

HSBC Specialist Funds Limited

Annual Report June 2014

HSBC Specialist Funds Limited

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The accompanying report of KPMG is for the sole and exclusive use of the Fund. No person, other than the Fund, is authorized to rely upon the report of KPMG unless KPMG expressly so authorizes. Further, the report of KPMG is as of October 2, 2014 and KPMG has carried out no procedures of any nature subsequent to that date which in any way extends that date.

Short Duration Fixed Income Fund

Manager's Report

for the year ended June 30, 2014

Market Overview

The US economy has maintained a slow pace of growth over the last twelve months. The unemployment rate declined from 7.2% to 6.2% over the period, but weakness in the labour participation rate remains an area of concern. Inflation has continued to show benign results allowing the Federal Reserve to maintain historically low front end rates. The Federal Reserve did begin to taper its bond buying program at the end of 2013 and is on track to end bond purchases by the second half of 2014. A severe winter in the U.S., slow growth in the Euro Zone and global geo-political tensions have all contributed to weaker economic activity in the first half of 2014.

Portfolio Overview

The Federal Reserve continues to make clear from their committee meetings that short term rates will remain low for an extended period of time. However, with the very front end of the short duration yield curve relatively flat we have maintained overall duration risk by increasing the portfolio's weighting in floating rate paper with quarterly reset rates while reducing the weighting in fixed rate longer duration fixed rate issues. This has enabled us to maintain increased credit spread duration while maintaining interest duration lower than that of the benchmark index. We remain comfortable overweighting corporate credit duration under current macro conditions. Despite the less than robust economy, macro conditions remain healthy enough to be supportive as corporate balance sheets remain very healthy. The market appetite for incremental yield through spread product has remained in place and will likely continue a stable credit spread environment and strong relative performance of the corporate sector.

Outlook

With a macro and geo-political backdrop which remains slow and a bit uncertain, the Federal Reserve continues to emphasize its desire to keep rates low for the time being. This has kept rates low in the short duration (1-3 year) portion of the curve, but volatility will increase as we get closer to the eventual raising of the front end rate. Corporates generally remain attractive and defaults will continue to be below historical averages. We have reduced our overweight in financials and allocated more towards industrials as the incremental yield spread between financials and industrials has further narrowed over the last year. We continue to overweight floating rate notes the 3-5 year portion of the curve to take advantage of spread roll down, but will underweight duration on fixed rate investments. We remain somewhat defensive on overall duration at this point as the ability for outperformance from duration positioning is presently limited for short duration portfolios by the narrow range that short duration yields have and will continue to be anchored in.

HSBC Global Asset Management (Bermuda) Limited – September 2014

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 Audit Limited
Crown House
4 Par-la-Ville Road
Hamilton HM 08 Bermuda

Mailing Address:
P.O. Box HM 906
Hamilton HM DX Bermuda

Telephone +1 441 295 5063
Fax +1 441 295 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 financial statements of the Fund, which comprise the statement of assets and liabilities, including the statement of net assets, as of June 30, 2014, and the related statements of operations, and changes in net assets for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of HSBC Specialist Funds Limited as of June 30, 2014, and the results of its operations and changes in its net assets for the year then ended in accordance with U.S. generally accepted accounting principles.

KPMG Audit Limited

Chartered Professional Accountants
Hamilton, Bermuda
October 2, 2014

HSBC Specialist Funds Limited
Statement of Assets and Liabilities
as at June 30, 2014

	Short Duration Fixed Income Fund USD
Assets	
Investments at fair value (notes 11, 12 & 14)	207,324,597
Cash and cash equivalents (notes 3 & 14)	13,309,495
Interest receivable	597,210
Prepaid expenses	1,929
	221,233,231
Liabilities	
Amounts due to broker	1,800,000
Administration and custodian fees payable (notes 5 & 6)	147,532
Dividends payable (note 13)	45,297
Management fees payable (note 4)	45,481
Accounts payable and accrued expenses	53,985
	2,092,295
Net assets	219,140,936
Net assets attributable to:	
Class AC Shares	79,756,083
Class AD Shares	6,522,456
Class CC Shares	40,402,564
Class CD Shares	100
Class IC Shares	55,496,191
Class ID Shares	36,963,542
	219,140,936
Shares outstanding (note 10)	
Class AC Shares	769,286
Class AD Shares	64,014
Class CC Shares	403,191
Class CD Shares	1
Class IC Shares	532,754
Class ID Shares	362,328
Net asset value per share	
	USD
Class AC Shares	103.68
Class AD Shares	101.89
Class CC Shares	100.21
Class CD Shares	100.20
Class IC Shares	104.17
Class ID Shares	102.02



Director

The accompanying notes form an integral part of these Financial Statements



Director

HSBC Specialist Funds Limited

Statement of Net Assets

as at June 30, 2014

Short Duration Fixed Income Fund

	Nominal Value	Purchase Price USD	Fair Value USD	% of Net Assets
Certificate of Deposit				
Rabobank Nederland NY (Ser YCD) (Reg) 0.71625% 05/06/2016	2,000,000	2,000,000	2,000,000	0.91
	2,000,000	2,000,000	2,000,000	0.91
Fixed Income Notes				
3M Co 1% 06/26/2017	1,000,000	997,216	1,000,315	0.46
America Movil SAB De CV (Reg) 3.625% 03/30/2015	2,500,000	2,547,130	2,554,750	1.17
ANZ National International NZ (144A) 1.4% 04/27/2017	1,000,000	999,861	1,002,430	0.46
Bank of Montreal (144A) (Reg) 1.95% 01/30/2017	3,000,000	3,075,764	3,078,450	1.40
Bank of Nova Scotia 1.375% 12/18/2017	1,500,000	1,498,834	1,497,652	0.68
Barclays Bank Plc (144A) (Reg) 2.25% 05/10/2017	1,000,000	1,021,808	1,031,750	0.47
BAT International Finance PLC (144A) (Reg) 1.4% 06/05/2015	4,000,000	4,022,863	4,029,000	1.84
BK Nederlandse Gemeenten (144A) 0.875% 02/21/2017	3,000,000	2,994,309	3,000,390	1.37
Chevron Corp (Reg) 0.889% 06/24/2016	750,000	750,000	754,841	0.34
Chevron Corp 1.104% 12/05/2017	2,000,000	1,993,352	1,991,980	0.91
Cnooc Finance 2014 ULC 1.625% 04/30/2017	1,300,000	1,295,284	1,302,561	0.59
Coca-Cola Co/THE (Reg) 0.75% 11/01/2016	2,500,000	2,497,757	2,498,888	1.14
Coca-Cola Co/The (Reg) 1.8% 09/01/2016	1,000,000	1,023,705	1,022,990	0.47
Cred Mutuel - CIC Home LO (144A) 1.5% 11/16/2017	3,750,000	3,752,163	3,765,206	1.72
Credit Agricole London (144A) 1.625% 04/15/2016	1,340,000	1,338,225	1,357,159	0.62
Daimler Finance North America LLC (144A) 1.25% 01/11/2016	3,500,000	3,501,407	3,529,768	1.61
DBS Bank Ltd/Singapore (144A) (Reg) 2.35% 02/28/2017	2,000,000	2,039,721	2,065,460	0.94
Dexia Credit Local NY (144A) (Reg) 1.25% 10/18/2016	3,300,000	3,293,069	3,325,757	1.52
Electricite De France (144A) (Reg) 1.15% 01/20/2017	2,700,000	2,700,513	2,699,946	1.23
Fannie Mae (Reg) 0.4% 07/30/2015	4,000,000	4,000,000	3,983,320	1.82
Federal Farm Credit Bank (Reg) 0.78% 04/03/2017	5,000,000	5,000,000	4,972,125	2.27
Federal Farm Credit Bank (Reg) 0.99% 09/05/2017	3,000,000	2,999,421	2,987,115	1.36
Federal Home Loan Bank (Reg) 0.74% 08/09/2016	909,091	909,091	906,136	0.41
Federal Home Loan Bank (Reg) 1% 08/09/2017	2,350,000	2,348,883	2,341,000	1.07
FHLMC (Reg) 1.125% 07/05/2017	3,000,000	2,999,998	2,999,025	1.37
Freddie Mac (Reg) 0.5% 05/13/2016	5,000,000	5,001,516	5,006,200	2.28
Freddie Mac (Reg) 0.75% 10/05/2016	3,000,000	3,000,000	3,000,960	1.37
Freddie Mac (Reg) 1% 03/08/2017	4,000,000	4,017,817	4,021,920	1.84
General Electric Cap Corp (Reg) 1% 12/11/2015	2,000,000	2,015,772	2,014,350	0.92
HBOS Treasury Services (144A) 5.25% 02/21/2017	2,000,000	2,190,290	2,211,950	1.01
Healthrow Funding Ltd (144A) (Reg) 2.5% 06/25/2015	2,000,000	2,026,632	2,032,590	0.93

The accompanying notes form an integral part of these Financial Statements

HSBC Specialist Funds Limited

Statement of Net Assets (Continued)

as at June 30, 2014

Short Duration Fixed Income Fund

	Nominal Value	Purchase Price USD	Fair Value USD	% Net Assets
Fixed Income Notes (Continued)				
Hutchison Whampoa Financ (144A) (Reg) 4.625% 09/11/2015	3,950,000	4,106,206	4,127,730	1.88
IBM Corp 1.25% 02/06/2017	2,000,000	2,016,740	2,017,700	0.92
ING Bank (144A) 2% 09/25/2015	4,000,000	3,995,161	4,063,520	1.85
KFW (Reg) 1.25% 10/05/2016	1,000,000	1,012,390	1,014,200	0.46
Korea Gas Corp (144A) (Reg) 2.25% 07/25/2017	2,000,000	2,032,139	2,035,370	0.93
Met Life Global Funding I (144A) 1.5% 01/10/2018	1,900,000	1,892,926	1,888,305	0.86
National Australia Bank (144A) 2% 06/20/2017	1,500,000	1,498,627	1,534,942	0.70
New York Life Global Funding (144A) 0.75% 07/24/2015	2,000,000	1,999,363	2,005,480	0.91
Norddeutsche Landesbank (144A) 0.875% 10/16/2015	2,000,000	1,997,673	2,009,700	0.92
Nordea Bank AB (144A) 3.125% 03/20/2017	1,000,000	1,033,691	1,052,185	0.48
Oversea-Chinese Banking (144A) 1.625% 03/13/2015	3,100,000	3,104,480	3,124,428	1.43
Procter & Gamble Co (The) (Ser FIX) 0.75% 11/04/2016	2,500,000	2,499,824	2,501,113	1.14
Rio Tinto Fin USA Plc 1.625% 08/21/2017	1,000,000	1,010,553	1,010,720	0.46
Royal Bank of Canada 1.2% 09/19/2017	1,500,000	1,499,902	1,496,677	0.68
Shell International Finance (Reg) 0.625% 12/04/2015	1,800,000	1,799,793	1,804,788	0.82
Shell International Finance 0.9% 11/15/2016	3,000,000	2,997,050	3,010,050	1.37
Statoil ASA (Reg) 1.8% 11/23/2016	3,037,000	3,078,890	3,102,994	1.42
Sumitomo Mitsui Banking (144A) (Reg) 3.1% 01/14/2016	1,000,000	1,017,819	1,030,595	0.47
Sumitomo Mitsui Banking 1.5% 01/18/2018	2,000,000	1,995,868	1,986,850	0.91
Swedish Export Credit (Reg) 1.75% 10/20/2015	4,000,000	4,047,407	4,074,220	1.86
Total Capital International 0.75% 01/25/2016	1,000,000	999,659	1,004,250	0.46
Toyota Motor Credit Corp (Reg) 1.75% 05/22/2017	1,000,000	1,016,640	1,019,150	0.47
Toyota Motor Credit Corp 0.875% 07/17/2015	2,000,000	1,999,627	2,011,320	0.92
UBS London (144A) 0.75% 03/24/2016	4,000,000	3,994,027	4,010,400	1.83
Volkswagen International Finance (144A) (Reg) 2.375% 03/22/2017	2,267,000	2,339,580	2,341,403	1.07
Volkswagen International Finance (144A) 1.125% 11/18/2016	2,100,000	2,099,875	2,105,733	0.96
Wal-Mart Stores Inc (Reg) 1.5% 10/25/2015	3,000,000	3,028,791	3,044,505	1.39
	137,053,091	137,967,102	138,414,312	63.16
Floating Rate Notes				
ABN Amro Bank (144A) (Reg) FRN 10/28/2016	3,000,000	3,000,000	3,024,330	1.38
Apple Inc FRN 05/03/2018	5,000,000	4,986,457	5,018,750	2.29

The accompanying notes form an integral part of these Financial Statements

HSBC Specialist Funds Limited

Statement of Net Assets (Continued)

as at June 30, 2014

Short Duration Fixed Income Fund

	Nominal Value	Purchase Price USD	Fair Value USD	% of Net Assets
Floating Rate Notes (Continued)				
Australia & New Zealand Banking Group NY FRN 05/15/2018	3,000,000	3,000,000	3,017,730	1.38
Banking Fed Cred Mutual (144A) (REG) FRN 10/28/2016	2,000,000	2,000,000	2,015,430	0.92
BP Capital Markets Plc FRN 05/10/2018	2,500,000	2,504,429	2,512,850	1.15
BPCE (Reg) FRN 04/25/2016	2,000,000	2,015,460	2,028,440	0.92
BPCE (Reg) FRN 06/23/2017	2,000,000	2,000,000	2,001,250	0.91
Commonwealth Bank of Australia (144A) FRN 09/20/2016	3,500,000	3,504,536	3,519,267	1.61
Credit Agricole London (144A) FRN 04/15/2019	1,000,000	1,000,000	1,007,320	0.46
Met Life Glob Funding I (144A) FRN 04/10/2017	1,500,000	1,500,000	1,502,783	0.69
National Australia Bank (144A) FRN 06/30/2017	1,800,000	1,800,000	1,800,648	0.82
New York Life Global FDG (144A) FRN 05/23/2016	1,000,000	1,000,000	1,004,950	0.46
Nordea Bank (144A) (Reg) FRN 05/13/2016	2,000,000	2,002,017	2,009,160	0.92
Rabobank Nederland (Ser FRN) FRN 03/18/2016	2,000,000	2,000,000	2,010,900	0.92
Rio Tinto Fin USA Plc (Ser FRN) FRN 06/17/2016	2,400,000	2,400,000	2,421,996	1.10
Royal Bank of Canada (Ser GMTN) FRN 03/08/2016	3,000,000	3,000,000	3,009,555	1.37
Statoil ASA (Reg) FRN 11/08/2018	1,200,000	1,200,000	1,207,920	0.55
Svenska Handelsbanken (Reg) FRN 09/23/2016	2,500,000	2,500,000	2,512,162	1.15
Svenska Handelsbanken FRN 06/17/2019	3,500,000	3,500,000	3,508,680	1.60
Toronto-Dominion Bank FRN 09/09/2016	4,000,000	4,000,000	4,023,940	1.84
Total Capital International FRN 08/10/2018	2,000,000	2,000,000	2,018,220	0.92
Wells Fargo & Company FRN 04/23/2018	1,000,000	1,008,843	1,009,890	0.46
Westpac Banking Corp FRN 05/19/2017	2,700,000	2,700,000	2,704,077	1.23
	54,600,000	54,621,742	54,890,248	25.05
Municipal Bond				
Florida St Hurricane Catastrophe Fund Fin Corp Revenue Ser A 1.298% 07/01/2016	2,500,000	2,500,000	2,523,650	1.15
	2,500,000	2,500,000	2,523,650	1.15
Treasury Notes				
US Treasury Note 0.375% 05/31/2016	5,000,000	4,993,724	4,995,508	2.28
US Treasury Note 0.875% 06/15/2017	4,500,000	4,494,278	4,500,879	2.06
	9,500,000	9,488,002	9,496,387	4.34
Total investments		206,576,846	207,324,597	94.61
Other net assets			11,816,339	5.39
Total net assets			219,140,936	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, 2014

Short Duration
Fixed Income Fund
USD

Income	
Interest income	2,271,627
Other income	9,545
	2,281,172
Expenses	
Management fees (note 4)	692,872
Administration and custodian fees (notes 5 & 6)	329,055
Audit fees	2,323
Directors' fees (note 8)	19,039
Interest expense	42,178
Other expenses	39,305
	1,124,772
Net investment income	1,156,400
Net realized gains on sale of investments	813,042
Net change in unrealized gains on investments	1,074,767
	1,887,809
Net increase in net assets resulting from operations	3,044,209

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, 2014

Short Duration Fixed Income Fund	Class AC USD	Class AD USD	Class CC USD	Class CD USD	Class IC USD	Class ID USD	Class R USD	Total
Net assets at start of the year/period	72,980,448	11,674,155	-	-	139,396,025	51,375,617	2,757,741	278,183,986
Net increase in net assets from operations								
Net investment income	311,848	32,380	31,515	-	540,123	235,781	4,753	1,156,400
Net realized gains on sale of investments	244,208	25,457	10,593	-	371,578	155,602	5,604	813,042
Net change in unrealized gains on investments	318,900	37,806	(27,210)	-	547,302	189,406	8,563	1,074,767
	874,956	95,643	14,898	-	1,459,003	580,789	18,920	3,044,209
Subscriptions and redemptions								
Proceeds on issue of shares	16,315,770	5,503,428	40,387,666	100	2,951,993	207,609	75,000	65,441,566
Payments on redemption of shares	(10,415,091)	(10,727,140)	-	-	(88,310,830)	(15,008,879)	(2,851,661)	(127,313,601)
	5,900,679	(5,223,712)	40,387,666	100	(85,358,837)	(14,801,270)	(2,776,661)	(61,872,035)
Dividends (note 13)	-	(23,630)	-	-	-	(191,594)	-	(215,224)
Net assets at end of the year	79,756,083	6,522,456	40,402,564	100	55,496,191	36,963,542	-	219,140,936

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, 2014

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, 2014, the Directors were not aware of any such specific existing or contingent liabilities. The following Fund and share classes existing as at June 30, 2014 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 CC – USD	February 28, 2014
Short Duration Fixed Income Fund - Class CD – USD	February 28, 2014
Short Duration Fixed Income Fund - Class IC – USD	March 8, 2010
Short Duration Fixed Income Fund - Class ID - USD	March 29, 2011

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 first in first out basis. Realized and unrealized gains and losses arising from investment transactions are included in the statement 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, 2014

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 issuers, market price quotations (where observable), bond spreads, fundamental data relating to the issuer, and credit default swap spreads adjusted for any basis difference between cash and derivatives instruments. While most debt instruments are categorized in Level 2 of the fair value hierarchy, in instances where lower relative weight is placed on transaction prices, quotations, or similar observable inputs, they are categorized in Level 3 of the fair value hierarchy.
- Commercial paper is estimated using amortized cost, which approximates fair value. To the extent the inputs are observable and timely, the values would be categorized in Level 2 of the fair value hierarchy.

(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 on sale of investments" and "net change in unrealized 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 Pronouncements

In June 2013, the FASB issued Accounting Standards Update 2013-08, Financial Services – Investment Companies ("ASU 2013-08") relating to the criteria used in defining an investment company under US GAAP. It also sets forth certain measurement and disclosure requirements. Under the new standard the typical characteristics of an investment company will be: (i) it has more than one investment and more than one investor, (ii) it has investors that are not related parties of the entity or the investment manager, (iii) it has ownership interests in the form of equity or partnership interests, and (iv) it manages substantially all of its investments on a fair value basis. The standard also reaffirms that a non-controlling interest in another investment company should be measured at fair value instead of the equity method. It also includes additional disclosure requirements for an entity to disclose the fact that it is an investment company, and to provide information about changes, if any, in its status as an investment company. Finally, an entity will also need to include disclosures around financial support that has been provided or is contractually required to be provided to any of its investees. The requirements of the standard are effective for interim and annual reporting periods in fiscal periods that begin after December 15, 2013, with early application prohibited. The impact on the Company's financial statement disclosures is not expected to be material.

HSBC Specialist Funds Limited

Notes to the Financial Statements

for the year ended June 30, 2014

3. Cash and Cash Equivalents

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

	Short Duration Fixed Income Fund USD
Money market fund	13,309,495
	13,309,495

4. Manager

Under an agreement dated January 17, 2002, HSBC Global Asset Management (Bermuda) Limited 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 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 fee rates incurred during the year were as follows:

Class	Rate
AC	0.50%
AD	0.50%
CC	0.25%
CD	0.25%
IC	0.40%
ID	0.40%
R	0.75%

The fees 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 0.100% for the first \$500,000,000 and 0.080% in excess of \$500,000,000 in Net Assets or a minimum fee of \$180,000 per annum as provided for in the administration agreement out of the fees payable to the Manager.

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 out of the fees payable to the Manager. 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.

HSBC Specialist Funds Limited

Notes to the Financial Statements

for the year ended June 30, 2014

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 31, 2035.

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 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, 2014, Mr. L. Anthony Joaquin and Ms. Julie E. McLean each were paid an annual fee at a rate of \$5,000 per annum.

9. Directors' Interests

As at June 30, 2014, Directors held nil shares in the Fund.

HSBC Global Asset Management (Bermuda) Limited, which is the Investment Manager held 1 share each of Class AD, CC and CD in the Fund.

10. Share Capital

The present authorized share capital of USD100,000 of the Fund is divided into 9,999,900 voting participating shares ("Shares") of USD0.01 par value each and 100 non-voting, non-participating founders' shares of USD0.01 par value each. The Manager holds all founders' shares, \$nil paid. The founders' shares are not entitled to vote unless there are no other shares in issue, and are not entitled to any dividends. Participating shares may be subscribed for and redeemed on a daily basis. The minimum initial subscription for Class AC and Class AD Shares in the Fund is USD1,000,000, for Class CC and Class CD Shares is USD50,000,000, for Class IC and Class ID Shares is USD25,000,000 and for Class R is USD50,000.

	Short Duration Fixed Income Fund (note 1)						
	Class AC	Class AD	Class CC	Class CD	Class IC	Class ID	Class R
Shares in issue July 1, 2013	712,344	115,561	-	-	1,355,504	507,921	27,361
Shares issued during the year/period	158,018	54,189	403,191	1	28,435	2,045	743
Shares redeemed during the year/period	(101,076)	(105,736)	-	-	(851,185)	(147,638)	(28,104)
Shares in issue June 30, 2014	769,286	64,014	403,191	1	532,754	362,328	-

11. Cost of Investments

Cost of investments as at June 30, 2014 is \$ 206,576,846.

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. Substantially all the investments of each Class are denominated in the related base currency thus minimizing currency risk.

HSBC Specialist Funds Limited

Notes to the Financial Statements

for the year ended June 30, 2014

12. Financial Instruments and Associated Risks (continued)

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. The Fund manages liquidity risk by investing mainly in debt securities that can be sold daily.

Credit Risk

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

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, Class CD and Class ID shares of the Short Duration Fixed Income Fund, the amount of which may fluctuate depending on market conditions. It is the policy of the Directors to distribute the net income from the underlying investments of the Class AD, Class CD and Class ID shares of the Short Duration Fixed Income Fund. It is the intention of the Directors of the Fund not to make distributions of net income to holders of the Class AC, Class CC and Class IC shares of the Short Duration Fixed Income Fund.

During the year ended June 30, 2014, the Directors declared the following dividends:

	USD
Dividends declared - Class AD - USD	23,630
Dividends declared - Class ID - USD	191,594

HSBC Specialist Funds Limited

Notes to the Financial Statements

for the year ended June 30, 2014

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, 2014 with respect to the Short Duration Fixed Income Fund:

	Level 1	Level 2	Level 3	Total
Assets				
Investments, at fair value:				
Certificate of Deposit	\$ -	\$ 2,000,000	\$ -	\$ 2,000,000
Fixed Income Notes	-	138,414,312	-	138,414,312
Floating Rate Notes	-	54,890,248	-	54,890,248
Municipal Bond	-	2,523,650	-	2,523,650
Treasury Note	-	9,496,387	-	9,496,387
Total investments, at fair value	-	207,324,597	-	207,324,597
Cash equivalents	13,309,495	-	-	13,309,495
Total	\$ 13,309,495	\$ 207,324,597	\$ -	\$ 220,634,092

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, 2014.

15. Financial Highlights

Schedule of Financial Highlights for Short Duration Fixed Income Fund for the year ended June 30, 2014

	USD					
	Class AC	Class AD	Class CC	Class CD	Class IC	Class ID
Selected per share data						
Net asset value at beginning of the year/period	102.45	101.02	100.00	100.00	102.84	101.15
Income from investment operations						
Net investment income	0.44	0.44	0.19	0.18	0.55	0.54
Net realized gains on sale of investments and net change in unrealized loss on investments	0.79	0.77	0.02	0.02	0.78	0.77
Total from investment operations	1.23	1.21	0.21	0.20	1.33	1.31
Dividends declared	-	(0.34)	-	-	-	(0.44)
Net asset value at end of the year	103.68	101.89	100.21	100.20	104.17	102.02
Total return, excluding dividends declared	1.19 %	1.20 %	0.21 %	0.20 %	1.29 %	1.29 %
Ratios to average net assets						
Total expenses	0.55 %	0.55 %	0.27 %	0.05 %	0.44 %	0.45 %
Net investment income	0.43 %	0.43 %	0.62 %	0.53 %	0.52 %	0.53 %

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

HSBC Specialist Funds Limited

Notes to the Financial Statements

for the year ended June 30, 2014

16. Subsequent Events

On September 22, 2014 the HSBC Specialist Funds Limited Class AD and ID declared a dividend of USD 0.085 and USD 0.11 per share, respectively. It has an ex-dividend date of September 30, 2014.

The Directors have assessed and evaluated all subsequent events arising from the date of the statement of assets and liabilities up until October 2, 2014 and have concluded that no other additional disclosure is required.

HSBC Specialist Funds Limited Management and Administration

for the year ended June 30, 2014

Directors and Officers

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

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

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

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

Secretary and Registered Office

HSBC Securities Services (Bermuda) Limited
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 Audit Limited
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 6644
Facsimile: (441) 299 6554
Email: asset.management@hsbc.bm

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www.hsbc.bm

HSBC Bank Bermuda Limited
6 Front Street
Hamilton HM 11
Bermuda

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