,486	3,512,443	1.51
04/15/2019 General Electric Cap Corp (Ser GMTN) FRN	2,000,000	2,007,305	2,015,120	0.87
01/09/2020 JP Morgan Chase Bank NA (Ser BKNT) FRN	1,000,000	1,000,000	1,003,070	0.43
06/14/2017 Met Life Glob Funding I (144A) FRN	3,000,000	3,000,000	3,000,225	1.29
04/10/2017 National Australia Bank (144A) (Reg) FRN	1,500,000	1,500,000	1,504,028	0.65
12/09/2019 National Australia Bank (144A) FRN	3,000,000	3,000,000	3,004,140	1.30
06/30/2017 Nordea Bank (144A) (Reg) FRN 05/13/2016	1,800,000	1,800,000	1,797,822	0.78
Statoil ASA (Reg) FRN 11/08/2018	2,000,000	2,000,950	2,005,980	0.86
Sumitomo Mitsui Banking (Reg) FRN 01/16/2018	1,200,000	1,200,000	1,197,672	0.52
Svenska Handelsbanken (Reg) FRN 09/23/2016	1,335,000	1,335,000	1,335,814	0.58
Svenska Handelsbanken FRN 06/17/2019 Total	2,500,000	2,500,000	2,507,537	1.08
Capital International FRN 08/10/2018 Westpac Banking Corp FRN 05/19/2017	3,500,000	3,500,000	3,507,612	1.51
	2,000,000	2,000,000	2,008,080	0.87
	2,700,000	2,700,000	2,698,717	1.16
		39,545,024	39,601,783	17.07
Municipal Bond				
Florida St Hurricane Catastrophe Fund Fin Corp Revenue Ser A 1.298% 07/01/2016	2,500,000	2,500,000	2,522,225	1.08
		2,500,000	2,522,225	1.08
Treasury Bond				
US Treasury Bond 3.25% 05/31/2016	4,400,000	4,518,250	4,518,078	1.95
		4,518,250	4,518,078	1.95
Treasury Notes				
US Treasury Note 0.75% 04/15/2018	9,100,000	9,047,945	9,048,813	3.90
US Treasury Note 1.375% 04/30/2020	3,000,000	2,979,051	2,964,609	1.28
		12,026,996	12,013,422	5.18
Total investments		211,620,129	211,763,663	91.26
Other net assets			20,283,387	8.74
Net assets			232,047,050	100.00

The accompanying notes form an integral part of these Financial Statements

HSBC Specialist Funds Limited
 Statements of Net Assets (Continued)
 as at June 30, 2015

Alternative Fund	Liquidity Period	Holdings In Shares	Purchase Price USD	Fair Value USD	% of Net Assets
Investment in investee fund:					
Multi-Strategy					
HSBC Portfolio Selection Fund GH Fund Class AP	Monthly	710,826	128,614,905	129,036,302	100.51
Total investments			128,614,905	129,036,302	100.51
Other net liabilities				(659,130)	(0.51)
Net assets				128,377,172	100.00

The accompanying notes form an integral part of these Financial Statements

HSBC Specialist Funds Limited
Statements of Operations
for the year ended June 30, 2015

	Short Duration Fixed Income Fund USD	Alternative Fund USD*
Income		
Interest income	2,320,824	
	2,320,824	
Expenses		
Management fees (note 4)	597,214	314,760
Administration and custodian fees (notes 5 & 6)	250,734	30,275
Audit fees	35,113	12,728
Directors' fees (note 8)	845	3,742
Interest expense	1,335	2,348
Other expenses	12,722	
	897,963	363,853
Net investment income/(loss)	1,422,861	(363,853)
Net realized gains on sale of investments	718,839	12,486
Net change in unrealized (losses)/gains on investments	(604,217)	421,397
	114,622	433,883
Net increase in net assets resulting from operations	1,537,483	70,030

*Refer to Note 1

The accompanying notes form an integral part of these Financial Statements

HSBC Specialist Funds Limited

Statements of Changes in Net Assets

for the year ended June 30, 2015

Short Duration Fixed Income Fund	Class AC USD	Class AD USD	Class CC USD	Class CD USD	Class IC USD	Class ID USD	Total
Net assets at start of the year	79,756,083	6,522,456	40,402,564	100	55,496,191	36,963,542	219,140,936
Net increase in net assets from operations							
Net investment income	412,967	34,603	555,204	1	186,182	233,904	1,422,861
Net realized gains on sale of investments	248,275	21,104	236,644		92,825	119,991	718,839
Net change in unrealized losses on investments	(210,294)	(19,041)	(179,351)		(87,272)	(108,259)	(604,217)
	450,948	36,666	612,497	1	191,735	245,636	1,537,483
Subscriptions and redemptions							
Proceeds on issue of shares	26,000,000		34,816,362			188,769	61,005,131
Payments on redemption of shares	(18,995,485)				(30,408,029)		(49,403,514)
	7,004,515		34,816,362		(30,408,029)	188,769	11,601,617
Dividends (note 14)		(29,447)				(203,539)	(232,986)
Net assets at end of the year	87,211,546	6,529,675	75,831,423	101	25,279,897	37,194,408	232,047,050
Alternative Fund					Class AC USD*	Class LC USD*	Total
Net assets at start of the period							
Net increase in net assets from operations							
Net investment loss					(355,025)	(8,828)	(363,853)
Net realized gains on sale of investments					12,184	302	12,486
Net change in unrealized gains on investments					410,928	10,469	421,397
					68,087	1,943	70,030
Subscriptions and redemptions							
Proceeds on issue of shares					127,295,180	3,153,929	130,449,109
Payments on redemption of shares					(2,072,269)	(69,698)	(2,141,967)
					125,222,911	3,084,231	128,307,142
Net assets at end of the period					125,290,998	3,086,174	128,377,172

*Refer to Note 1

The accompanying notes form an integral part of these Financial Statements

HSBC Specialist Funds Limited

Notes to the Financial Statements

for the year ended June 30, 2015

1. The Fund

HSBC Specialist Funds Limited (the "Company") 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 Company 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 Company are divided into several classes (the "Classes"), one or more of which will be related to a Fund within the Company for which the Company maintains separate accounts. The assets of each Class of the Company are held exclusively for the benefit of the holders of the shares of the relevant Class. However, all assets of the Company are subject to the general creditors of the Company, in that the assets of each Class may be exposed to the liabilities of other Classes within the Company. At June 30, 2015, the Directors were not aware of any such specific existing or contingent liabilities.

By resolution of the Directors on December 11, 2014, the Company created a new Fund called the "Alternative Fund" and two Classes of Shares in relation to such Fund, named "Alternative Fund - Class AC" and "Alternative Fund - Class LC".

The principal objective of the Short Duration Fixed Income Fund is to maximize income while attempting to minimize the risk of capital deterioration.

The objective of the Alternative Fund is to provide a total return from selected investments in a number of hedge funds, which utilize and trade a range of different strategies and markets worldwide.

On March 31, 2015, the Alternative Fund commenced operations when it received an in-kind distribution of USD 129,708,931. This in-kind distribution was from HSBC Fund of Funds Limited.

The following Funds and share classes existing as at June 30, 2015 (see also Note 10):

	Date of Inception
Short Duration Fixed Income Fund - Class AC - USD	March 8, 2010
Short Duration Fixed Income Fund - Class AD - USD	March 31, 2011
Short Duration Fixed Income Fund - Class CC - USD	February 28, 2014
Short Duration Fixed Income Fund - Class CD - USD	February 28, 2014
Short Duration Fixed Income Fund - Class IC - USD	March 8, 2010
Short Duration Fixed Income Fund - Class ID - USD	March 29, 2011
Alternative Fund - Class AC - USD	March 31, 2015
Alternative Fund - Class LC - USD	March 31, 2015

2. Significant Accounting Policies

The accompanying financial statements are prepared in conformity with U.S. generally accepted accounting principles ("U.S. GAAP"). The Company is an investment company as outlined in the Financial Accounting Standards Board ("FASB") Accounting Standards Update No. 2013-08, Financial Services – Investment Companies (Topic 946) – Amendments to the Scope, Measurement and Disclosure Requirements ("ASU 2013-08"). The significant accounting and reporting policies adopted by the Company 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 first in first out basis for the Short Duration Fixed Income Fund and on a weighted average cost basis for the Alternative Fund. 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.

HSBC Specialist Funds Limited

Notes to the Financial Statements

for the year ended June 30, 2015

2. Significant Accounting Policies (continued)

(b) Valuation of investments

In accordance with US GAAP, fair value is defined as the price that the Company 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 Company. Unobservable inputs reflect the Company'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 Company's own assumptions in determining the fair value of investments)

The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurements falls in its entirety is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Investments in securities are valued as follows:

The fair value of debt instruments is estimated using various techniques, which may consider recently executed transactions in securities of the issuer or comparable issuers, market price quotations (where observable), bond spreads, fundamental data relating to the issuer, and credit default swap spreads adjusted for any basis difference between cash and derivatives instruments. While most debt instruments are categorized in Level 2 of the fair value hierarchy, in instances where lower relative weight is placed on transaction prices, quotations, or similar observable inputs, they are categorized in Level 3 of the fair value hierarchy.

Commercial paper is estimated using amortized cost, which approximates fair value. To the extent the inputs are observable and timely, the values would be categorized in Level 2 of the fair value hierarchy.

Investments in investee funds are valued based on reported net asset value per share as provided by the administrators of the investee funds. The Company's ability to redeem its investment with the investee fund on the reporting date at the reported net asset value per share and any redemption restrictions for the investee fund, will determine which level in the fair value hierarchy the investment will fall into. The Company classifies all short-term investments in investee funds with daily or weekly liquidity as Level 1 and with monthly liquidity as Level 2 within the fair value hierarchy.

(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

Each Fund bears its 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 US GAAP 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.

HSBC Specialist Funds Limited

Notes to the Financial Statements

for the year ended June 30, 2015

2. Significant Accounting Policies (continued)

- (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 statement of operations under "net realized gains on sale of investments" and "net change in unrealized gains 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) Allocation of profits and losses
All investment income, realized and unrealized gains and losses are allocated to each Class of shares outstanding on a daily basis for the Short Duration Fixed Income Fund and on a monthly basis for the Alternative Fund in proportion to their respective interest in the net asset value of the respective Fund.
- (j) New Accounting Pronouncements
In August 2014 the FASB issued Accounting Standards Update 2014-15, *Presentation of Financial Statements – Going Concern* ("ASU 2014-15") relating to the presentation of financial statements on a going concern basis under U.S GAAP. It sets forth that if conditions or events raise substantial doubt about an entity's ability to continue as a going concern, but the substantial doubt is alleviated as a result of consideration of management's plans, the entity should include a statement in the footnotes indicating that there is substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or available to be issued). Additionally, the entity should disclose information that enables users of the financial statements to understand all of the following: (i) principal conditions or events that raised substantial doubt about the entity's ability to continue as a going concern (before consideration of management's plans); (ii) management's evaluation of the significance of those conditions or events in relation to the entity's ability to meet its obligations; and (iii) management's plans that alleviated substantial doubt about the entity's ability to continue as a going concern. The requirements of the standard are effective for interim and annual reporting periods in fiscal periods that begin after December 15, 2016 with early application permitted. The impact on the Company's financial statement disclosures is not expected to be material.

In May 2015, the FASB issued Accounting Standards Update No. 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its equivalent)* ("ASU 2015-07"). It removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value ("NAV") per share practical expedient. The requirements of the standard are effective for interim and annual reporting periods in fiscal periods that begin after December 15, 2015 with early application permitted. The impact on the Company's financial statement disclosures is not expected to be material.

3. Cash and Cash Equivalents

Cash balances are held with HSBC Bank Bermuda Limited (the "Bank"). Cash equivalents comprise investments in HSBC Corporate Money Funds Limited.

	Short Duration Fixed Income Fund	Alternative Fund
	USD	USD
Cash at bank	2,537	368,120
Money market fund	19,928,750	
	19,931,287	368,120

HSBC Specialist Funds Limited

Notes to the Financial Statements

for the year ended June 30, 2015

4. Manager

Under an agreement dated January 17, 2002, HSBC Global Asset Management (Bermuda) Limited agreed to act as Manager of the Company and to be responsible for the day-to-day management. The Manager is entitled to receive from the Short Duration Fixed Income 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 of the average net asset value of the Short Duration Fixed Income 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 Manager is entitled to receive from the Alternative Fund, out of the assets attributable to the Alternative Fund, a monthly management fee calculated at a rate of up to 2.5% per annum of the average net asset value of the Alternative Fund on each valuation day and to be reimbursed for its out-of-pocket expenses. The management fee is calculated monthly and paid as at the last Valuation Day in each calendar quarter.

For the year ended June 30, 2015, the Manager has 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 the respective management agreements.

The fee rates incurred during the year were as follows:

Fund	Class	Rate
Short Duration Fixed Income	AC	0.50%
Short Duration Fixed Income	AD	0.50%
Short Duration Fixed Income	CC	0.25%
Short Duration Fixed Income	CD	0.25%
Short Duration Fixed Income	C	0.40%
Short Duration Fixed Income	D	0.40%
Alternative	AC	1.00%
Alternative	LC	1.00%

The fees payable to the Custodian and Administrator by the Funds will proportionately reduce amounts payable by the Funds to the Manager.

5. Administrator

Under an agreement dated January 16, 2002 between the Company 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 Foreign Accountant Tax Compliance Act (FATCA) assistance services, accounting and administrative services to the Funds. The Administrator is entitled to receive fees for services from the Short Duration Fixed Income Fund at the annual rate of 0.100% for the first \$500,000,000 and 0.080% in excess of \$500,000,000 in Net Assets or a minimum fee of \$180,000 per annum out of the fees payable to the Manager.

For the Alternative 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 out of the fees payable to the Manager. The Administrator receives a fixed fee of \$5,000 per month out of the fees payable to the Manager.

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

6. Custodian

Under an agreement dated January 16, 2002, HSBC Institutional Trust Services (Bermuda) Limited (the "Custodian") was appointed Custodian for the Company. The Custodian is entitled to receive fees from the Funds for services provided at such rates agreed from time to time between the Funds and the Custodian out of the fees payable to the Manager. The Custodian is also entitled to receive an amount equal to the out-of-pocket expenses incurred in carrying out its duties.

HSBC Specialist Funds Limited

Notes to the Financial Statements

for the year ended June 30, 2015

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 Company. In the event that such taxes are levied, the Company has received an undertaking from the Bermuda Government, under the Exempted Undertaking Tax Protection Act 1966, exempting it from all such taxes until March 31, 2035.

8. Directors' Fees

Each of the Directors is entitled to receive from the Company 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 \$30,000 per annum without prior consent of the shareholders in a general meeting. The Directors may also be reimbursed for all travel, hotel and other expenses properly incurred by them in attending meetings of the Company. 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, 2015, Mr. L. Anthony Joaquin and Ms. Julie E. McLean each were paid an annual fee at a rate of \$5,000 per annum.

9. Related Parties and Directors' Interests

As at June 30, Directors held the following shares in the Alternative Fund:

Director	Number of Shares
Wayne P. Chapman	1,388
Faith Outerbridge	673
Julie E. McLean	33
L. Anthony Joaquin	1,177

HSBC Global Asset Management (Bermuda) Limited, which is the Investment Manager held 1 share each of Class AD, CC and CD in the Short Duration Fixed Income Fund and nil shares in the Alternative Fund.

10. Share Capital

The present authorized share capital of USD100,000 of the Company is divided into 9,999,900 voting participating shares ("Shares") of USD 0.01 par value each and 100 non-voting, non-participating founders' shares of USD 0.01 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 daily basis for the Short Duration Fixed Income Fund and on a monthly basis for the Alternative Fund. The minimum initial subscription for Class AC and Class AD Shares in the Short Duration Fixed Income Fund is USD 1,000,000, for Class CC and Class CD Shares it is USD 50,000,000 and for Class IC and Class ID Shares it is USD 25,000,000. The minimum initial subscription for Class AC and Class LC Shares in the Alternative Fund is USD 10,000.

	Short Duration Fixed Income Fund (note 1)					
	Class AC	Class AD	Class CC	Class CD	Class IC	Class ID
Shares in issue July 1, 2014	769,286	64,014	403,191	1	532,754	362,328
Shares issued during the year	250,059		347,444			1,850
Shares redeemed during the year	(182,854)				(291,669)	
Shares in issue June 30, 2015	836,491	64,014	750,635	1	241,085	364,178

	Alternative Fund (note 1)	
	Class AC	Class LC
Shares in issue July 1, 2014 Shares		
issued during the period Shares	546,256	13,535
redeemed during the period	(8,856)	(298)
Shares in issue June 30, 2015	537,400	13,237

HSBC Specialist Funds Limited

Notes to the Financial Statements

for the year ended June 30, 2015

11. Cost of Investments

Cost of investments as at June 30, 2015	USD
Short Duration Fixed Income Fund	211,620,129
Alternative Fund	128,614,905

12. Financial Instruments and Associated Risks

Price Risk

Price risk arises primarily from uncertainty around the future prices of financial instruments held by the Funds and represents the loss the Funds might incur through holding such instruments in the face of price movements. The Manager allocates the Funds' 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 Funds less valuable. Substantially all the investments of each Fund are denominated in USD thus minimizing currency risk.

Interest Rate Risk

The Funds are 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 Short Duration Fixed Income Fund manages interest rate risk by investing in short duration debt instruments and floating rate notes. The Funds may also use forward contracts for hedging purposes and as independent profit opportunities and invest in other investment companies exposed to significant interest rate risk. The Alternative Fund's exposure to interest rate risk through its investment in investee funds is limited to its investment in such funds.

Liquidity Risk

The Funds are exposed to liquidity risk to the extent that they are unable to realize their positions to meet liabilities and redemptions as they fall due in a timely and favorable manner. The Short Duration Fixed Income Fund manages liquidity risk by investing mainly in debt securities that can be sold daily. The Alternative Fund invests in other Investment companies that are not publicly traded or for which there is no liquid market. The Alternative Fund manages liquidity risk by investing in investee funds that have similar redemption periods as is required by the Alternative Fund itself.

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 Funds 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 statements of assets and liabilities. Credit risk is managed by dealing with reputable counterparties.

HSBC Specialist Funds Limited

Notes to the Financial Statements

for the year ended June 30, 2015

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 Alternative Fund would have received at June 30, 2015, if it had liquidated its investments. The Alternative Fund has the ability to liquidate its investments periodically depending on the provisions of the respective investee fund's offering documents.

The investment funds in which the Alternative Fund has invested utilize a variety of financial instruments in their trading strategies including equity and debt securities of both U.S. and foreign issuers, options, futures, forward, 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 funds balance sheet. However, due to the nature of the Fund's interests in the investee funds, such risks are limited to the Alternative Fund's investment in each investee fund.

As of June 30, 2015, the Alternative Class has an investment in GH Fund Class AP (the "investee fund") of the HSBC Portfolio Selection Fund, a related party fund managed by HSBC Management (Guernsey) Limited and advised by HSBC Alternative Investments Limited, representing 100% of its net assets. The objective of the investee fund is to provide a total return from selective investment in a number of hedge funds, which utilize and trade in a range of different strategies and markets worldwide.

The following table summarizes the proportionate share of investments of HSBC GH Fund of which the proportionate share is greater than 5% of the Alternative Fund's net assets:

Description	Value USD	% of Alternative Fund's Net Assets
Visium Balanced Offshore Fund Limited	11,371,041	8.86%
D.E. Shaw Oculus International Fund	9,316,793	7.26%
Third Point Offshore Fund Limited	8,325,002	6.48%
MW Eureka Fund Plc	7,968,365	6.21%
Lansdowne UK Equity Fund Limited	7,751,050	6.04%
CQS Directional Opportunities Fund	7,077,840	5.51%
Two Sigma Absolute Return Macro Enhanced Cayman Fund Limited	6,533,775	5.09%

14. Dividends

The declaration of dividends is at the discretion of the Directors. It is the present intention of the Directors of the Company to declare quarterly dividends with respect to Class AD, Class CD and Class ID shares of the Short Duration Fixed Income Fund, the amount of which may fluctuate depending on market conditions. It is the policy of the Directors to distribute the net income from the underlying investments of the Class AD, Class CD and Class ID shares of the Short Duration Fixed Income Fund. It is the intention of the Directors of the Company not to make distributions of net income to holders of the Class AC, Class CC and Class IC shares of the Short Duration Fixed Income Fund and holders of the Class AC and Class LC shares of the Alternative Fund.

During the year ended June 30, 2015, the Directors declared the following dividends to the holders of the Short Duration Fixed Income Fund.

	USD
Dividends declared - Class AD - USD	29,447
Dividends declared - Class ID - USD	203,539

HSBC Specialist Funds Limited

Notes to the Financial Statements

for the year ended June 30, 2015

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, 2015 with respect to the Short Duration Fixed Income Fund:

	Level 1	Level 2	Level 3	Total
Assets				
Investments, at fair value:				
Certificate of Deposit	\$	\$ 2,000,000	\$	\$ 2,000,000
Fixed Income Notes		151,108,155		151,108,155
Floating Rate Notes		39,601,783		39,601,783
Municipal Bond		2,522,225		2,522,225
Treasury Bond		4,518,078		4,518,078
Treasury Notes		12,013,422		12,013,422
Total investments, at fair value		211,763,663		211,763,663
Cash equivalents	19,928,750			19,928,750
Total	\$ 19,928,750	\$ 211,763,663	\$	\$ 231,692,413

The following table summarizes the valuation of the Fund's investments by investment type by the fair value hierarchy levels as of June 30, 2015 with respect to the Alternative Fund:

	Level 1	Level 2	Level 3	Total
Assets				
Investment in investee fund, at fair value:				
Multi-Strategy	\$	\$ 129,036,302	\$	\$ 129,036,302
Total investments in investee fund, at fair value		129,036,302		129,036,302
Total	\$	\$ 129,036,302	\$	\$ 129,036,302

The Company's policy is to recognize transfers into and out of various levels of the fair value hierarchy as at the actual date of the event or change in circumstances that caused the transfer. No transfers were made during the year/period ended June 30, 2015.

HSBC Specialist Funds Limited

Notes to the Financial Statements

for the year ended June 30, 2015

16. Financial Highlights

Schedule of Financial Highlights for Short Duration Fixed Income Fund
for the year ended June 30, 2015

	USD					
	Class AC	Class AD	Class CC	Class CD	Class IC	Class ID
Selected per share data						
Net asset value at beginning of the year	103.68	101.89	100.21	100.20	104.17	102.02
Income from investment operations						
Net investment income	0.55	0.54	0.78	0.66	0.66	0.64
Net realized gains on sale of investments and net change in unrealized gains on investments	0.03	0.03	0.03	0.03	0.03	0.03
Total from investment operations	0.58	0.57	0.81	0.69	0.69	0.67
Dividends declared		(0.46)				(0.56)
Net asset value at end of the year	104.26	102.00	101.02	100.89	104.86	102.13
Total return, excluding dividends declared	0.56 %	0.56 %	0.81 %	0.69 %	0.66 %	0.66 %
Ratios to average net assets						
Total expenses	0.52 %	0.52 %	0.27 %	0.02 %	0.42 %	0.42 %
Net investment income	0.53 %	0.53 %	0.79 %	0.66 %	0.61 %	0.63 %

Schedule of Financial Highlights for Alternative Fund
for the period from March 31, 2015 to June 30, 2015*

	USD	
	Class AC	Class LC
Selected per share data		
Net asset value at beginning of the period	233.01	233.01
Income from investment operations		
Net investment loss	(0.66)	(0.66)
Net realized gains on sale of investments and net change in unrealized gain on investments	0.79	0.79
Total from investment operations	0.13	0.13
Net asset value at end of the period	233.14	233.14
Total return, excluding dividends declared	0.06 %	0.06 %
Ratios to average net assets		
Total expenses	1.13 %	1.13 %
Net investment loss	(1.13) %	(1.13) %

An individual shareholder's return may vary from the above, based on the timing of subscriptions and redemptions.

*The financial highlights are annualized for period less than a year.

17. Subsequent Events

The Directors have assessed and evaluated all subsequent events arising from the date of the statements of assets and liabilities up until September 17, 2015 and have concluded that no additional disclosures are required.

HSBC Specialist Funds Limited Management and Administration

for the year ended June 30, 2015

Directors and Officers

L. Anthony Joaquin, President
Retired Managing Partner
Ernst & Young

Faith Outerbridge, Vice President
Head of Global Asset Management
HSBC Bank Bermuda Limited

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

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

Secretary and Registered Office

HSBC Securities Services (Bermuda) Limited
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Hamilton HM 11, Bermuda

Manager

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

Banker

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

Custodian

HSBC Institutional Trust Services (Bermuda) Limited
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Administrator

HSBC Securities Services (Bermuda) Limited
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Bermuda Stock Exchange Listing Sponsor

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