

HSBC Specialist Funds Limited

Annual Report June 2011

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HSBC Specialist Funds Limited

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Short Duration Fixed Income Fund Manager's Report for the year ended June 30, 2011

Market Overview

At the start of the year, markets were dominated by troubling global macroeconomic issues; European sovereign debt crisis, global deflation, fears over Chinese monetary tightening, and a global currency war to name a few. Risk aversion has been heightened, and we have seen a continued 'flight to quality' over the period, with investors pouring money into the safety and security of Government treasury securities.

The US showed some positive data in 2010, with Gross Domestic Product ("GDP") for the year coming in at 2.9%. 2011 started out weaker, with Q1 GDP coming in at 1.9% annualized. The US economic recovery continues to be restrained by a stagnant housing market and by budgetary cutbacks from state and local governments. Those headwinds are likely to persist, limiting the pace of growth over the year ahead. Consumer Price Index ("CPI") for 2010 was up 1.6%, and a further 2.1% in Q1 2011. The May 2011 US jobs report revealed weaker than expected figures in both non-farm and private payrolls as the unemployment rate finished the period at 9.1%.

Portfolio Overview

The Fund has experienced strong growth over the course of the year, despite the uncertain global economic times. Since the launch in March 2010, the Fund has risen to US \$250.8 million in size.

During the year under review, we employed a conservative investment stance and maintained a defensive positioning, with a short duration of 0.8 years and a fixed to floating ratio of 75:25 at period end. These floater securities will provide protection when we do enter into a rising rate environment, and in many cases, floaters have been pricing similarly if not higher than fixed paper. The Fund currently holds relatively more credit compared to the benchmark, with the medium term view that these securities will outperform government securities as credit spreads narrow. We have also been purchasing callable agency securities, which are AAA rated, yet are trading at a premium to treasuries.

Outlook

Thanks to unprecedented efforts by Governments and central banks across the globe, they have supported markets and essentially kept their economies and financial markets afloat. In the US, the Federal Open Market Committee ("FOMC") led by Ben Bernanke pursued a course of quantitative easing dubbed "QEII", and as we round out this fiscal year, talk of a further course "QEIII" is rumored for 2011. The FOMC was not alone in its efforts to prop up the US economy, with the Obama administration also announcing a fiscal package of tax cuts and spending increases worth \$858 billion; as well as pushing to increase the debt ceiling. The FOMC left rates unchanged at 0-0.25%, however, lowered their forecasts for growth and employment for this year and next at the last meeting of the period. They underscored their statement that the recovery "is continuing at a moderate pace, though somewhat more slowly" than previously expected. The central bank released its forecasts after recent economic data pointed to a weakening economy and companies boosted payrolls in May 2011 at the slowest pace since June 2010. The fed fund futures indicate that the earliest a full 25 basis point rate hike is priced into the market has pushed out to Q1 of 2014.

HSBC Global Asset Management (Bermuda) Limited

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



KPMG

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

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

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of assets and liabilities of the Fund, 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 the Fund as of June 30, 2011 and the results of its operations and the changes in its net assets for the year then ended in conformity with U.S. generally accepted accounting principles.

Chartered Accountants
Hamilton, Bermuda
September 30, 2011

HSBC Specialist Funds Limited
Statement of Assets and Liabilities
as at June 30, 2011

	Short Duration Fixed Income Fund USD (note 1)
Assets	
Investments at fair value (notes 11, 12 & 14)	241,337,053
Cash and cash equivalents (notes 3 & 14)	12,904,938
Interest receivable	1,282,182
Prepaid expenses	7,961
	255,532,134
Liabilities	
Due to broker	4,193,997
Redemptions payable	209,000
Dividends payable (note 13)	101,143
Management fees payable (note 4)	58,245
Administration and custodian fees payable (notes 5 & 6)	53,929
Subscriptions received in advance	25,000
Accounts payable and accrued expenses	88,002
	4,729,316
Net assets	250,802,818
Net assets attributable to:	
Class AC Shares	101,087,833
Class AD Shares	530,360
Class IC Shares	95,623,949
Class ID Shares	50,778,053
Class R Shares	2,782,623
	250,802,818
Shares outstanding (note 10)	
Class AC Shares	995,252
Class AD Shares	5,240
Class IC Shares	939,974
Class ID Shares	501,133
Class R Shares	27,734
Net asset value per share	
	USD
Class AC Shares	101.57
Class AD Shares	101.22
Class IC Shares	101.73
Class ID Shares	101.33
Class R Shares	100.33

The accompanying notes form an integral part of these Financial Statements

HSBC Specialist Funds Limited

Statement of Net Assets

as at June 30, 2011

Short Duration Fixed Income Fund

	Nominal Value	Purchase Price USD	Fair Value USD	% of Net Assets
Certificate of Deposit				
Bank of Nova Scotia/Houston (Ser YCD) (Reg) FRN 03/12/2012	2,200,000	2,199,944	2,199,944	0.88
Deutsche Bank AG/New York NY (Ser YCD) (Reg) FRN 01/18/2013	4,500,000	4,511,609	4,511,609	1.80
Royal Bank Of Scotland PLC/Greenwich CT (Ser YCD) (Reg) FRN 10/15/2012	900,000	905,619	905,619	0.36
		7,617,172	7,617,172	3.04
Commercial Paper				
BPCE SA (144A) UCP 07/08/2011	1,000,000	999,914	999,914	0.40
BPCE SA (144A) UCP 09/15/2011	6,000,000	5,996,833	5,996,833	2.39
Caisse D'Amortissement de la Dette Sociale (144A) UCP 09/12/2011	3,500,000	3,498,829	3,498,829	1.40
Caisse D'Amortissement de la Dette Sociale (144A) UCP 09/20/2011	4,200,000	4,198,110	4,198,110	1.67
Natixis US Finance Co LLC 08/01/2011	2,000,000	1,999,535	1,999,535	0.80
SBAB Bank AB (144A) UCP 08/03/2011	6,950,000	6,948,088	6,948,088	2.77
		23,641,309	23,641,309	9.43
Fixed Income Notes				
ANZ National International Ltd (144A) (Reg) 6.2% 07/19/2013	1,000,000	1,076,855	1,090,306	0.43
ANZ National International Ltd (144A) (Reg) 2.375% 12/21/2012	1,500,000	1,509,577	1,523,569	0.61
AT&T Inc. (Reg) 5.875% 02/01/2012	1,100,000	1,130,888	1,133,257	0.45
Australia & New Zealand Banking Group Ltd (144A) (Reg) 2.4% 01/11/2013	2,000,000	2,002,921	2,034,266	0.81
Bank of America Corp (Reg) 3.125% 06/15/2012	2,000,000	2,035,936	2,055,164	0.82
Bank of America Corp (Reg) 4.875% 09/15/2012	1,000,000	1,044,176	1,042,484	0.42
Bank of Nova Scotia (Reg) 2.375% 12/17/2013	2,000,000	2,037,385	2,058,458	0.82
Barclays Bank Plc (144A) (Reg) 2.7% 03/05/2012	4,240,000	4,273,644	4,308,658	1.72
Barclays Bank Plc (Reg) 2.5% 01/23/2013	3,000,000	2,972,005	3,056,349	1.22
Barclays Bank Plc (Reg) 5.45% 09/12/2012	4,600,000	4,787,017	4,847,991	1.93
BK Nederlandse Gemeenten (BR) 3.75% 07/15/2013	3,000,000	3,139,409	3,178,449	1.27
Caisse Centrale Desjardins du Quebec (144A) (Reg) 1.7% 09/16/2013	4,000,000	4,024,710	4,024,948	1.60
Canadian Imperial Bank of Commerce (144A) (Reg) 2% 02/04/2013	1,000,000	1,018,980	1,019,000	0.41
Commonwealth Bank Australia (144A) (Reg) 2.75% 10/15/2012	2,930,000	2,977,085	2,995,904	1.19
Credit Suisse USA Inc (Reg) 3.45% 07/02/2012	1,000,000	1,023,302	1,026,769	0.41
Credit Suisse USA Inc (Reg) 6.125% 11/15/2011	1,315,000	1,339,985	1,341,293	0.53
Credit Suisse USA Inc (Reg) 6.5% 01/15/2012	1,000,000	1,028,388	1,031,483	0.41
European Investment Bank (Reg) 2% 02/10/2012	5,000,000	5,025,961	5,050,700	2.01
European Investment Bank (Reg) 3.25% 05/15/2013	900,000	924,621	942,913	0.38
European Investment Bank (Reg) 4.625% 03/21/2012	1,200,000	1,230,825	1,236,731	0.49
Export Development Canada 1.75% 09/24/2012	3,950,000	3,975,440	4,020,970	1.60

The accompanying notes form an integral part of these Financial Statements

HSBC Specialist Funds Limited
Statement of Net Assets (Continued)
as at June 30, 2011

Short Duration Fixed Income Fund

	Nominal Value	Purchase Price USD	Fair Value USD	% of Net Assets
Fixed Income Notes (Continued)				
Fannie Mae (Reg) 1% 09/16/2013	1,660,000	1,660,000	1,663,119	0.66
Fannie Mae (Reg) 1% 10/18/2013	2,500,000	2,499,608	2,506,035	1.00
Fannie Mae (Reg) 1.25% 07/29/2013	5,000,000	5,000,000	5,004,010	2.00
Fannie Mae (Reg) 1.375% 07/19/2013	4,800,000	4,800,000	4,802,472	1.91
Federal Fam Credit Bank (Reg) 0.92% 01/02/2014	1,000,000	1,000,000	1,000,110	0.40
Federal Fam Credit Bank (Reg) 1.33% 05/23/2014	3,400,000	3,400,000	3,400,711	1.36
Federal Fam Credit Bank (Reg) 1.44% 09/15/2014	4,900,000	4,890,123	4,901,044	1.95
Federal Home Loan Bank (Reg) 1% 03/20/2014	2,000,000	2,000,000	2,000,034	0.80
Federal Home Loan Bank (Reg) 1.05% 03/28/2014	3,000,000	3,000,000	2,997,204	1.20
Federal Home Loan Bank (Ser 1) (Reg) 1.05% 11/25/2013	1,000,000	1,000,000	1,001,205	0.40
Freddie Mac (Reg) 1% 12/16/2013	1,000,000	1,001,230	1,001,815	0.40
Freddie Mac (Reg) 1.125% 01/14/2013	3,475,000	3,476,559	3,476,036	1.39
ING Bank NV (144A) (Reg) 2.65% 01/14/2013	1,000,000	1,014,950	1,014,830	0.40
KFW (Reg) 3.25% 03/15/2013	2,000,000	2,052,046	2,090,098	0.83
Lloyds TSB Bank PLC (144A) (Reg) 2.8% 04/02/2012	2,000,000	2,020,906	2,035,792	0.81
MetLife Global Funding I (144A) (Reg) 2.5% 01/11/2013	1,500,000	1,513,890	1,527,723	0.61
MetLife Global Funding I (RegS) (Reg) 2.875% 09/17/2012	1,510,000	1,524,086	1,543,610	0.62
MetLife Global Funding I Ser (144A) (Reg) 2.875% 09/17/2012	500,000	504,378	511,129	0.20
Microsoft Corp (Reg) 0.875% 09/27/2013	2,270,000	2,267,195	2,275,244	0.91
National Australia Bank Ltd. (144A) (Reg) 5.35% 06/12/2013	5,000,000	5,270,777	5,365,415	2.14
Nationwide Building Society (144A) (Reg) 2.5% 08/17/2012	3,500,000	3,546,275	3,579,607	1.43
New York Life Global FDG (144A) 5.375% 09/15/2013	2,400,000	2,611,471	2,619,566	1.04
Nordea Bank (144A) (Reg) 2.5% 11/13/2012	5,000,000	5,042,168	5,095,740	2.03
Nordea Bank (144A) (Reg) 5.25% 11/30/2012	1,000,000	1,054,776	1,054,323	0.42
Ontario (Province Of) (Reg) 4.375% 02/15/2013	2,000,000	2,100,926	2,118,328	0.84
Ontario (Province Of) (Reg) 5.125% 07/17/2012	500,000	520,045	523,900	0.21
Ontario (Province Of) (Ser 1) (Reg) 1.875% 11/19/2012	1,400,000	1,413,019	1,425,816	0.57
Rabobank Nederland (144A) (Reg) 2.65% 08/17/2012	5,000,000	5,078,868	5,115,860	2.04
Rabobank Nederland (144A) 4.2% 05/13/2014	1,000,000	1,072,169	1,071,192	0.43
Royal Bank of Canada 2.1% 07/29/2013	3,600,000	3,599,479	3,695,598	1.47
Royal Bank of Scotland PLC (144A) 2.625% 05/11/2012	3,500,000	3,525,085	3,566,847	1.42
Royal Bank of Scotland PLC (144A) (Reg) 1.5% 03/30/2012	1,100,000	1,103,680	1,110,036	0.44

The accompanying notes form an integral part of these Financial Statements

HSBC Specialist Funds Limited
Statement of Net Assets (Continued)
as at June 30, 2011

Short Duration Fixed Income Fund

	Nominal Value	Purchase Price USD	Fair Value USD	% of Net Assets
Fixed Income Notes (Continued)				
Shell International Finance BV (Reg) 1.875% 03/25/2013	5,000,000	5,000,351	5,109,740	2.04
Swedish Export Credit (Reg) 3.25% 09/16/2014	1,000,000	1,058,433	1,060,326	0.42
Toyota Motor Credit Corp (Reg) 1.375% 08/12/2013	3,500,000	3,497,889	3,525,847	1.41
UBS AG/Stamford CT (Ser BKNT) (Reg) 2.75% 01/08/2013	2,000,000	2,049,006	2,047,022	0.82
United Parcel Service Inc. (Reg) 4.5% 01/15/2013	1,700,000	1,776,923	1,796,951	0.72
Wells Fargo Company (Reg) 4.375% 01/31/2013	2,000,000	2,101,100	2,099,846	0.84
Westpac Banking Corp (Reg) 2.1% 08/02/2013	5,100,000	5,109,653	5,166,361	2.06
Westpac Banking Corp (Reg) 2.25% 11/19/2012	1,000,000	1,014,918	1,019,429	0.41
		150,751,092	151,939,633	60.58

Floating Rate Notes

American Honda Finance Corp (144A) (Reg) FRN 11/07/2012	1,200,000	1,202,025	1,198,139	0.48
ANZ National International Ltd/New Zealand (144A) (Reg) FRN 12/20/2013	500,000	504,364	500,903	0.20
Australia & New Zealand Banking Group (144A) (Reg) FRN 01/10/2014	1,500,000	1,503,488	1,505,607	0.60
Berkshire Hathaway Inc. (Reg) FRN 02/11/2013	3,100,000	3,103,631	3,118,315	1.24
BNP Paribas SA (Ser BKNT) (Reg) FRN 01/10/2014	5,000,000	5,025,581	4,966,755	1.98
BNP Paribas / BNP US MTN (Reg) FRN 06/11/2012	1,400,000	1,402,660	1,405,729	0.56
BNP Paribas / BNP US MTN (Reg) FRN 11/09/2011	1,600,000	1,596,642	1,599,035	0.64
Commonwealth Bank of Australia (144A) (Reg) FRN 03/17/2014	2,500,000	2,500,364	2,510,990	1.00
Commonwealth Bank of Australia (144A) (Reg) FRN 03/19/2013	1,695,000	1,689,743	1,698,809	0.68
Credit Agricole SA/London (144A) (Reg) FRN 01/21/2014	6,100,000	6,170,039	6,188,810	2.47
General Electric Capital Corp. (BR) FRN 03/20/2014	800,000	764,291	783,657	0.31
General Electric Capital Corp. (Reg) FRN 06/20/2014	1,000,000	954,079	981,754	0.39
General Electric Capital Corp. (Ser EMT) FRN 12/20/2013	2,000,000	1,959,737	2,011,176	0.80
General Electric Capital Corp. FRN 03/20/2013	1,200,000	1,173,493	1,177,762	0.47
General Electric Capital Corp. (Reg) FRN 06/20/2014	1,000,000	978,235	981,754	0.39
Goldman Sachs Group Inc. (Reg) FRN 02/06/2012	2,500,000	2,487,509	2,499,967	1.00
ING Bank NV (144A) (Reg) FRN 01/13/2012	800,000	799,967	801,502	0.32
ING Bank NV (144A) (Reg) FRN 03/30/2012	5,000,000	5,002,017	5,020,500	2.00
Mellon Funding Corp (Reg) FRN 05/15/2014	2,400,000	2,371,184	2,386,913	0.95
Metlife Institutional Funding II (144A) (Reg) FRN 04/04/2014	1,500,000	1,503,583	1,504,464	0.60

The accompanying notes form an integral part of these Financial Statements

HSBC Specialist Funds Limited
Statement of Net Assets (Continued)
as at June 30, 2011

Short Duration Fixed Income Fund

	Nominal Value	Purchase Price USD	Fair Value USD	% of Net Assets
Floating Rate Notes (Continued)				
National Australia Bank (144a) (Reg) FRN 01/08/2013	1,600,000	1,597,003	1,606,250	0.64
Nordea Bank AB (144A) (Reg) FRN 01/14/2014	1,500,000	1,513,456	1,514,262	0.60
Stadshypotek AB (144A) (Reg) FRN 09/30/2013	500,000	500,550	499,831	0.20
Svenska Handelsbanken AB (144A) (Reg) FRN 09/14/2012	4,385,000	4,405,371	4,425,820	1.76
Swedish Export Credit (Reg) FRN 08/14/2014	1,300,000	1,310,983	1,324,765	0.53
UBS AG/Stamford CT (Reg) FRN 02/23/2012	3,500,000	3,509,962	3,522,757	1.41
Wachovia Corp (Reg) FRN 10/15/2011	1,400,000	1,398,707	1,400,823	0.56
Westpac Banking Corp (144A) (Reg) FRN 03/31/2014	1,000,000	1,001,390	1,001,890	0.40
		57,930,054	58,138,939	23.18
Total investments		239,939,627	241,337,053	96.23
Other net assets			9,465,765	3.77
Total net assets			250,802,818	100.00

The accompanying notes form an integral part of these Financial Statements

HSBC Specialist Funds Limited
Statement of Operations
for the year ended June 30, 2011

	Short Duration Fixed Income Fund USD (note 1)
Income	
Interest income	2,771,291
	<u>2,771,291</u>
Expenses	
Management fees (note 4)	638,570
Administration and custodian fees (notes 5 & 6)	297,010
Audit fees	41,663
Directors' fees (note 8)	15,003
Interest expense	1,823
Other expenses	40,626
	<u>1,034,695</u>
Net investment income	<u>1,736,596</u>
Net realized losses on sale of investments	(71,125)
Net change in unrealized gains on investments	1,302,848
	<u>1,231,723</u>
Net increase in net assets resulting from operations	<u>2,968,319</u>

The accompanying notes form an integral part of these Financial Statements

HSBC Specialist Funds Limited
Statement of Changes in Net Assets
for the year ended June 30, 2011

Short Duration Fixed Income Fund	Class AC USD	Class AD USD	Class IC USD	Class ID USD	Class R USD	Total
Net assets at start of the year/period	32,768,834	-	104,252,468	-	-	137,021,302
Net increase in net assets from operations						
Net investment income	788,932	1,005	831,959	112,528	2,172	1,736,596
Net realized losses on sale of investments	(32,874)	(2)	(38,095)	(148)	(6)	(71,125)
Net change in unrealized gains on investments	450,917	1,090	744,175	106,317	349	1,302,848
	1,206,975	2,093	1,538,039	218,697	2,515	2,968,319
Subscriptions and redemptions						
Proceeds on issue of shares	164,582,869	530,101	97,070,387	50,759,809	3,121,216	316,064,382
Payments on redemption of shares	(97,470,845)	-	(107,236,945)	-	(341,108)	(205,048,898)
	67,112,024	530,101	(10,166,558)	50,759,809	2,780,108	111,015,484
Dividends (note 13)	-	(1,834)	-	(200,453)	-	(202,287)
Net assets at end of the year/period	101,087,833	530,360	95,623,949	50,778,053	2,782,623	250,802,818

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, 2011

1. The Fund

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

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

The shares of the Fund are divided into several classes (the "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 Fund and share classes existing as at June 30, 2011 were as follows (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 IC - USD	March 8, 2010
Short Duration Fixed Income Fund - Class ID - USD	March 29, 2011
Short Duration Fixed Income Fund - Class R - USD	March 31, 2011

2. Significant Accounting Policies

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

(a) Investment transactions and income

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

Discounts and premiums on debt securities are amortized over the life of the respective securities using the effective interest rate method.

(b) Valuation of investments

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

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

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.

HSBC Specialist Funds Limited

Notes to the Financial Statements

for the year ended June 30, 2011

2. Significant Accounting Policies (continued)

(b) Valuation of investments (continued)

Investments in securities and derivative financial instruments 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 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 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.

(c) Cash and cash equivalents

Cash and cash equivalents include cash balances, money market funds, and short-term fixed deposits with maturity dates of less than 30 days from the date of purchase.

(d) Interest and dividend income

Interest income is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date net of withholding tax.

(e) Expenses

The Fund bears all operating expenses which are allocated between all Classes in proportion to the respective net asset value of each Class unless the expense is solely attributable to a specific Class upon which it is allocated to the respective Class.

(f) Use of estimates

The preparation of financial statements in accordance with 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.

(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/(losses) on sale of investments" and "net change in unrealized gains and losses on investments", respectively. All other realized and unrealized gains and losses arising from foreign currency translation are included in the line item to which they relate.

(h) Mandatory redeemable financial instruments

Financial instruments, mandatorily redeemable at the option of the holder, are classified as liabilities when a redemption request has been received and the redemption amount has been determined.

(i) 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 in proportion to their interest in the net asset value of the Fund.

(j) New Accounting Pronouncement

In January 2010, the 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. Management is currently evaluating the impact of the adoption of the Accounting Standards Update will have on the Fund's financial statement disclosure related to purchases, sales, issuance and settlements.

HSBC Specialist Funds Limited

Notes to the Financial Statements

for the year ended June 30, 2011

3. Cash and Cash Equivalents

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

	Short Duration Fixed Income Fund
	USD
Cash at bank	-
Money market fund	12,904,938
	<u>12,904,938</u>

4. Manager

Under an agreement dated January 17, 2002, the Manager agreed to act as Manager of the Fund and to be responsible for the day-to-day management. The Manager is entitled to receive from the Fund, out of the assets attributable to the Short Duration Fixed Income Fund, a monthly management fee calculated at a rate of up to 1% per annum (currently 0.50% for Class AC Shares, 0.50% for Class AD Shares, 0.40% for Class IC Shares and Class ID Shares and 0.75% for Class R Shares) of the average net asset value of the Fund on each valuation day and to be reimbursed for its out-of-pocket expenses. The management fee is calculated daily and paid on the last business day of the month. The fees and expenses payable to the Custodian and Administrator by the Fund will proportionately reduce amounts payable by the Fund to the Manager.

5. Administrator

Under an agreement dated January 16, 2002 between the Fund and HSBC Securities Services (Bermuda) Limited (the "Administrator"), a wholly-owned subsidiary of the Bank, the Administrator agreed to act as share registrar, transfer agent and the secretary, and to provide accounting and administrative services to the Fund. The Administrator is entitled to receive fees for services from the Short Duration Fixed Income Fund at the annual rate of 0.125%, of up to \$250,000,000 in Net Assets or a minimum fee of \$120,000 per annum as provided for in the administration agreement.

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 January 16, 2002, HSBC Institutional Trust Services (Bermuda) Limited (the "Custodian") was appointed 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. The Custodian is also entitled to receive from the Fund an amount equal to the out-of-pocket expenses incurred in carrying out its duties.

7. Taxation

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

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

8. Directors' Fees

Each of the Directors is entitled to receive from the Fund a fee at such a rate as may be set from time to time by the Board of Directors, provided such remuneration shall not exceed an aggregate amount of \$30,000 per annum without prior consent of the shareholders in a general meeting. The Directors may also be reimbursed all travel, hotel and other expenses properly incurred by them in attending meetings of the Fund. No such fees will be payable where the Director is employed by the Bank or any of its subsidiaries or affiliates.

For the year ended June 30, 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, Directors held nil shares in the Fund.

HSBC Specialist Funds Limited

Notes to the Financial Statements

for the year ended June 30, 2011

10. Share Capital

The present authorized share capital of USD100,000 of the Fund is divided into 9,999,900 voting participating shares ("Shares") of USD0.01 par value each and 100 non-voting, non-participating founders' shares of USD0.01 par value each. The Manager holds all founders' shares, nil paid. The founders' shares are not entitled to vote unless there are no other shares in issue, and are not entitled to any dividends. Participating shares may be subscribed for and redeemed on a daily basis. During the period, the Fund issued three additional new classes of shares of the Fund named Class AD, Class ID and Class R Shares of Short Duration Fixed Income Fund. The existing Class A Shares of the Fund were changed to Class AC Shares and Class I Shares to Class IC Shares. The minimum initial subscription for Class AC and Class AD Shares in the Fund is USD1,000,000, the minimum initial subscription for Class IC and Class ID Shares is USD25,000,000 and for Class R Shares is USD50,000.

	Short Duration Fixed Income Fund (note 1)				
	Class AC	Class AD	Class IC	Class ID	Class R
Shares in issue July 1, 2010	327,442	-	1,041,189	-	-
Shares issued during the year/period	1,632,060	5,240	959,657	501,133	31,134
Shares redeemed during the year/period	(964,250)	-	(1,060,872)	-	(3,400)
Shares in issue June 30, 2011	995,252	5,240	939,974	501,133	27,734

As of June 30, 2011, HSBC Bank Bermuda Limited did not hold any shares of Short Duration Fixed Income Fund.

11. Cost of Investments

Cost of investments as at June 30, 2011 is \$239,939,627.

12. 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 mainly invests in debt securities, which are not publicly traded nor is there a liquid market for them. The Fund manages liquidity risk by investing mainly in debt securities that can be sold daily.

HSBC Specialist Funds Limited

Notes to the Financial Statements

for the year ended June 30, 2011

12. Financial Instruments and Associated Risks (continued)

Credit Risk

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

13. Dividends

The declaration of dividends is at the discretion of the Directors. It is the present intention of the Directors of the Fund to declare quarterly dividends with respect to Class AD 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 and Class ID shares of the Short Duration Fixed Income Fund. It is the intention of the Directors of the Fund not to make distributions of net income to holders of the Class AC, Class IC and Class R shares of the Short Duration Fixed Income Fund.

During the year ended June 30, 2011, the Directors declared the following dividends:

	USD
Dividends declared - Class AD - USD	1,834
Dividends declared - Class ID - USD	200,453

14. 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, 2011 with respect to the Short Duration Fixed Income Fund:

	Level 1	Level 2	Level 3	Total
Assets				
Investments, at fair value:				
Certificate of Deposit	\$ -	\$ 7,617,172	\$ -	\$ 7,617,172
Commercial Paper	-	23,641,309	-	23,641,309
Fixed Income Notes	-	151,939,633	-	151,939,633
Floating Rate Notes	-	58,138,939	-	58,138,939
Total investments, at fair value	-	241,337,053	-	241,337,053
Cash equivalents	12,904,938	-	-	12,904,938
Total	\$ 12,904,938	\$ 241,337,053	\$ -	\$ 254,241,991

The Fund'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 ended June 30, 2011.

HSBC Specialist Funds Limited
Notes to the Financial Statements
for the year ended June 30, 2011

15. Financial Highlights

**Schedule of Financial Highlights for Short Duration Fixed Income Fund
for the year ended June 30, 2011**

	USD				
	Class AC	Class AD	Class IC	Class ID	Class R
Selected per share data					
Net asset value at beginning of the year/period	100.08	101.16	100.13	101.29	100.00
Income from investment operations					
Net investment income	0.79	0.20	0.89	0.22	0.13
Net realized losses on sale of investments and net change in unrealized gains on investments	0.70	0.21	0.71	0.22	0.20
Total from investment operations	<u>1.49</u>	<u>0.41</u>	<u>1.60</u>	<u>0.44</u>	<u>0.33</u>
Dividends declared	-	(0.35)	-	(0.40)	-
Net asset value at end of the year/period	<u>101.57</u>	<u>101.22</u>	<u>101.73</u>	<u>101.33</u>	<u>100.33</u>
Total return, excluding dividends declared	1.49 %	0.41 %	1.60 %	0.43 %	0.33 %
Ratios to average net assets					
Total expenses	0.54 %	0.53 %	0.45 %	0.42 %	0.77 %
Net investment income	0.77 %	0.75 %	0.88 %	0.86 %	0.50 %

For Class AD, Class ID and Class R Shares, the inception date is March 31, 2011, March 29, 2011 and March 31, 2011, respectively. Ratios to average net assets for Class AD, Class ID and Class R have been annualized. An individual shareholder's return may vary from the above, based on the timing of subscriptions and redemptions.

16. Subsequent Events

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

HSBC Specialist 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

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

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

John A. Hawkins, Director (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
6 Front Street
Hamilton HM 11, Bermuda

Banker

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

Custodian

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

Administrator

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

Auditors

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

Legal Advisers

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

Bermuda Stock Exchange

Listing Sponsor
Bermuda International Securities Limited
6 Front Street
Hamilton HM 11, Bermuda

Client Services

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

Sales Team

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

www.hsbc.bm

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.

HSBC Bank Bermuda Limited
6 Front Street
Hamilton HM 11
Bermuda

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