

HSBC Fund of Funds Limited

Annual Report June 2011

HSBC Fund of Funds Limited

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Bond Class Manager's Report for the year ended June 30, 2011

Portfolio Overview

The Bond Class had another strong fiscal year as investors continued to favour bond sectors amid volatile markets.

- The portfolio was led by high yield and Emerging Market bonds as investors favoured higher yielding sectors amid a low interest rate environment in developed markets. However, that said, government bonds and investment grade corporate bonds still maintained solid returns.
- We favoured investment grade and high yield sectors through much of the year and moved from underweight to neutral on Emerging Market bonds in the second half of the fiscal year.
- We were underweight government bonds throughout the entire period.

Economic data and business sentiment surveys weakened in the second half of the fiscal year indicating that the fragile growth in developed markets was faltering.

- US Gross Domestic Product ("GDP") for Q1 nearly stalled with growth of only 0.4% while Q2 was 1.3%. Labour markets remained weak with unemployment above 9% while inflation remains at reasonable levels. As such, the Federal Reserve has maintained its accommodative policy of near zero interest rates and the question remains whether they will introduce a third quantitative easing program however at the end of June 2011 this was not planned.
- The European region has suffered with a fall in confidence in its sovereign debt as peripheral nations struggled with burdening debt levels. At the close of the fiscal year Greece dominated news headlines as citizens took to the streets to protest austerity measures. Parliament passed the measures which allowed for the approval of additional funding from the European Union. This gave investors a boost of confidence, however we were cautious on the region and remain so as the new fiscal year begins.
- Japan's economy was weakened by the earthquake and tsunami in March, however economic data is showing improvement while the Bank of Japan continues to maintain low interest rates and high liquidity to support reconstruction. Emerging Markets continue to have strong growth with most recent estimates of GDP for 2011 at 7.4% for Asia ex-Japan and just over 4% for Eastern Europe and Latin America.

Outlook

US growth faltered in the first half of 2011 however despite the fragility of the economy we believe that falling into another recession is a low probability event. Unemployment, the availability of credit to consumers and small business and the housing market remain a concern and a headwind to a stronger US economy. But, corporate balance sheets are much stronger than previous years, while leverage and default rates have fallen to low levels, supporting our current positive view on high yield and investment grade corporate debt. Emerging Markets continue to display solid growth but we remain wary of inflation and were neutral Emerging Market debt at the close of the fiscal year.

Equity Class Manager's Report for the year ended 30 June 2011

Portfolio Overview

The Equity Class had a very strong performance this fiscal year with much of the performance coming in the first half of the year amid strengthening growth particularly in developed markets. However, equity performance became more volatile by March of this year following Japan's earthquake and tsunami. In addition, weaker growth numbers out of the US and a sovereign debt crisis in Europe increased investor risk aversion and markets weakened in the final quarter.

- The portfolio was led by European, Asian and Emerging Market sectors while Japan, although outperforming by the final quarter, was our worst sector following the crisis caused by the earthquake.
- We favoured Asia and Emerging Markets through much of the year and increased our Japanese exposure following the dramatic sell off following the earthquake.

Economic data and business sentiment surveys weakened in the second half of the fiscal year, indicating that the fragile growth in developed markets was faltering.

- US GDP for Q1 nearly stalled with growth of only 0.4% while Q2 was 1.3%. Labour markets remained weak with unemployment above 9% while inflation remains at reasonable levels. As such, the Federal Reserve has maintained its accommodative policy of near zero interest rates and the question remains whether they will introduce a third quantitative easing program however at the end of June 2011 this was not planned.
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Outlook

US growth faltered in the first half of 2011 however despite the fragility of the economy we believe that falling into another recession is a low probability event. Unemployment, the availability of credit to consumers and small business and the housing market remain a concern and a headwind to a stronger US economy. But, corporate balance sheets are much stronger than previous years, while leverage and default rates have fallen to low levels. We view recent weakness as temporary but remain cautious and at the end of this fiscal year favour Emerging Markets and Japan.



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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders of
HSBC Fund of Funds Limited (the "Fund")

We have audited the accompanying statements of assets and liabilities of the Bond Class USD, the Equity Class USD and the Alternative Class USD (together constituting "HSBC Fund of Funds Limited"), including the statements of net assets, as of June 30, 2011, and the related statements of operations and changes in net assets for the year then ended. These financial statements are the responsibility of the Fund's 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 an 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 Fund's 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 Fund of Funds Limited as of June 30, 2011 and the results of their operations and changes in net assets for the year then ended in conformity with U.S. generally accepted accounting principles.

Chartered Accountants
Hamilton, Bermuda
September 30, 2011

HSBC Fund of Funds Limited
Statements of Assets & Liabilities
as at June 30, 2011

	Bond Class USD	Equity Class USD	Alternative Class USD
Assets			
Investments at fair value (notes 11, 13, 14 & 17)	98,332,942	41,907,559	182,190,572
Cash and cash equivalents (notes 3 & 17)	155	981,149	509,656
Derivative contracts at fair value (notes 12, 13 & 17)	-	6,140	-
Receivable for investments sold	2,271,915	1,756,556	450,000
Dividends and interest receivable	112,481	-	-
Prepaid expenses	1,843	635	1,890
	100,719,336	44,652,039	183,152,118
Liabilities			
Bank overdraft (note 3(b))	103,913	-	-
Redemptions payable	65,709	629,881	435,852
Subscriptions received in advance	242,983	49,575	560,059
Management and administration fees payable (notes 4, 5 & 16)	247,315	101,557	476,607
Dividends payable (note 15)	217,637	-	-
Accounts payable and accrued expenses	25,962	15,611	54,784
	903,519	796,624	1,527,302
Net assets	99,815,817	43,855,415	181,624,816
Net assets attributable to:			
Class AC Shares	51,710,411	39,103,961	179,176,053
Class AD Shares	46,527,635	-	-
Class LC Shares	1,577,771	4,751,454	2,448,763
	99,815,817	43,855,415	181,624,816
Shares outstanding (note 10)			
Class AC Shares	362,552	252,525	920,732
Class AD Shares	330,821	-	-
Class LC Shares	11,062	30,684	12,583
Net asset value per share			
Class AC Shares	USD142.63	USD154.85	USD194.60
Class AD Shares	USD140.64	-	-
Class LC Shares	USD142.63	USD154.85	USD194.60*

* Calculated amount differs from reported due to rounding.

The accompanying notes form an integral part of these Financial Statements

HSBC Fund of Funds Limited

Statements of Net Assets

as at June 30, 2011

Bond Class	Liquidity Period	Holdings in Shares	Purchase Price USD	Fair Value USD	% of Net Assets
Investments in investee funds:					
Europe					
AllianceBernstein Global Bond Portfolio Class I	Daily	634,848	5,967,659	5,980,267	5.99
Franklin Templeton Investment Funds - Franklin US Total Return Fund Class I (MIDS)	Daily	544,797	5,747,423	6,172,550	6.18
HSBC International Select Fund MultiAlpha Global Aggregate Bond Class ID	Daily	412,304	4,211,347	4,362,172	4.37
PIMCO Global Investors Series plc - High Yield Bond Fund Institutional Class	Daily	616,067	5,685,418	5,957,371	5.97
PIMCO Global Investors Series plc - Low Average Duration Fund	Daily	500,898	5,172,053	5,344,577	5.36
PIMCO Global Investors Series plc - StocksPLUS Fund Class Institutional	Daily	301,045	2,608,435	3,124,847	3.13
			29,392,335	30,941,784	31.00
Global					
BNY Mellon Global Funds, plc - Global Bond Fund Class C USD	Daily	2,378,008	5,000,000	5,427,328	5.44
Franklin Templeton Investment Funds - Templeton Global Bond Fund Class A (DIS)	Daily	209,220	3,215,047	4,286,925	4.29
Goldman Sachs Global Fixed Income Portfolio Class I	Daily	369,999	5,109,610	5,235,483	5.25
Goldman Sachs Global High Yield Portfolio Class I	Daily	306,889	3,089,170	3,216,193	3.22
HSBC Global Investment Funds - Global Emerging Markets Bond Funds Class ID	Daily	171,292	3,500,000	3,608,256	3.61
HSBC Specialist Funds Ltd. - Short Duration Fixed Income Fund Class Captive Fund I	Daily	49,461	5,000,000	5,031,655	5.04
Legg Mason Global Funds Plc - Brandywine Global Fixed Income	Daily	45,581	5,198,351	5,731,778	5.74
PIMCO Global Investors Series plc - Global Bond Fund Class Institutional Income	Daily	278,831	3,764,449	4,280,063	4.29
PIMCO Global Investors Series plc - Total Return Bond Fund Class Institutional Accumulation	Daily	389,573	5,792,365	6,217,577	6.23
Pictet-Emerging Local Currency Debt Class I USD	Daily	10,418	2,000,000	2,025,524	2.03
			41,668,992	45,060,782	45.14
North America					
HSBC Global Investment Funds - US Dollar Bond	Daily	215,998	3,000,000	3,063,720	3.07
Total investments in investee funds			74,061,327	79,066,286	79.21
Investments in securities:					
Equities					
Bermuda					
Bank of NT. Butterfield & Son Ltd. Preferred		302	369,950	377,500	0.38
North America					
Bac Capital Trust V (Reg) 6.00% 11/03/2034 Preferred		80,000	1,574,400	1,862,400	1.86
Citigroup Capital IX (Reg) 6.00% 02/14/2033 Preferred		40,000	714,000	934,800	0.94
Citigroup Capital XI 6.00% 09/27/2034 Preferred		60,000	1,128,000	1,399,200	1.40
Citigroup Capital XII VAR Preferred		60,000	1,556,500	1,549,200	1.55
Countrywide Capital IV (Reg) Preferred		50,000	1,075,000	1,237,500	1.24
General Electric Capital Corp (Reg) Preferred		50,000	1,237,000	1,266,500	1.27
JPMorgan Chase Capital XI (Reg) 5.875% Preferred		40,000	893,600	1,000,400	1.00
JPMorgan Chase Capital XVI (Reg) 06/01/2035 Preferred		35,600	849,060	895,696	0.90
RBS Capital Funding Trust VII Series G (Reg) 6.08% Preferred		80,000	1,044,600	1,180,000	1.18
			10,072,160	11,325,696	11.34
Total equities			10,442,110	11,703,196	11.72
Debt					
Bermuda					
Bermuda (Govt of) (144A) (REG) 5.603% 07/20/2020		2,500,000	2,500,000	2,723,025	2.73
North America					
Bear Stearns Co. Inc. (Reg) 5.35% 02/01/2012		1,000,000	1,074,270	1,026,140	1.03
Goldman Sachs Group Inc. (Reg) FRN 01/12/2015		1,500,000	1,432,860	1,440,960	1.44
Merrill Lynch & Co. (Reg) FRN 01/15/2015		1,500,000	1,401,165	1,431,885	1.44
Morgan Stanley (Reg) FRN 10/15/2015		1,000,000	929,300	941,450	0.94
			4,837,595	4,840,435	4.85
Total debt			7,337,595	7,563,460	7.58
Total investments in securities			17,779,705	19,266,656	19.30
Total investments			91,841,032	98,332,942	98.51
Other net assets				1,482,875	1.49
Total net assets				99,815,817	100.00

The accompanying notes form an integral part of these Financial Statements

HSBC Fund of Funds Limited

Statements of Net Assets (Continued)

as at June 30, 2011

Equity Class	Liquidity Period	Holdings in Shares	Purchase Price USD	Fair Value USD	% of Net Assets
Investments in investee funds:					
Asia					
Invesco Fund Series - Asian Equity Fund Class C	Daily	512,462	1,668,517	3,228,508	7.36
Polar Capital Funds plc - Japan Fund	Daily	69,204	1,000,000	1,333,564	3.04
			2,668,517	4,562,072	10.40
Emerging Markets					
Polunin Emerging Markets Strategy Funds - Developing Countries Fund	Daily	2,848	1,959,580	2,496,990	5.69
Europe					
AllianceBernstein - European Value Portfolio	Daily	89,847	1,228,000	1,476,010	3.37
Baring Global Umbrella - Baring Eastern Europe Fund	Daily	6,319	546,775	765,893	1.75
MFS Meridian Funds - Continental European Equity Fund Class II	Daily	12,776	1,522,505	3,144,160	7.17
Schroder International Selection Fund - European Special Situations Fund Class C Accumulation	Daily	9,512	1,321,900	1,479,616	3.37
			4,619,180	6,865,679	15.66
Global					
Franklin Templeton Investment Funds - Templeton Emerging Markets Fund Class I Accumulation	Daily	79,904	2,000,000	2,022,373	4.61
Orbis Equity Funds - Global Equity Fund	Weekly	13,264	819,980	1,669,539	3.81
Schroder Alternative Solutions - Commodity Fund Class C	Daily	5,643	804,232	843,797	1.92
			3,624,212	4,535,709	10.34
North America					
Findlay Park American Smaller Companies Fund USD Class	Daily	62,308	1,833,385	3,139,708	7.16
Invesco Funds II SICAV - INVESCO US Value Equity Fund Class HN	Daily	122,697	2,449,034	2,910,376	6.64
Investec Global Strategy Fund Limited - American Equity Fund Class A	Daily	35,874	3,074,781	3,012,671	6.87
JPMorgan Investment Funds - US Select Equity Fund CI I - Accumulation	Daily	15,872	1,366,084	1,619,398	3.69
Schroder International Selection Fund - US Smaller Companies Fund Class C	Daily	27,221	1,102,729	2,432,755	5.55
T Rowe Price Funds SICA - US Large Cap - Growth Equity Fund Class I	Daily	183,554	2,500,000	2,966,226	6.76
			12,326,013	16,081,134	36.67
United Kingdom					
HSBC Global Investment Funds - UK Equity	Daily	34,344	2,039,850	1,561,371	3.56
Total investments in investee funds			27,237,352	36,102,955	82.32
Investments in securities:					
Equities					
Financial Select Sector SPDR Fund		135,000	2,542,155	2,069,550	4.72
iShares Dow Jones US Technology Sector Index Fund		32,500	1,895,243	2,113,150	4.82
iShares MSCI Japan Index Fund		95,000	1,012,812	990,850	2.26
iShares S&P Latin America 40 Index Fund		12,225	501,994	631,054	1.44
Total investments in securities			5,952,204	5,804,604	13.24
Total investments			33,189,556	41,907,559	95.56
Derivative contracts:					
Unrealized appreciation on forward foreign currency contracts				6,140	0.01
Total derivative contracts				6,140	0.01
Other net assets				1,941,716	4.43
Total net assets				43,855,415	100.00

The accompanying notes form an integral part of these Financial Statements

HSBC Fund of Funds Limited
 Statements of Net Assets (Continued)
 as at June 30, 2011

Alternative Class	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	1,255,448	146,027,857	182,190,572	100.31
Total investments			146,027,857	182,190,572	100.31
Other net liabilities				(565,756)	(0.31)
Total net assets				181,624,816	100.00

The accompanying notes form an integral part of these Financial Statements

HSBC Fund of Funds Limited
Statements of Operations
for the year ended June 30, 2011

	Bond Class USD	Equity Class USD	Alternative Class USD
Income			
Dividend income	3,232,946	92,350	-
Interest income	220,785	128	-
Other income	1,887	7,442	-
	3,455,618	99,920	-
Expenses			
Management and administration fees (notes 4, 5 & 16)	1,005,589	465,366	1,891,370
Audit fees	36,204	9,012	44,267
Directors' fees (note 8)	4,062	1,800	7,356
Bank charges (note 3)	462	88	1,267
Other expenses	6,456	22,145	26,131
	1,052,773	498,411	1,970,391
Net investment income (loss)	2,402,845	(398,491)	(1,970,391)
Net realized gains on sale of investments	1,186,734	2,948,988	3,220,485
Net realized gains on derivative contracts	-	35,227	-
Net change in unrealized gains on investments	3,868,851	7,444,201	10,537,679
Net change in unrealized gains on derivative contracts	-	6,140	-
	5,055,585	10,434,556	13,758,164
Net increase in net assets resulting from operations	7,458,430	10,036,065	11,787,773

The accompanying notes form an integral part of these Financial Statements

HSBC Fund of Funds Limited

Statements of Changes in Net Assets

for the year ended June 30, 2011

Bond Class	Class AC USD	Class AD USD	Class LC USD	Total
Net assets at start of the year/period	-	79,352,542	-	79,352,542
Net increase in net assets from operations				
Net investment income	623,264	1,754,320	25,261	2,402,845
Net realized gains on sale of investments	464,697	704,438	17,599	1,186,734
Net change in unrealized gains (losses) on investments	873,177	3,012,442	(16,768)	3,868,851
	1,961,138	5,471,200	26,092	7,458,430
Subscriptions and redemptions				
Proceeds on issue of shares	4,036,296	35,422,314	476,972	39,935,582
Payments on redemption of shares	(11,002,018)	(14,567,517)	(284,073)	(25,853,608)
Transfers	56,714,995	(58,073,775)	1,358,780	-
	49,749,273	(37,218,978)	1,551,679	14,081,974
Dividends (note 15)	-	(1,077,129)	-	(1,077,129)
Net assets at end of the year/period	51,710,411	46,527,635	1,577,771	99,815,817
Equity Class		Class AC USD	Class LC USD	Total
Net assets at start of the year/period		41,696,258	-	41,696,258
Net increase in net assets from operations				
Net investment loss		(369,473)	(29,018)	(398,491)
Net realized gains on sale of investments		2,704,093	244,895	2,948,988
Net realized gains on derivative contracts		31,538	3,689	35,227
Net change in unrealized gains on investments		7,285,204	158,997	7,444,201
Net change in unrealized gains on derivative contracts		5,389	751	6,140
		9,656,751	379,314	10,036,065
Subscriptions and redemptions				
Proceeds on issue of shares		7,960,165	936,357	8,896,522
Payments on redemption of shares		(16,184,189)	(589,241)	(16,773,430)
Transfers		(4,025,024)	4,025,024	-
		(12,249,048)	4,372,140	(7,876,908)
Net assets at end of the year/period		39,103,961	4,751,454	43,855,415

The accompanying notes form an integral part of these Financial Statements

HSBC Fund of Funds Limited
Statements of Changes in Net Assets (Continued)
for the year ended June 30, 2011

Alternative Class	Class AC USD	Class LC USD	Total
Net assets at start of the year/period	172,587,036	-	172,587,036
Net increase in net assets from operations			
Net investment loss	(1,950,812)	(19,579)	(1,970,391)
Net realized gains on sale of investments	3,182,727	37,758	3,220,485
Net change in unrealized gains on investments	10,462,007	75,672	10,537,679
	<u>11,693,922</u>	<u>93,851</u>	<u>11,787,773</u>
Subscriptions and redemptions			
Proceeds on issue of shares	13,516,488	411,579	13,928,067
Payments on redemption of shares	(16,381,130)	(296,930)	(16,678,060)
Transfers	(2,240,263)	2,240,263	-
	<u>(5,104,905)</u>	<u>2,354,912</u>	<u>(2,749,993)</u>
Net assets at end of the year/period	<u>179,176,053</u>	<u>2,448,763</u>	<u>181,624,816</u>

The accompanying notes form an integral part of these Financial Statements

HSBC Fund of Funds Limited

Notes to the Financial Statements

for the year ended June 30, 2011

1. The Fund

HSBC Fund of Funds Limited (the "Fund") is an open-ended exempted mutual fund company incorporated with limited liability and unlimited duration in Bermuda on May 26, 1998 in accordance with The Companies Act 1981 of Bermuda.

The principal objective of the Fund is to achieve capital growth while attempting to limit investment risk by investing in open-ended investment funds.

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 Fund has been classified as a standard fund under the Investment Funds Act 2006 of Bermuda.

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, 2011, the Directors were not aware of any such specific existing or contingent liabilities. The following Classes are currently available:

	Date of Inception
Bond Class - Class AC - USD	December 30, 2010
Bond Class - Class AD - USD	June 26, 1998
Bond Class - Class LC - USD	October 14, 2010
Equity Class - Class AC - USD	June 26, 1998
Equity Class - Class LC - USD	October 14, 2010
Alternative Class - Class AC - USD	October 29, 1999
Alternative Class - Class LC - USD	October 14, 2010

2. Significant Accounting Policies

The accompanying financial statements are prepared in conformity with U.S. generally accepted accounting principles ("U.S. 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 and 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

In accordance with U.S. 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

HSBC Fund of Funds Limited

Notes to the Financial Statements (Continued)

for the year ended June 30, 2011

2. Significant Accounting Policies (continued)

(b) Valuation of investments (continued)

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)

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 and derivative financial instruments are valued as follows:

- Investments in investee funds are valued based on reported net asset value per share as provided by the administrators of the investee funds. The Fund'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 Fund classifies all short-term investments in investee funds with daily liquidity as Level 1 within the fair value hierarchy.
- Securities that are listed on a national securities exchange are valued at the last reported sale price on the last business day of the year. In the event that a sale does not occur on the last business day of the year, such securities are valued at the "bid" price as reported by the principal securities exchange on which such securities are traded. To the extent that these securities are actively traded and valuation adjustments are not applied, they are categorized in Level 1 of the fair value hierarchy. Preferred stock are categorized in Level 2 of the fair value hierarchy.
- Forward foreign exchange contracts are marked-to-market using forward foreign exchange rates supplied by a standard pricing source. The estimated fair value of the contracts is based on the amount of funds the Fund would receive or would be required to pay to settle the contracts. Forward foreign exchange contracts are categorized in Level 2 of the fair value hierarchy.
- The fair value of debt instruments is estimated using various techniques, which may consider recently executed transactions in securities of the issuer or comparable issuer, 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.

(c) Derivative contracts

Forward foreign currency contracts are recorded at fair value at the reporting date. The fair value of forward foreign currency contracts at the reporting date generally reflects the amount that the Fund would receive or pay to terminate the contract at the reporting date. Realized and unrealized changes in fair values are included in realized and change in unrealized gains and losses on derivative contracts in the statement of operations in the period in which the changes occur.

Unrealized gains and losses on open forward foreign currency contracts are calculated as the difference between the contract rate and the applicable forward rate based upon rates reported in published sources on the valuation date, applied to the face amount of the forward foreign currency contract.

HSBC Fund of Funds Limited

Notes to the Financial Statements (Continued)

for the year ended June 30, 2011

2. Significant Accounting Policies (continued)

- (d) 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 90 days from the date of purchase.
- (e) Interest and dividend income
Interest income is recorded on the accruals basis. Dividend income is recorded on the ex-dividend date net of withholding tax.
- (f) 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.
- (g) Use of estimates
The preparation of financial statements in accordance with U.S. 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.
- (h) 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 in "net realized gains on sale of investments" and "net change in unrealized gains on investments" respectively. All other realized and unrealized gains and losses on foreign currency translation are included in the line item to which they relate.
- (i) 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.
- (j) Allocation of profits and losses
All investment income and loss, realized and unrealized gains and losses of each Class is allocated to each class of shares outstanding on a daily basis in proportion to their interest in the net asset value of the Class.
- (k) New accounting pronouncement
In January 2010, the Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements which requires entities to separately disclose significant transfers into and out of Level 1 and Level 2 measurements in the fair value hierarchy and the reasons for the transfers. It also requires disclosure of the inputs and valuation techniques used in determining the fair value for each class of Level 2 and Level 3 positions and requires purchases, sales, issuances and settlements be shown on a gross basis in the Level 3 roll forward rather than as one net number. The effective date of this Accounting Standards Update is for annual periods beginning after December 15, 2009; however the requirements to provide the Level 3 activity for purchases, sales, issuances and settlements on a gross basis will be effective for annual periods beginning after December 15, 2010. As of June 30, 2011, the management determined that the adoption of the Accounting Standards Update did not have a material impact to the Fund's financial statements.

HSBC Fund of Funds Limited

Notes to the Financial Statements (Continued)

for the year ended June 30, 2011

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.

	Bond Class USD	Equity Class USD	Alternative Class USD
Cash at bank	155	30,133	509,656
Money market fund	-	951,016	-
	155	981,149	509,656

(b) Bank overdraft

Under an agreement dated October 16, 2006, the Bank made available a US Dollar uncommitted overdraft facility to the Fund. The maximum amount that may be advanced is the lesser of 10% of the Net Value of Assets in custody ("NVAC") of each Class or a combined \$4,500,000.

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. At June 30, 2011, \$103,913 is outstanding under this facility. Interest charged during the year relating to the balances drawn on the overdraft facility totaled \$920.

(c) Foreign Exchange Transactions Facility

Under an agreement dated July 18, 2007, the Bank made available an uncommitted foreign exchange transactions facility to the Fund. This facility provides for a Foreign Currency Transaction Line up to a maximum at any time of the lesser at such time of \$22.5 million or 100% of the Net Asset Value ("NAV") with respect to Bond, Equity and Alternative Class. The Bank reserves the right at its absolute discretion to decide whether or not any utilization may be made and to specify conditions only upon compliance with which such utilization may be made. This facility will be governed by an ISDA Master Agreement. The facility is collateralized by the Fund's assets held in the Bank's custody.

4. Manager

Under an agreement dated May 29, 1998, the Manager is entitled to receive a quarterly fee calculated at a rate of 1.0% per annum of the average of the weekly value of the net assets of each of the Equity Class and Bond Class, respectively, during the quarter, and 1.0% per annum of the average of the monthly value of the net assets of the Alternative Class during the quarter. If the current fee rates are to be changed, notice must first be given to the Fund and shareholders. The maximum management fee permitted under the terms of the agreement is 1.5% for the Bond Class and Equity Class, and 2.5% for the Alternative Class. All classes have the same fee rates.

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

For the year ended June 30, 2011, 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.

HSBC Fund of Funds Limited

Notes to the Financial Statements (Continued)

for the year ended June 30, 2011

5. Administrator

Under an agreement dated May 29, 1998 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 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.

6. Custodian

Under an agreement dated May 29, 1998, HSBC Institutional Trust Services (Bermuda) Limited was appointed as Custodian ("the Custodian") for the Fund.

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. Such fees will proportionately reduce the amounts payable by the Fund to the Manager (see Note 4).

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 each Class. 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.

The Fund was not required to recognize any amount for uncertain tax positions under Accounting Standard Codification Topic 740.

8. Director's Fees

Each of the Directors are 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 \$30,000 per annum without prior consent of the shareholders in general meeting. The Directors may also be reimbursed for 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, 2011, Mr. William D. Thomson and Ms. Julie E. McLean each received an annual fee of \$5,000 and Mr. John A. Hawkins received an annual fee of \$2,833.

9. Directors' Interests

As at June 30, 2011, Mr. Guillermo Konecny holds 816 shares of the Equity Class and Mr. Wayne P. Chapman holds 3,705 shares of the Alternative Class.

HSBC Fund of Funds Limited
Notes to the Financial Statements (Continued)
for the year ended June 30, 2011

10. Share Capital

The present authorized share capital of \$512,000 of the Fund is divided into 5,000,000 voting participating shares ("Shares") of \$0.10 par value each and 120,000 founders' shares of \$0.10 par value each. The Manager holds all founders' shares, nil paid. The founders' shares do not have any voting or other rights and are only entitled to the return of capital paid upon a winding-up. Participating shares may be subscribed for and redeemed on a monthly basis. Requests for redemption of Shares of the Equity Classes and Bond Classes must be received by 12:00 noon (Bermuda time) on Wednesday of each week and requests for redemption of Shares of the Alternative Classes must be received by 12:00 noon (Bermuda time) on the last Business Day of the previous month minus five business days. During the year, the Bond Class, Equity Class and Alternative Class issued one additional new class of shares of the Fund named Class LC. In addition, the Bond Class also issued a new class of shares of the Fund named Class AC during the year.

	Bond Class Class AC	Bond Class Class AD	Bond Class Class LC
Shares in issue July 1, 2010	-	601,521	-
Shares issued during the year/period	28,569	256,609	3,403
Shares redeemed during the year/period	(78,550)	(105,082)	(2,035)
Shares transferred during the year/period	412,533	(422,227)	9,694
Shares in issue June 30, 2011	362,552	330,821	11,062

	Equity Class Class AC	Equity Class Class LC
Shares in issue July 1, 2010	340,177	-
Shares issued during the year/period	54,455	6,127
Shares redeemed during the year/period	(113,736)	(3,814)
Shares transferred during the year/period	(28,371)	28,371
Shares in issue June 30, 2011	252,525	30,684

	Alternative Class Class AC	Alternative Class Class LC
Shares in issue July 1, 2010	947,385	-
Shares issued during the year/period	71,283	2,131
Shares redeemed during the year/period	(85,942)	(1,542)
Shares transferred during the year/period	(11,994)	11,994
Shares in issue June 30, 2011	920,732	12,583

11. Cost of Investments

Cost of Investments as at June 30, 2011	USD
Bond Class	91,841,032
Equity Class	33,189,556
Alternative Class	146,027,857

HSBC Fund of Funds Limited

Notes to the Financial Statements (Continued)

for the year ended June 30, 2011

12. Derivative Contracts and Risk

In the normal course of its business, the Fund uses forward foreign currency contracts to hedge its Japanese Yen exposure. The Fund attempts to protect itself against any adverse changes in Japanese Yen to US Dollar exchange rate by doing this it is also precluded from participating in favorable exchange rate movements. Although the Fund attempts to minimize its Japanese Yen exposure, some unhedged foreign currency exchange exposure may occur.

Forward foreign currency contracts are over-the-counter contractual commitments to purchase or sell a specified amount of foreign currency at a future date at a predetermined price. Forward foreign currency contracts expose the Fund to credit risk, which arises from the potential inability of counterparties to perform under the terms of the contract. Forward foreign currency contracts also expose the Fund to market risk to the extent that adverse changes occur in the exchange rate of the underlying foreign currency to the extent that a perfect hedge is not achieved.

At June 30, 2011, forward foreign currency contracts with notional exposure of \$2,175,905 and fair value of \$6,140 is included in derivative contracts at fair value on the statement of assets and liabilities. The Fund's realized and change in unrealized gains on forward foreign currency contracts amounted to \$35,227 and \$6,140 which are included in the net realized gain and change in unrealized gain on derivative contracts in the statement of operation, respectively. The Fund did not hold any derivatives designated as hedge instruments in the year.

13. Financial Instruments and Associated Risks

Price Risk

Price 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 may invest in debt securities and other investment companies that are not publicly traded or for which there is no liquid market. The Fund is exposed to liquidity risk to the extent that it is unable to realize its positions to meet liabilities and redemptions as they fall due in a timely and favorable manner. The liquidity profile of the Fund's investment portfolio as at June 30, 2011 is disclosed in the statements of net assets. The Fund manages liquidity risk by investing mainly in funds with daily redemptions.

Credit Risk

Credit risk is the risk that a counterparty will fail to discharge its obligation or commitment related to a financial instrument it has issued. Financial assets that potentially expose the Fund to credit risk consist primarily of cash and cash equivalents and investments. 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 Fund of Funds Limited

Notes to the Financial Statements (Continued)

for the year ended June 30, 2011

14. 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 at June 30, 2011, 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.

As of June 30, 2011, the Alternative Class has an investment in GH Fund Class AP (the "investee fund") of the HSBC Portfolio Selection Fund, a 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 a range of different strategies and markets worldwide.

The investment funds in which the 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 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 funds balance sheet. However, due to the nature of the Fund's interests in the investee funds, such risks are limited to the respective class' 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 each class' proportionate share exceeds 5% of the respective class' net assets as of June 30, 2011.

15. Dividends

The Directors' intention is to declare dividends with respect to the Bond Class Shares. 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 Equity Class and Alternative Class, it is the intention of the Directors not to make distributions of net income by way of dividends.

During the year ended June 30, 2011, the Directors of the Bond Class AD declared the following dividends:

	USD
Dividends declared	1,077,129
Dividends payable	217,637

16. Management and Administration Fees

	Bond Class USD	Equity Class USD	Alternative Class USD
Class AC management and administration fees	283,097	430,202	1,872,580
Class AD management and administration fees	711,430	-	-
Class LC management and administration fees	11,062	35,164	18,790
Total management and administration fees	1,005,589	465,366	1,891,370
Management and administration fees payable	247,315	101,557	476,607

HSBC Fund of Funds Limited

Notes to the Financial Statements (Continued)

for the year ended June 30, 2011

17. Fair Value Measurements

Bond Class

The following table summarizes the valuation of the Fund's investments by region and/or strategy within each class by the fair value hierarchy levels as of June 30, 2011:

Assets (at fair value)	Level 1	Level 2	Level 3	Total
Investments in investee funds:				
Europe	\$ 30,941,784	\$ -	\$ -	\$ 30,941,784
Global	45,060,782	-	-	45,060,782
North America	3,063,720	-	-	3,063,720
Total investments in investee funds	79,066,286	-	-	79,066,286
Investments in securities:				
Equities				
Bermuda	-	377,500	-	377,500
North America	-	11,325,696	-	11,325,696
Total equities	-	11,703,196	-	11,703,196
Debt				
Bermuda	-	2,723,025	-	2,723,025
North America	-	4,840,435	-	4,840,435
Total debt	-	7,563,460	-	7,563,460
Total investments in securities	-	19,266,656	-	19,266,656
\$ 79,066,286	\$ 19,266,656	\$ -	\$ -	\$ 98,332,942

Equity Class

The following table summarizes the valuation of the Fund's investments by region and/or strategy within each class by the fair value hierarchy levels as of June 30, 2011:

Assets (at fair value)	Level 1	Level 2	Level 3	Total
Investments in investee funds:				
Asia	\$ 4,562,072	\$ -	\$ -	\$ 4,562,072
Emerging Markets	2,496,990	-	-	2,496,990
Europe	6,865,679	-	-	6,865,679
Global	2,866,170	1,669,539	-	4,535,709
North America	16,081,134	-	-	16,081,134
United Kingdom	1,561,371	-	-	1,561,371
Total investments in investee funds	34,433,416	1,669,539	-	36,102,955
Investments in securities:				
Equities	5,804,604	-	-	5,804,604
Derivative contracts:				
Forward foreign currency contracts	-	6,140	-	6,140
Cash equivalents	951,016	-	-	951,016
\$ 41,189,036	\$ 1,675,679	\$ -	\$ -	\$ 42,864,715

HSBC Fund of Funds Limited

Notes to the Financial Statements (Continued)

for the year ended June 30, 2011

17. Fair Value Measurements (continued)

Alternative Class

The following table summarizes the valuation of the Fund's investments by strategy within each class by the fair value hierarchy levels as of June 30, 2011:

Assets (at fair value)	Level 1	Level 2	Level 3	Total
Investment in investee fund:				
Multi-Strategy	\$ -	\$ 182,190,572	\$ -	\$ 182,190,572
	<u>\$ -</u>	<u>\$ 182,190,572</u>	<u>\$ -</u>	<u>\$ 182,190,572</u>

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 between Levels 1, 2 or 3 of the fair value hierarchy during the year ended June 30, 2011.

For investments in investee funds, the Fund has used the net asset value per share reported by the administrator of the investee fund to arrive at fair value.

At June 30, 2011, the Fund held positions in investee funds which utilize the following investment strategies as disclosed in the statements of net assets:

Bond Class – This strategy mainly holds long bond positions and the manager may have a geographical focus.

Equity Class – This strategy mainly holds long equity positions and the manager may have a geographical or sector specific focus.

Alternative Class – This strategy includes investments in hedge funds that provide diversification by investing in different strategies to reduce risk.

HSBC Fund of Funds Limited
Notes to the Financial Statements (Continued)
for the year ended June 30, 2011

18. Financial Highlights

Schedule of Financial Highlights for Bond Class
for the year ended June 30, 2011

	USD		
	Class AC	Class AD	Class LC
Selected per share data			
Net asset value at the beginning of the year/period	137.48	131.92	140.16
Income from investment operations			
Net investment income	1.64	3.43	2.39
Net realized gains on sale of investments and change in unrealized gains on investments	3.51	7.90	0.08
Total from investment operations	<u>5.15</u>	<u>11.33</u>	<u>2.47</u>
Dividends declared	-	(2.61)	-
Net asset value at end of the year/period	<u>142.63</u>	<u>140.64</u>	<u>142.63</u>
Total return excluding dividends declared	3.75 %	8.59 %	1.76 %
Ratios to average net assets			
Total expenses	1.09 %	1.07 %	1.08 %
Net investment income	2.28 %	2.52 %	2.36 %
Supplemental data			
Net assets at end of the year/period	\$ 51,710,411	\$ 46,527,635	\$ 1,577,771

Schedule of Financial Highlights for Equity Class
for the year ended June 30, 2011

	USD	
	Class AC	Class LC
Selected per share data		
Net asset value at the beginning of the year/period	122.57	141.47
Income (loss) from investment operations		
Net investment loss	(1.36)	(0.98)
Net realized gains on sale of investments and change in unrealized gains on investments	33.64	14.36
Total from investment operations	<u>32.28</u>	<u>13.38</u>
Net asset value at end of the year/period	<u>154.85</u>	<u>154.85</u>
Total return	26.34 %	9.46 %
Ratios to average net assets		
Total expenses	1.14 %	1.14 %
Net investment loss	(0.92) %	(0.88) %
Supplemental data		
Net assets at end of the year/period	\$ 39,103,961	\$ 4,751,454

HSBC Fund of Funds Limited
Notes to the Financial Statements (Continued)
for the year ended June 30, 2011

18. Financial Highlights (continued)

Schedule of Financial Highlights for Alternative Class
for the year ended June 30, 2011

	USD	
	Class AC	Class LC
Selected per share data		
Net asset value at the beginning of the year/period	182.17	186.78
Income (loss) from investment operations		
Net investment loss	(2.09)	(1.59)
Net realized gains on sale of investments and change in unrealized gains on investments	14.52	9.41
Total from investment operations	<u>12.43</u>	<u>7.82</u>
Net asset value at end of the year/period	<u>194.60</u>	<u>194.60</u>
Total return	6.82 %	4.19 %
Ratios to average net assets		
Total expenses	1.10 %	1.10 %
Net investment loss	(1.10) %	(1.10) %
Supplemental data		
Net assets at end of the year/period	\$ 179,176,053	\$ 2,448,763

For Bond Class LC, Equity Class LC and Alternative Class LC Shares, the inception date is October 14, 2010; and for Bond Class AC Shares the inception date is December 30, 2010. Therefore, the ratios to average net assets for Bond Class LC, Bond Class AC, Equity Class LC and Alternative Class LC Shares have been annualized. An individual shareholder's return may vary from the above, based on the timing of subscriptions and redemptions.

19. Subsequent Events

The Board of Directors has assessed and evaluated all subsequent events arising from the date of the statements of assets and liabilities up until September 30, 2011 and has concluded that no additional disclosure is required.

HSBC Fund of Funds Limited Management and Administration for the year ended June 30, 2011

Directors and Officers

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

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

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

John A. Hawkins, Directors (retired November 2010)
Retired Executive vice President
HSBC Bank Bermuda Limited

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

Michael L. Schrum, Director (retired November 2010)
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
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Hamilton HM 11, Bermuda

Custodian

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

Banker

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

Administrator

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

Bermuda Stock Exchange

Listing Sponsor
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Headquartered in London, HSBC is one of the largest banking and financial services organisations in the world, with over 300,000 employees spanning an international network of around 7,500 offices in 87 countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa.

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