

HSBC Specialist Funds Limited

Annual Report June 2019

HSBC Specialist Funds Limited

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The accompanying report of KPMG Audit Limited ("KPMG") is for the sole and exclusive use of the Company. No person, other than the Company, is authorized to rely upon the report of KPMG unless KPMG expressly so authorizes. Further, the report of KPMG is as of October 14, 2019 and KPMG has carried out no procedures of any nature subsequent to that date which in any way extends that date.

Manager's Report

for the year ended June 30, 2019

Market Overview

US economic growth slowed in the 12-month period ending June 2019 (2Q19). US GDP was 2.3% versus 3.2% for the same period a year earlier. 2Q18 - 2Q19 market volatility and weakness coincided with increased trade tensions between the US and China, slowing of Eurozone and Chinese economies, and continued Brexit uncertainties. Inflation in the US declined to 1.6% for 2Q19 versus 2.9% a year earlier. Despite market volatility, US consumer confidence improved, and headline unemployment rate ended 2Q19 at 3.7%. During the period, the US Fed raised its target rate twice by 25bps to 2.50% (upper-bound).

During the period, the US Treasury curve lowered and flattened. The front-end of the US Treasury curve inverted, where the 1-month rate yielded 37bps higher than the 2-year rate, as of 2Q19. The 2-year rate declined by 77bps for the year. Bank of America Merrill Lynch 1-3 Year US Corporate Index widened by as much as 23bps during the middle of the period, but ended 7bps tighter. Globally, yield curves in Germany, UK, and Japan declined and flattened. Crude oil prices declined -9% for the period, while gold prices increased 13%, signaling expectations of economic slowdown and monetary policy expansion.

Portfolio Overview

The portfolio outperformed the reference benchmark gross of fees for the period by 28bps. The portfolio maintained a duration underweight and credit overweight. In the market, second half of 2018 saw front-end rates increasing (coinciding with Fed rate decisions) and credit spreads widening, while first half of 2019 saw a reversal with front-end rates declining and credit spreads narrowing. Portfolio outperformance was achieved through overweights in select financial and industrial credits.

Going forward, we expect the possibility of corporate spreads widening in the short term, but we remain cautiously positioned in our credit overweight, with focus on prudent selection of credits across quality, industry and issuer for opportunistic yield pick-up.

Outlook

Recent US macro data remained robust, and consumer confidence remained stable. Downside risks continue to dominate, led by manufacturing data. Growth outlook has been revised downward in all regions, adding to lingering political uncertainty (Brexit, Italy, US-China and possible EU-US trade tensions). Communication from the Fed iterates focus on downside macro risk and the possibility of data-dependent rate cuts, which are now fully priced in by market. The ECB is gradually socializing the need for further easing (possible new bond purchase program) with no rate hikes in sight. We expect overall market default rate to stay elevated in the US (but moving lower towards 4%), and remain low in Europe (2-3%).

HSBC Global Asset Management (Bermuda) Limited – October 2019

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



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders of HSBC Specialist Funds Limited

We have audited the accompanying financial statements of HSBC Specialist Funds Limited (comprised of Short Duration Fixed Income and the Alternative Fund), which comprise the statements of assets and liabilities, including statements of net assets as of June 30, 2019, 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.

Auditor's 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 auditor's 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, 2019, and the results of its operations for the year then ended in accordance with U.S. generally accepted accounting principles.

KPMG Audit Limited

Chartered Professional Accountants
Hamilton, Bermuda
October 14, 2019

HSBC Specialist Funds Limited
Statements of Assets and Liabilities
as at June 30, 2019

	Short Duration Fixed Income Fund USD	Alternative Fund USD
Assets		
Investments at fair value (notes 11, 12, 13 & 16)	80,384,136	34,236,092
Cash and cash equivalents (notes 3 & 16)	174,053	138,063
Interest receivable	423,141	-
Due from broker	25	-
Prepaid expenses	18,700	7,347
	81,000,055	34,381,502
Liabilities		
Redemptions payable	-	51,150
Management fee payable (notes 4 & 15)	22,464	26,315
Dividends payable (note 14)	135,903	-
Subscriptions received in advance	-	56,129
Accounts payable and accrued expenses	16,019	21,696
	174,386	155,290
Net assets	80,825,669	34,226,212
Net assets attributable to:		
Class AC Shares	25,991,727	32,068,976
Class AD Shares	1,009,581	-
Class CC Shares	38,197,059	-
Class ID Shares	15,627,302	-
Class LC Shares	-	2,157,236
	80,825,669	34,226,212
Shares outstanding (note 10)		
Class AC Shares	236,309	122,485
Class AD Shares	9,859	-
Class CC Shares	354,835	-
Class ID Shares	152,692	-
Class LC Shares	-	8,239
Net asset value per share		
Class AC Shares	109.99	261.82
Class AD Shares	102.40	-
Class CC Shares	107.65	-
Class ID Shares	102.35	-
Class LC Shares	-	261.82

The accompanying notes form an integral part of these Financial Statements

Director

Director

HSBC Specialist Funds Limited

Statements of Net Assets

as at June 30, 2019

Short Duration Fixed Income Fund

	Nominal Value	Amortized Cost USD	Fair Value USD	% of Net Assets
Fixed Income Notes				
ABN AMRO Bank Nv 3.4% 08/27/2021	500,000	499,717	510,208	0.63
AIG Global Funding 2.15% 07/02/2020	500,000	499,893	498,722	0.62
Alibaba Group Holding 3.125% 11/28/2021	1,250,000	1,257,798	1,268,856	1.57
America Movil 5% 03/30/2020	417,000	425,273	425,004	0.53
Apple Inc 2.7% 05/13/2022	1,500,000	1,502,448	1,527,182	1.89
Australia and New Zealand Banking Group 2.25% 11/09/2020	1,000,000	999,172	999,161	1.24
Australia and New Zealand Banking Group 2.55% 11/23/2021	500,000	494,564	502,694	0.62
Banco Santander Chile 2.5% 12/15/2020	485,000	483,829	485,679	0.60
Bank of Montreal 1.75% 06/15/2022	1,500,000	1,478,332	1,492,210	1.85
Bank of Nova Scotia 1.875% 04/26/2021	1,500,000	1,481,221	1,496,370	1.85
Banque Federative Du Credit 2.75% 10/15/2020	1,250,000	1,256,152	1,256,900	1.56
Barclays Bank PLC 2.65% 01/11/2021	1,250,000	1,249,360	1,252,632	1.55
Bristol-Myers Squibb Co 2.6% 05/16/2022	1,000,000	997,395	1,013,166	1.25
Canadian Imperial Bank (144A) (Reg) 2.25% 07/21/2020	1,500,000	1,501,078	1,501,735	1.86
CDP Financial 4.4% 11/25/2019	1,250,000	1,261,349	1,259,804	1.56
Chevron Corp 2.498% 03/03/2022	1,500,000	1,495,841	1,515,853	1.87
Citibank NA 2.1% 06/12/2020	500,000	495,152	499,224	0.62
CK Hutchison International 17 Ltd 2.25% 09/29/2020	1,240,000	1,238,536	1,237,272	1.53
Colgate-Palmolive Co 2.45% 11/15/2021	750,000	744,686	759,311	0.94
Commonwealth Bank of Australia 2.4% 11/02/2020	500,000	498,563	500,844	0.62
Daimler Finance NA LLC (144A) (Reg) 2.45% 05/18/2020	250,000	250,022	249,940	0.31
DNB Boligkreditt AS 2% 05/28/2020	500,000	496,610	499,634	0.62
DNB Boligkreditt AS 2.5% 03/28/2022	1,000,000	986,831	1,014,237	1.25
Equinor ASA 2.9% 11/08/2020	1,500,000	1,496,647	1,515,879	1.87
Exxon Mobil Corp 2.397% 03/06/2022	1,500,000	1,485,426	1,514,322	1.87
Fannie Mae 1.375% 02/26/2021	1,500,000	1,490,477	1,488,707	1.84
Federal Home Loan Banks 1.375% 09/28/2020	800,000	797,701	794,814	0.98
Federation des Caisses Desjardins 2.25% 10/30/2020	1,000,000	999,827	999,244	1.24
KFW 2.75% 10/01/2020	1,500,000	1,497,532	1,514,342	1.87
Kookmin Bank (144A) (Reg) 2.125% 10/21/2020	1,500,000	1,500,667	1,494,862	1.85
Korea Expressway Corp 3.625% 10/22/2021	1,250,000	1,246,628	1,286,246	1.59
Lloyds Bank PLC 3.30% 05/07/2021	500,000	499,601	507,237	0.63
Massmutual Global Fundin 2.5% 04/13/2022	1,500,000	1,476,668	1,511,802	1.87
Metropolitan Life Global Funding 2.4% 01/08/2021	1,000,000	999,430	1,002,541	1.24
Microsoft Corp 2.4% 02/06/2022	1,000,000	996,575	1,010,567	1.25
National Australia Bank 2.625% 07/23/2020	250,000	248,466	251,045	0.31

The accompanying notes form an integral part of these Financial Statements

HSBC Specialist Funds Limited

Statements of Net Assets (Continued)

as at June 30, 2019

Short Duration Fixed Income Fund (continued)

	Nominal Value	Amortized Cost USD	Fair Value USD	% of Net Assets
Fixed Income Notes (continued)				
National Australia Bank/NY 2.8% 01/10/2022	250,000	248,382	253,085	0.31
Nestle Holdings Inc 3.1% 09/24/2021	1,500,000	1,499,536	1,531,682	1.89
New York Life Global Funding 1.7% 09/14/2021	1,000,000	989,638	989,114	1.22
New York Life Global Funding 1.95% 02/11/2020	500,000	499,581	498,725	0.62
Nissan Motor Acceptance Corp 3.15% 03/15/2021	500,000	499,630	504,323	0.62
Nordea Bank (144A) (Reg) 4.875% 01/27/2020	1,500,000	1,520,656	1,520,892	1.88
Procter & Gamble Co 1.85% 02/02/2021	500,000	494,252	499,359	0.62
Procter & Gamble Co 2.3% 02/06/2022	650,000	645,984	654,767	0.81
Roche Holding Inc 1.75% 01/28/2022	1,250,000	1,216,984	1,237,498	1.53
Roche Holding Inc 2.875% 09/29/2021	500,000	501,491	506,484	0.63
Royal Bank of Canada 2.1% 10/14/2020	1,500,000	1,501,633	1,500,261	1.86
Santander UK PLC 2.50% 01/05/2021	750,000	749,564	750,060	0.93
Scentre Group Trust 1/2 (144A) 2.375% 11/05/2019	850,000	849,632	849,409	1.05
Shell International Finance 1.75% 09/12/2021	1,250,000	1,240,049	1,237,746	1.53
Shell International Finance 1.875% 05/10/2021	250,000	246,294	248,635	0.31
Siemens Financieringsmaats chappij 2.7% 03/16/2022	1,000,000	1,001,281	1,010,877	1.25
Skandinaviska Enskilda Banken AB 3.05% 03/25/2022	750,000	749,414	762,454	0.94
State Grid Overseas Investment (144A) 2.25% 05/04/2020	1,000,000	999,513	997,676	1.23
Svenska Handelsbanken AB 2.4% 10/01/2020	1,500,000	1,488,223	1,504,113	1.86
Swedbank AB 2.65% 03/10/2021	1,500,000	1,484,461	1,502,913	1.86
Toronto-Dominion Bank 3.15% 09/17/2020	1,000,000	999,840	1,011,132	1.25
Toronto-Dominion Bank 3.25% 03/11/2024	500,000	499,379	517,924	0.64
Toyota Motor Credit Corp 1.95% 04/17/2020	750,000	749,898	748,668	0.93
Toyota Motor Credit Corp 2.6% 01/11/2022	750,000	744,829	757,145	0.94
UBS AG London 2.2% 06/08/2020	500,000	499,893	499,826	0.62
United Overseas Bank Ltd 3.2% 04/23/2021	1,250,000	1,248,953	1,268,937	1.57
Walmart Stores Inc 3.125% 06/23/2021	1,500,000	1,504,647	1,532,565	1.90
Westpac Banking Corp 2.3% 05/26/2020	750,000	744,846	750,226	0.93
		61,747,950	62,304,742	77.08

The accompanying notes form an integral part of these Financial Statements

HSBC Specialist Funds Limited

Statements of Net Assets (Continued)

as at June 30, 2019

Short Duration Fixed Income Fund (continued)

	Nominal Value	Amortized Cost USD	Fair Value USD	% of Net Assets
Floating Rate Notes				
ABN AMRO Bank NV FRN 08/27/2021	500,000	500,000	501,468	0.62
American Honda Finance Corp FRN 11/05/2021	500,000	500,853	500,970	0.62
Bank of America Corp FRN 01/23/2022	250,000	249,940	250,993	0.31
Bank of New York Mellon FRN 12/04/2020	750,000	750,000	750,835	0.93
Bank of New York Mellon FRN 06/04/2021	750,000	750,000	749,806	0.93
Berkshire Hathaway Finance (Reg) FRN 01/10/2020	1,000,000	1,000,000	1,005,430	1.24
BMW US Capital LLC FRN 04/12/2021	250,000	250,169	250,300	0.31
Commonwealth Bank of Australia FRN 09/18/2022	1,000,000	1,003,526	1,004,883	1.24
DBS Group Holdings Ltd (144A) (Reg) FRN 06/08/2020	1,500,000	1,500,000	1,504,200	1.86
John Deere Capital Corp FRN 06/07/2021	1,125,000	1,125,000	1,129,050	1.40
Lloyds Bank PLC FRN 05/07/2021	500,000	500,000	499,972	0.62
National Australia Bank (144A) (Reg) FRN 05/22/2022	1,000,000	1,000,000	1,007,802	1.25
Nissan Motor Acceptance Corp FRN 09/21/2021	750,000	750,000	750,030	0.93
Toronto-Dominion Bank FRN 07/19/2023	500,000	501,477	502,137	0.62
Westpac Banking Corp FRN 05/15/2023	750,000	751,043	753,158	0.93
		11,132,008	11,161,034	13.81
Treasury Notes				
US Treasury Note 1.75% 15/06/2022	5,650,000	5,641,895	5,658,497	7.00
US Treasury Note 2.250% 31/03/2021	1,250,000	1,248,154	1,259,863	1.56
		6,890,049	6,918,360	8.56
Total investments		79,770,007	80,384,136	99.45
Other net assets			441,533	0.55
Net assets			80,825,669	100.00

The accompanying notes form an integral part of these Financial Statements

HSBC Specialist Funds Limited
 Statements of Net Assets (Continued)
 as at June 30, 2019

Alternative Fund	Liquidity Period	Holdings In Shares	Purchase Price USD	Fair Value USD	% of Net Assets
Investment in investee fund:					
Multi-Strategy					
HSBC Portfolio Selection Fund GH Fund Class AP	Monthly	160,937	29,224,692	34,236,092	100.03
Total investments				34,236,092	100.03
Other net liabilities				(9,880)	(0.03)
Net assets				34,226,212	100.00

The accompanying notes form an integral part of these Financial Statements

HSBC Specialist Funds Limited
Statements of Operations
for the year ended June 30, 2019

	Short Duration Fixed Income Fund USD	Alternative Fund USD
Income		
Interest income	2,134,772	-
	2,134,772	-
Expenses		
Management fee (notes 4 & 15)	320,970	356,672
Audit fees	16,954	12,407
Directors' fees (note 8)	5,092	561
Other expenses	24,377	6,657
	367,393	376,297
Net investment income/(loss)	1,767,379	(376,297)
Net realized (losses)/gains on sale of investments	(280,471)	538,555
Net change in unrealized gains on investments	1,735,259	572,576
	1,454,788	1,111,131
Net increase in net assets resulting from operations	3,222,167	734,834

The accompanying notes form an integral part of these Financial Statements

HSBC Specialist Funds Limited

Statements of Changes in Net Assets

for the year ended June 30, 2019

Short Duration Fixed Income Fund	Class AC USD	Class AD USD	Class CC USD	Class CD (note 1) USD	Class IC (note 1) USD	Class ID USD	Total
Net assets at start of the year	32,757,686	994,939	36,729,137	103	4,637,166	17,341,652	92,460,683
Net increase in net assets from operations							
Net investment income	547,043	19,215	807,444	2	57,920	335,755	1,767,379
Net realized losses on sale of investments	(92,275)	(3,056)	(112,850)	-	(17,658)	(54,632)	(280,471)
Net change in unrealized gains on investments	556,330	20,764	773,328	2	46,527	338,308	1,735,259
	1,011,098	36,923	1,467,922	4	86,789	619,431	3,222,167
Subscriptions and redemptions							
Proceeds on issue of shares	651,976	-	-	-	-	304,430	956,406
Payments on redemption of shares	(8,429,033)	-	-	(107)	(4,723,955)	(2,250,000)	(15,403,095)
	(7,777,057)	-	-	(107)	(4,723,955)	(1,945,570)	(14,446,689)
Dividends (note 14)	-	(22,281)	-	-	-	(388,211)	(410,492)
Net assets at end of the year	25,991,727	1,009,581	38,197,059	-	-	15,627,302	80,825,669
Alternative Fund							
					Class AC USD	Class LC USD	Total
Net assets at start of the year					34,645,728	2,419,622	37,065,350
Net increase in net assets from operations							
Net investment loss					(352,981)	(23,316)	(376,297)
Net realized gains on sale of investments					505,215	33,340	538,555
Net change in unrealized gains on investments					537,900	34,676	572,576
					690,134	44,700	734,834
Subscriptions and redemptions							
Proceeds on issue of shares					454,357	128,860	583,217
Payments on redemption of shares					(3,721,243)	(435,946)	(4,157,189)
					(3,266,886)	(307,086)	(3,573,972)
Net assets at end of the year					32,068,976	2,157,236	34,226,212

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, 2019

1. The Company

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

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

The shares of the Company are divided into several classes (the "Classes"), one or more of which will be related to a Fund within the Company for which the Company maintains separate accounts. The assets of each Class of the Company are held exclusively for the benefit of the holders of the shares of the relevant Class. However, all assets of the Company are subject to the general creditors of the Company, in that the assets of each Class may be exposed to the liabilities of other Classes within the Company. At June 30, 2019, the Directors were not aware of any such specific existing or contingent liabilities. Short Duration Fixed Income Fund – Class CD became dormant on June 13, 2019 and Short Duration Fixed Income Fund – Class IC became dormant on February 25, 2019.

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

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

The following Funds and share classes existing as at June 30, 2019 (see also Note 10):

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

2. Significant Accounting Policies

The accompanying financial statements are prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"). The Company meets the typical characteristics of an investment company and is therefore applying the accounting and reporting guidance under Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") Topic 946, *Financial Services – Investment Companies*.

The significant accounting and reporting policies adopted by the Company are as follows:

(a) Investment transactions and income

Investment transactions are recorded on the trade date. Realized gains and losses on investment transactions are calculated on a first in first out basis for the Short Duration Fixed Income Fund and on a weighted average cost basis for the Alternative Fund. Realized and unrealized gains and losses arising from investment transactions are included in the statements of operations.

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

HSBC Specialist Funds Limited

Notes to the Financial Statements

for the year ended June 30, 2019

2. Significant Accounting Policies (continued)

(b) Valuation of investments

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

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

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

Investments in securities are valued as follows:

- The fair value of debt instruments is estimated using various techniques, which may consider recently executed transactions in securities of the issuer or comparable issuers, market price quotations (where observable), bond spreads, fundamental data relating to the issuer, and credit default swap spreads adjusted for any basis difference between cash and derivatives instruments. While most debt instruments are categorized in Level 2 of the fair value hierarchy, in instances where lower relative weight is placed on transaction prices, quotations, or similar observable inputs, they are categorized in Level 3 of the fair value hierarchy. All cash and cash equivalents held at the year end has been recognized in Level 1 of the fair value hierarchy.
- Commercial paper is estimated using amortized cost, which approximates fair value. To the extent the inputs are observable and timely, the values would be categorized in Level 2 of the fair value hierarchy.
- Investments in investee funds are valued based on reported net asset value per share as provided by the administrators of the investee funds. Private investment companies measured using net asset value as a practical expedient are not categorized within the fair value hierarchy.

(c) Cash and cash equivalents

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

(d) Interest and dividend income

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

The net effect of bond coupon interest and amortization and accretion of premiums and discounts using the effective interest method could be positive or negative and is disclosed as part of interest income in the Statement of Operations.

(e) Expenses

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

(f) Use of estimates

The preparation of financial statements in accordance with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

HSBC Specialist Funds Limited

Notes to the Financial Statements

for the year ended June 30, 2019

2. Significant Accounting Policies (continued)

(g) Foreign currency translation

Assets and liabilities denominated in currencies other than the base currency of each Class are translated into the base currency at the rate of exchange prevailing at the date of the financial statements. Transactions during the year in currencies other than the base currency have been translated at the rate of exchange prevailing on the date of the transaction. Realized and unrealized gains and losses on translation of investment balances are included in the statements of operations under "net realized (losses)/gains on sale of investments" and "net change in unrealized gains on investments", respectively. All other realized and unrealized gains and losses arising from foreign currency translation are included in the line item to which they relate.

(h) Mandatory redeemable financial instruments

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

(i) Allocation of profits and losses

All investment income, realized and unrealized gains and losses are allocated to each Class of shares outstanding on a daily basis for the Short Duration Fixed Income Fund and on a monthly basis for the Alternative Fund in proportion to their respective interest in the net asset value of the respective Fund.

(j) New Accounting Pronouncements

In August 2018, the FASB issued Accounting Standard Update 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement, which changes the fair value measurement disclosure requirements of ASC 820. For non-public entities such as the Company, the amendments involve the elimination of certain disclosure requirements of ASC 820. These include transfers between Level 1 and Level 2 of the fair value hierarchy, the Company's policy for the timing of transfers between levels, the valuation processes for Level 3 fair value measurements, and the changes in unrealized gains and losses for the period included in earnings for recurring Level 3 fair value measurements held at the end of the reporting period and the roll-forward of Level 3 fair value measurements. The ASU is effective for all entities for fiscal years beginning after 15 December 2019, including interim periods therein. Early adoption is permitted. The impact on the Company's financial statement disclosures is not expected to be material.

3. Cash and Cash Equivalents

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

	Short Duration Fixed Income Fund USD	Alternative Fund USD
Cash at bank	427	138,063
Money market fund	173,626	-
	174,053	138,063

4. Manager

Under an agreement dated January 17, 2002, September 12, 2016 and April 23, 2018, HSBC Global Asset Management (Bermuda) Limited agreed to act as Manager of the Company and to be responsible for the day-to-day management. The Manager is entitled to receive from the Short Duration Fixed Income Fund, out of the assets attributable to the Short Duration Fixed Income Fund, a monthly management fee calculated at a rate of up to 1% per annum of the average net asset value of the Short Duration Fixed Income Fund on each valuation day and to be reimbursed for its out-of-pocket expenses. The management fee is calculated daily and paid on the last business day of the month.

The Manager is entitled to receive from the Alternative Fund, out of the assets attributable to the Alternative Fund, a monthly management fee calculated at a rate of up to 2.5% per annum of the average net asset value of the Alternative Fund on each valuation day and to be reimbursed for its out-of-pocket expenses. The management fee is calculated monthly and paid as at the last Valuation Day in each calendar quarter.

HSBC Specialist Funds Limited

Notes to the Financial Statements

for the year ended June 30, 2019

4. Manager (continued)

For the year ended June 30, 2019, the Manager has invested certain of the Fund's assets in various other HSBC Funds. The Manager received additional management fees on the assets directly from those funds in accordance with the respective management agreements.

The fee rates incurred during the year were as follows:

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

The Manager, out of the management fees paid to it for its services provided pursuant to this agreement, shall be responsible for the payment of fees and/or expenses of the Custodian and Administrator of the Company.

5. Administrator

Under an agreement dated January 16, 2002, May 20, 2016 and as amended and signed on November 8, 2017 between the Company and HSBC Securities Services (Bermuda) Limited (the "Administrator"), a wholly-owned subsidiary of the Bank, the Administrator agreed to act as share registrar, transfer agent and the secretary, and to provide Foreign Accountant Tax Compliance Act (FATCA) assistance services, accounting and administrative services to the Funds. The Administrator shall be paid by the Company, or the Company shall procure that the Manager as its delegate shall pay, by way of remuneration for its services pursuant to this agreement fees at such rates as may be agreed from time to time between the Company and the Administrator out of the fees payable to the Manager by the Company.

The Administrator is also entitled to receive from the Company or the Company shall procure that the Manager as its delegate shall pay an amount equal to the out-of-pocket expenses incurred in carrying out its duties.

6. Custodian

Under an agreement dated January 16, 2002, HSBC Institutional Trust Services (Bermuda) Limited (the "Custodian") was appointed Custodian for the Company. The Custodian shall be paid by the Company, or the Company shall procure that the Manager as its delegate shall pay, by way of remuneration for its services pursuant to this agreement fees at such rates as may be agreed from time to time between the Company and the Custodian out of the fees payable to the Manager by the Company.

The Custodian is also entitled to receive from the Company or the Company shall procure that the Manager as its delegate shall pay 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 Company. In the event that such taxes are levied, the Company has received an undertaking from the Bermuda Government, under the Exempted Undertaking Tax Protection Act 1966, exempting it from all such taxes until March 31, 2035.

8. Directors' Fees

Each of the Directors is entitled to receive from the Company a fee at such a rate as may be set from time to time by the Board of Directors, provided such remuneration shall not exceed an aggregate amount of \$30,000 per annum without prior consent of the shareholders in a general meeting.

HSBC Specialist Funds Limited

Notes to the Financial Statements

for the year ended June 30, 2019

8. Directors' Fees (continued)

The Directors may also be reimbursed for all travel, hotel and other expenses properly incurred by them in attending meetings of the Company. No such fees will be payable where the Director is employed by the Bank or any of its subsidiaries or affiliates

For the year ended June 30, 2019, Mr. L. Anthony Joaquin and Ms. Julie E. McLean each were paid an annual fee at a rate of \$6,000 per annum.

9. Related Parties and Directors' Interests

As at June 30, 2019, Directors held the following shares in the Alternative Fund:

Director	Number of Shares
Faith Outerbridge (HBBM Pension)	862

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

HSBC Corporate Money Funds Limited is a related party to the Company by virtue of it being a wholly owned subsidiary of HSBC Holdings plc.

HSBC Institutional Trust Services (Bermuda) Limited, Custodian to the Company is a related party, by virtue of it being a wholly owned subsidiary of HSBC Holdings plc.

10. Share Capital

The present authorized share capital of USD100,000 of the Company is divided into 9,999,900 voting participating shares ("Shares") of USD 0.01 par value each and 100 non-voting, non-participating founders' shares of USD 0.01 par value each. The Manager holds all founders' shares, \$nil paid. The founders' shares are not entitled to vote unless there are no other shares in issue, and are not entitled to any dividends. Participating shares may be subscribed for and redeemed on a daily basis for the Short Duration Fixed Income Fund and on a monthly basis for the Alternative Fund. The minimum initial subscription for Class AC and Class AD Shares in the Short Duration Fund is USD 100,000, for Class CC and Class CD Shares it is USD 50,000,000 and for Class IC and Class ID Shares it is USD 10,000,000. The minimum initial subscription for Class AC and Class LC Shares in the Alternative Fund is USD 10,000.

	Short Duration Fixed Income Fund						Alternative Fund	
	Class AC	Class AD	Class CC	Class CD	Class IC	Class ID	Class AC	Class LC
Shares in issue July 1, 2018	308,955	9,859	354,835	1	43,338	171,814	135,187	9,441
Shares issued during the year	5,999	-	-	-	-	3,004	1,776	504
Shares redeemed during the year	(78,645)	-	-	(1)	(43,338)	(22,126)	(14,478)	(1,706)
Shares in issue June 30, 2019	236,309	9,859	354,835	-	-	152,692	122,485	8,239

11. Cost of Investments

Cost of investments as at June 30, 2019	USD
Short Duration Fixed Income Fund	79,770,007
Alternative Fund	29,224,692

HSBC Specialist Funds Limited

Notes to the Financial Statements

for the year ended June 30, 2019

12. Financial Instruments and Associated Risks

Price Risk

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

Currency Risk

Currency risk is the risk that future changes in exchange rates will make financial instruments held by the Funds less valuable. Substantially all the investments of each Fund are denominated in USD thus minimizing currency risk.

Interest Rate Risk

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

Liquidity Risk

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

Credit Risk

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

13. Investments in Other Investment Funds

The investments in other investment funds (the "investee funds") are valued at their fair value. The fair value represents the amount the Alternative Fund would have received at June 30, 2019, if it had liquidated its investments. The Alternative Fund has the ability to liquidate its investments periodically depending on the provisions of the respective investee fund's offering documents.

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

As of June 30, 2019, the Alternative Class has an investment in GH Fund Class AP (the "investee fund") of the HSBC Portfolio Selection Fund, a related party fund managed by HSBC Management (Guernsey) Limited and advised by HSBC Alternative Investments Limited, representing 100% of its net assets. The objective of the investee fund is to provide a total return from selective investment in a number of hedge funds, which utilize and trade in a range of different strategies and markets worldwide.

HSBC Specialist Funds Limited

Notes to the Financial Statements

for the year ended June 30, 2019

13. Investments in Other Investment Funds (continued)

The following table summarizes the proportionate share of investments of HSBC GH Fund of which the proportionate share is greater than 5% of the Alternative Fund's net assets. The below information is based on the position and holding in the underlying funds as at April 30, 2019 compared to Alternative Fund's net assets as at June 30, 2019:

Description	Investment Strategy	Value USD	% of Alternative Fund's Net Assets
D.E. Shaw Oculus International Fund	Macro	2,460,961	7.19%
MW Eureka Fund Plc	Equity Long/Short	2,365,690	6.91%
Millennium International Limited	Multi-Strategy	2,297,130	6.71%
Element Capital Feeder Fund Limited	Macro	2,180,271	6.37%
Renaissance Institutional Div Global Equities	Market Neutral	1,923,512	5.62%
Two Sigma Spectrum Cayman Fund Limited	Market Neutral	1,921,131	5.61%
Third Point Offshore Fund Limited	Event Driven	1,817,628	5.31%
Elliot International Limited	Event Driven	1,810,014	5.29%
Tewksbury Investment Fund Limited	Managed Futures	1,734,222	5.07%

Summarized financial information pertaining to the relevant HSBC GH sub-fund based on its April 30, 2019 audited financial statements is as follows:

	As at 30 April 2019 USD'000
Current assets	
Cash and cash equivalents	898
Portfolio of investments	1,923,629
Debtors	52,070
Total assets	1,976,597
Liabilities	
Creditors: amounts falling due within one year	92,511
Total liabilities	92,511
Net assets	1,884,086
Income	
Net capital gains	40,568
Revenue	95
Interest expense	(1,111)
Operating expense	(18,646)
Net investment expense from operations	(19,662)
Change in net assets attributable to holders of redeemable participating units from investment activities	20,906

The Company and HSBC GH Fund are related parties by virtue of having managers that are under common control. Investors should refer to HSBC GH Fund's audited financial statements and prospectus for more detailed information.

HSBC Specialist Funds Limited

Notes to the Financial Statements

for the year ended June 30, 2019

14. Dividends

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

The table below reflects the dividends declared during the year and dividends payable as at June 30, 2019.

Short Duration Fixed Income Fund	USD
Dividends declared - Class AD - USD	(22,281)
Dividends declared - Class ID - USD	(388,211)
Short Duration Fixed Income Fund	USD
Dividends payable - Class AD - USD	(9,169)
Dividends payable - Class ID - USD	(126,734)

15. Management Fees

	Short Duration Fixed Income Fund USD	Alternative Fund USD
Class AC management fee	144,073	334,570
Class AD management fee	5,001	-
Class CC management fee	92,932	-
Class IC management fee	12,184	-
Class LC management fee	-	22,102
Class ID management fee	66,780	-
Total management fee	320,970	356,672
Management fee payable	22,464	26,315

HSBC Specialist Funds Limited

Notes to the Financial Statements

for the year ended June 30, 2019

16. 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, 2019 with respect to the Short Duration Fixed Income Fund:

	Level 1	Level 2	Level 3	Total
Assets				
Investments, at fair value:				
Fixed Income Notes	\$ -	\$ 62,304,742	\$ -	\$ 62,304,742
Floating Rate Notes	-	11,161,034	-	11,161,034
Treasury Notes	-	6,918,360	-	6,918,360
Total investments, at fair value	-	80,384,136	-	80,384,136
Cash equivalents	173,626	-	-	173,626
Total	\$ 173,626	\$ 80,384,136	\$ -	\$ 80,557,762

In accordance with FASB ASC Sub-topic 820-10, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient are not required to be classified within the fair value hierarchy. As the Alternative Fund's investments as at June 30, 2019 comprised solely of investments in other investment companies valued using the net asset value per share (or its equivalent) practical expedient, no fair value hierarchy has been disclosed.

The Company's policy is to recognize transfers into and out of various levels of the fair value hierarchy as at the actual date of the event or change in circumstances that caused the transfer. No transfers were made during the year ended June 30, 2019.

17. Financial Highlights

Schedule of Financial Highlights for Short Duration Fixed Income Fund for the year ended June 30, 2019

	USD			
	Class AC	Class AD	Class CC	Class ID
Selected per share data				
Net asset value at beginning of the year	106.03	100.92	103.51	100.93
Income from investment operations				
Net investment income	2.06	1.95	2.28	2.05
Net realized gains on sale of investments and net change in unrealized gains on investments	1.90	1.79	1.86	1.80
Total from investment operations	3.96	3.74	4.14	3.85
Dividends declared	-	(2.26)	-	(2.43)
Net asset value at end of the year	109.99	102.40	107.65	102.35
Total return, excluding dividends declared	3.74 %	3.71 %	4.00 %	3.81 %
Ratios to average net assets				
Total expenses	0.55 %	0.55 %	0.30 %	0.45 %
Net investment income	1.89 %	1.92 %	2.17 %	2.01 %

HSBC Specialist Funds Limited

Notes to the Financial Statements

for the year ended June 30, 2019

17. Financial Highlights (continued)

Schedule of Financial Highlights for Alternative Fund for the year ended June 30, 2019	USD	
	Class AC	Class LC
Selected per share data		
Net asset value at beginning of the year	256.28	256.28
Income from investment operations		
Net investment loss	(2.69)	(2.69)
Net realized gains on sale of investments and change in unrealized gains on investments	8.23	8.23
Total from investment operations	<u>5.54</u>	<u>5.54</u>
Net asset value at end of the year	<u>261.82</u>	<u>261.82</u>
Total return	2.16 %	2.16 %
Ratios to average net assets		
Total expenses	1.06 %	1.06 %
Net investment loss	(1.06) %	(1.06) %

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

18. Subsequent Events

Compulsory redemption of shareholders in the IC, ID and CD classes of Short Duration Fixed Income will be effective on July 30, 2019 dealing day.

The following amendments to Short Duration Fixed Income will be effective from July 31, 2019:

- Closure of share classes IC, ID and CD.
- Reduction of management fees for share classes AC and AD from 0.50% to 0.40%.

Management have assessed and evaluated all other subsequent events arising from the date of the statements of assets and liabilities up until October 14, 2019 and have concluded that no other additional disclosures are required.

HSBC Specialist Funds Limited Management and Administration

for the year ended June 30, 2019

Directors and Officers

Paul Dawe, President
Chief Operating Officer
HSBC Global Asset Management
USA

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

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

Julie E. McLean, Director
Conyers

Anthony T. Riker, Director
Vice President
HSBC Bank Bermuda Limited

Secretary and Registered Office

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Manager

HSBC Global Asset Management (Bermuda) Limited
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Banker

HSBC Bank Bermuda Limited
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Custodian

HSBC Institutional Trust Services (Bermuda) Limited
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Administrator

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