

HSBC Specialist Funds Limited

Annual Report June 2016

HSBC Specialist Funds Limited

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The accompanying report of KPMG Audit Limited ("KPMG") is for the sole and exclusive use of the Company. No person, other than the Company, is authorized to rely upon the report of KPMG unless KPMG expressly so authorizes. Further, the report of KPMG is as of September 26, 2016 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, 2016

Short Duration Fixed Income Fund

Market Overview

The current low growth global economic environment has put downward pressure on US yields. Overall, the market is experiencing a global reach for yield with strong inflows to global corporate bond markets.

The Fed has remained fairly positive in its assessment of recent economic conditions, but has yet to raise rates in 2016. In June, the Fed lowered its interest rate forecasts for 2017 and 2018, with the long-term policy rate now at 3% versus 3.25% previously. Even with the flattening of the Fed's rate projections, these projections are more aggressive than the market's implied rates.

The US unemployment rate, which averaged 5.3% in 2015, fell to 4.7% in June, moving below the 5.1% mid-point of the FOMC's central tendency range for the long-run, or non-inflationary, unemployment rate.

In Europe, the ECB expanded its bond purchase program to include investment grade non-bank corporate bonds. With the UK referendum resulting in a decision to leave the EU, risks of a near term recession in the UK and political uncertainty in the Eurozone may impact future growth.

Portfolio Overview

Over twelve months ending June 30, 2016, two year U.S. Treasuries fell 6.1 bps to .58% from .64%, while three year U.S. Treasuries fell 31.1 bps to .69% from 1% over the same period. This indicates a flattening of the short duration yield curve. We have maintained a modest underweight in portfolio duration. We reduced the portfolio's weighting in floating rate paper and 1 year and 3+ year duration fixed rate issues, while increasing the portfolio's weighting in the 2 year duration fixed rate issues. This has enabled us to be in line with the benchmark's 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 as we believe US treasuries are pricing in an overly pessimistic outlook for the US economy. In the current low yielding environment, investment grade corporate bonds look attractive relative to government bonds. This is also supported by the robust new issuance volume in the corporate bond market in 2016.

Outlook

With a global macro and geo-political backdrop which remains slow and a bit uncertain, the Federal Reserve has lacked the confidence to raise short term interest rates so far in 2016. This has not only kept rates low in the short duration (1-3 year) portion of the curve, but also led to an overall flattening of the yield curve. We expect US Treasury yields to remain low with global uncertainties, likely monetary easing elsewhere and the Fed unlikely to raise rates before the end of the year. Corporate balance sheets have shown continued signs of deterioration and we continue to see downgrades significantly outweigh upgrades. However, we believe that most corporate markets are fairly priced, and we retain a slightly long beta positioning in corporates. We have maintained our overweight in corporate credit and continue to underweight U.S. Government debt. With yields still low, we prefer to be neutral/ slightly underweight duration.

HSBC Global Asset Management (Bermuda) Limited – July 2016

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

The Board of Directors and Shareholders of
HSBC Specialist Funds Limited

We have audited the accompanying financial statements of HSBC Specialist Funds Limited (comprised of the Short Duration Fixed Income Fund and the Alternative Fund), which comprise the statements of assets and liabilities, including the statements of net assets as of June 30, 2016, 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

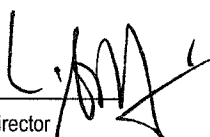
In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of HSBC Specialist Funds Limited as of June 30, 2016, and the results of its operations and changes in its net assets for the year then ended in accordance with U.S. generally accepted accounting principles.

KPMG Audit Limited

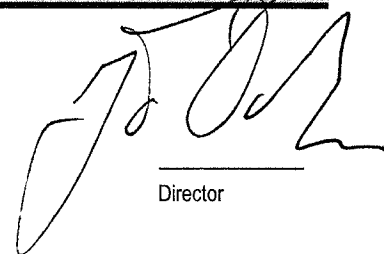
Chartered Professional Accountants
Hamilton, Bermuda
September 26, 2016

HSBC Specialist Funds Limited
Statements of Assets and Liabilities
as at June 30, 2016

	Short Duration Fixed Income Fund USD	Alternative Fund USD
Assets		
Investments at fair value (notes 11, 12, 13 & 16)	205,313,631	110,587,288
Cash and cash equivalents (notes 3 & 16)	445,508	799,010
Interest receivable	845,423	-
Prepaid expenses	8,864	1,900
	206,613,426	111,388,198
Liabilities		
Redemptions payable	100,000	186,534
Management, administration and custodian fees payable (notes 4, 5, 6 & 15)	438,529	588,077
Dividends payable (note 14)	94,107	-
Subscriptions received in advance	-	674,205
Accounts payable and accrued expenses	55,160	18,503
	687,796	1,467,319
Net assets	205,925,630	109,920,879
Net assets attributable to:		
Class AC Shares	73,397,347	107,232,314
Class AD Shares	1,011,293	-
Class CC Shares	70,196,168	-
Class CD Shares	103	-
Class IC Shares	23,623,594	-
Class ID Shares	37,697,125	-
Class LC Shares	-	2,688,565
	205,925,630	109,920,879
Shares outstanding (note 10)		
Class AC Shares	694,638	467,077
Class AD Shares	9,859	-
Class CC Shares	683,893	-
Class CD Shares	1	-
Class IC Shares	222,070	-
Class ID Shares	366,964	-
Class LC Shares	-	11,711
Net asset value per share		
	USD	USD
Class AC Shares	\$105.66	\$229.58
Class AD Shares	\$102.58	-
Class CC Shares	\$102.64	-
Class CD Shares	\$102.50	-
Class IC Shares	\$106.38	-
Class ID Shares	\$102.73	-
Class LC Shares	-	\$229.58


Director

The accompanying notes form an integral part of these Financial Statements


Director

HSBC Specialist Funds Limited

Statements of Net Assets

as at June 30, 2016

Short Duration Fixed Income Fund

	Nominal Value	Amortized Cost USD	Fair Value USD	% of Net Assets
Fixed Income Notes				
ANZ New Zealand International/LDN (144A) (Reg) 2.25% 02/01/2019	1,000,000	999,921	1,016,475	0.49
Alibaba Group Holding (144A) (Reg) 1.625% 11/28/2017	2,000,000	2,002,523	2,028,290	0.99
America Movil SAB DE CV (Reg) 2.375% 09/08/2016	1,000,000	1,002,507	1,001,250	0.49
Apple Inc 1% 05/03/2018	3,000,000	2,994,388	3,008,880	1.46
Australia & New Zealand Banking Group NY 2% 11/16/2018	3,000,000	2,997,993	3,041,625	1.48
BMW US Capital LLC (144A) (Reg) 1.5% 04/11/2019	3,000,000	2,998,776	3,017,820	1.47
Bank of Montreal (144A) (Reg) 1.95% 01/30/2017	4,000,000	4,023,627	4,024,600	1.95
Bank of America (Reg) 1.75% 06/05/2018	2,000,000	1,998,871	2,012,720	0.98
Bank of Nova Scotia (144A) (Reg) 1.95% 01/30/2017	4,000,000	4,026,472	4,023,900	1.95
Barclays Bank Plc (144A) (Reg) 2.25% 05/10/2017	1,000,000	1,006,645	1,011,335	0.49
BAT International Finance PLC (144A) (Reg) 1.85% 06/15/2018	1,500,000	1,499,427	1,517,550	0.74
Berkshire Hathaway Finance (Reg) 1.7% 03/15/2019	2,000,000	1,998,625	2,034,300	0.99
BK Nederlandse Gemeenten (144A) 0.875% 02/21/2017	3,000,000	2,998,608	3,002,400	1.46
Caisse Centrale Desjardn (144A) 1.55% 09/12/2017	2,000,000	1,999,293	2,003,870	0.97
Chevron Corp (Reg) 1.79% 11/16/2018	3,000,000	3,000,000	3,045,795	1.48
Chevron Corp 1.104% 12/05/2017	1,000,000	997,206	1,001,985	0.49
Chevron Phillips Chem Co (144A) 1.7% 05/01/2018	1,500,000	1,499,895	1,498,058	0.73
Cnooc Finance 2014 ULC 1.625% 04/30/2017	2,800,000	2,800,932	2,805,922	1.36
Coca-Cola Co/The (Reg) 1.375% 05/30/2019	1,160,000	1,159,210	1,172,487	0.57
Commonwealth Bank of Australia NY (Ser GMTN) (Reg) 2.05% 03/15/2019	2,000,000	1,997,648	2,031,960	0.99
Commonwealth Bank of Australia NY 1.75% 11/02/2018	900,000	899,464	906,165	0.44
Cred Mutuel - CIC Home LO (144A) 1.5% 11/16/2017	3,750,000	3,750,892	3,771,731	1.83
Credit Suisse New York (Reg) 1.7% 04/27/2018	2,000,000	1,998,647	2,003,280	0.97
DBS Bank Ltd/Singapore (144A) (Reg) 2.35% 02/28/2017	2,000,000	2,009,996	2,020,800	0.98
DNB Boligkreditt (144A) (Reg) 1.45% 03/21/2018	4,000,000	4,005,268	4,021,180	1.95
Daimler Finance NA LLC (144A) (Reg) 1.375% 08/01/2017	1,000,000	1,000,514	1,003,150	0.49
Daimler Finance NA LLC (144A) 1.65% 05/18/2018	1,000,000	999,190	1,007,750	0.49
Dexia Credit Local NY (144A) (Reg) 1.25% 10/18/2016	3,300,000	3,299,091	3,303,416	1.60
Fannie Mae (Reg) 0.875% 02/08/2018	10,000,000	9,980,721	10,043,400	4.88
Fannie Mae (Reg) 1.875% 09/18/2018	5,000,000	5,067,195	5,120,000	2.49
Federal Home Loan Bank (Reg) 0.875% 06/29/2018	10,000,000	9,976,963	10,041,900	4.88
GDF Suez (144A) (Reg) 1.625% 10/10/2017	2,000,000	2,008,045	2,006,340	0.97
HBOS Treasury Services (144A) 5.25% 02/21/2017	4,000,000	4,100,906	4,107,200	1.99
Hana Bank (144A) (Reg) 3.5% 10/25/2017	2,000,000	2,046,775	2,054,050	1.00
Hutch Whampoa International 14 Ltd (144A) (BR) 1.625% 10/31/2017	3,000,000	2,996,895	3,016,200	1.46

The accompanying notes form an integral part of these Financial Statements

HSBC Specialist Funds Limited
Statements of Net Assets (Continued)
as at June 30, 2016

Short Duration Fixed Income Fund (continued)

	Nominal Value	Amortized Cost USD	Fair Value USD	% of Net Assets
Fixed Income Notes (Continued)				
ING Bank (144A) (Reg) 2% 11/26/2018	1,800,000	1,796,180	1,817,748	0.88
Industrial & Commercial Bank China NY 2.351% 11/13/2017	800,000	800,000	807,695	0.39
Jackson National Life Global (144A) 1.875% 10/15/2018	1,050,000	1,049,581	1,065,193	0.52
Johnson & Johnson (Reg) 1.125% 03/01/2019	1,000,000	999,893	1,005,990	0.49
KFW (Reg) 1.25% 10/05/2016	1,000,000	1,001,445	1,001,800	0.49
Korea Gas Corp (144A) (Reg) 2.25% 07/25/2017	2,000,000	2,011,365	2,019,790	0.98
Korea National Oil Corp (Reg S) 4% 10/27/2016	200,000	201,841	201,915	0.10
Macquarie Bank Ltd (144A) (Reg) 2.35% 01/15/2019	2,000,000	1,999,796	2,026,730	0.98
Met Life Global Funding I (144A) 1.5% 01/10/2018	2,900,000	2,895,287	2,924,215	1.42
Met Life Global Funding I (144A) 1.95% 12/03/2018	1,000,000	999,415	1,016,050	0.49
Microsoft Corp (Reg) 1.3% 11/03/2018	1,350,000	1,348,943	1,363,149	0.66
Mizuho Bank Ltd (144A) (Reg) 1.7% 09/25/2017	2,500,000	2,498,508	2,510,075	1.22
National Australia Bank (144A) 2% 06/20/2017	1,500,000	1,499,543	1,514,565	0.74
New York Life Global FDG (144A) (Reg) 1.95% 02/11/2020	2,000,000	1,990,580	2,041,110	0.99
New York Life Global FDG (144A) 1.55% 11/02/2018	500,000	499,440	504,590	0.25
Nordea Bank (144A) (Reg) 4.875% 01/27/2020	2,000,000	2,171,194	2,212,390	1.07
Rabobank Nederland NY (Reg) 2.25% 01/14/2020	1,500,000	1,499,084	1,529,865	0.74
Royal Bank of Canada 1.2% 09/19/2017	3,500,000	3,496,063	3,508,208	1.70
Royal Bank Of Canada 2.2% 07/27/2018	1,000,000	1,014,939	1,019,505	0.50
Scentre Group Trust 1/2 (144A) 2.375% 11/05/2019	850,000	846,745	862,385	0.42
Schlumberger Norge (144A) (Reg) 1.25% 08/01/2017	2,158,000	2,154,379	2,159,511	1.05
Shell International Finance (Reg) 2.125% 05/11/2020	1,300,000	1,297,846	1,327,508	0.65
Sumitomo Mitsui Banking 1.5% 01/18/2018	2,000,000	1,998,170	2,003,000	0.97
Toronto-Dominion Bank (Reg) 2.625% 09/10/2018	4,000,000	4,103,877	4,119,700	2.00
Toyota Motor Credit Corp (Reg) 1.4% 05/20/2019	1,500,000	1,497,978	1,510,852	0.73
Toyota Motor Credit Corp (Reg) 1.7% 02/19/2019	2,000,000	1,999,789	2,027,150	0.98
Wells Fargo Bank (Ser BKNT) (Reg) 1.65% 01/22/2018	1,750,000	1,754,697	1,765,654	0.86
Wells Fargo Bank NA (Reg) 1.75% 05/24/2019	2,000,000	1,999,162	2,026,140	0.98
Westpac Banking Corp (Reg) 1.95% 11/23/2018	2,000,000	1,999,856	2,027,830	0.98
		147,568,725	148,648,097	72.18

The accompanying notes form an integral part of these Financial Statements

HSBC Specialist Funds Limited

Statements of Net Assets (Continued)

as at June 30, 2016

Short Duration Fixed Income Fund (continued)

	Nominal Value	Amortized Cost USD	Fair Value USD	% of Net Assets
Floating Rate Notes				
Australia & New Zealand Banking Group NY FRN 05/15/2018	1,000,000	1,000,000	998,735	0.49
BP Capital Markets Plc FRN 05/10/2018	2,000,000	2,002,129	1,994,380	0.97
Commonwealth Bank of Australia (144A) (Reg) FRN 11/02/2018	2,000,000	2,000,000	2,006,920	0.97
Macquarie Bank Ltd (144A) FRN 01/15/2019	1,000,000	1,000,000	1,002,575	0.49
National Australia Bank (144A) (Reg) FRN 12/09/2019	3,000,000	3,000,000	2,985,495	1.45
Nordea Bank (144A) (Reg) FRN 09/17/2018	2,000,000	2,000,000	2,005,180	0.97
Statoil ASA (Reg) FRN 11/08/2018	1,200,000	1,200,000	1,193,646	0.58
Svenska Handelsbanken (Reg) FRN 06/17/2019	3,000,000	3,000,000	2,976,735	1.45
Svenska Handelsbanken FRN 10/01/2020	2,000,000	2,001,822	2,000,930	0.97
Total Capital International FRN 08/10/2018	2,000,000	2,000,000	1,993,800	0.97
Westpac Banking Corp (Reg) FRN 11/23/2018	2,000,000	2,000,000	2,004,730	0.97
		21,203,951	21,163,126	10.28
Municipal Bond				
Florida St Hurricane Catastrophe Fund Fin Corp Revenue Ser A 1.298% 07/01/2016	2,500,000	2,500,000	2,500,000	1.21
		2,500,000	2,500,000	1.21
Treasury Notes				
US Treasury Note 0.75% 04/15/2018	7,100,000	7,097,650	7,120,939	3.46
US Treasury Note 1% 03/15/2019	20,550,000	20,580,002	20,733,024	10.07
US Treasury Note 4.25% 11/15/2017	4,900,000	5,122,517	5,148,445	2.50
		32,800,169	33,002,408	16.03
Total investments		204,072,845	205,313,631	99.70
Other net assets			611,999	0.30
Net assets			205,925,630	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, 2016

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 GH Fund Class AP	Monthly	612,197	110,768,067	110,587,288	100.61
Total investments			110,768,067	110,587,288	100.61
Other net liabilities				(666,409)	(0.61)
Net assets				109,920,879	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, 2016

	Short Duration Fixed Income Fund USD	Alternative Fund USD
Income		
Interest income	2,726,419	-
Other income	44	23,870
	2,726,463	23,870
Expenses		
Management, administration and custodian fees (note 4, 5, 6 & 15)	856,288	1,266,858
Audit fees	21,953	12,132
Directors' fees (note 8)	7,378	3,568
Interest expense	2,942	-
Other expenses	30,609	2,263
	919,170	1,284,821
Net investment income/(loss)	1,807,293	(1,260,951)
Net realized gains on sale of investments	173,960	188,161
Net change in unrealized gains/(losses) on investments	1,097,253	(602,175)
	1,271,213	(414,014)
Net increase/(decrease) in net assets resulting from operations	3,078,506	(1,674,965)

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, 2016

Short Duration Fixed Income Fund	Class AC USD	Class AD USD	Class CC USD	Class CD USD	Class IC USD	Class ID USD	Total
Net assets at start of the year	87,211,546	6,529,675	75,831,423	101	25,279,897	37,194,408	232,047,050
Net increase in net assets from operations							
Net investment income	595,915	19,844	686,792	1	196,579	308,162	1,807,293
Net realized gains on sale of investments	66,515	257	56,684	-	19,307	31,197	173,960
Net change in unrealized gains/(losses) on investments	413,637	(4,774)	360,105	1	127,811	200,473	1,097,253
	1,076,067	15,327	1,103,581	2	343,697	539,832	3,078,506
Subscriptions and redemptions							
Proceeds on issue of shares	8,200,000	-	1,600,000	-	-	284,864	10,084,864
Payments on redemption of shares	(23,090,266)	(5,516,788)	(8,338,836)	-	(2,000,000)	-	(38,945,890)
	(14,890,266)	(5,516,788)	(6,738,836)	-	(2,000,000)	284,864	(28,861,026)
Dividends (note 14)	-	(16,921)	-	-	-	(321,979)	(338,900)
Net assets at end of the year	73,397,347	1,011,293	70,196,168	103	23,623,594	37,697,125	205,925,630
Alternative Fund							
					Class AC USD	Class LC USD	Total
Net assets at start of the year					125,290,998	3,086,174	128,377,172
Net decrease in net assets from operations							
Net investment loss					(1,231,168)	(29,783)	(1,260,951)
Net realized gains on sale of investments					183,497	4,664	188,161
Net change in unrealized losses on investments					(584,540)	(17,635)	(602,175)
					(1,632,211)	(42,754)	(1,674,965)
Subscriptions and redemptions							
Proceeds on issue of shares					3,463,605	227,310	3,690,915
Payments on redemption of shares					(19,890,078)	(582,165)	(20,472,243)
					(16,426,473)	(354,855)	(16,781,328)
Net assets at end of the year					107,232,314	2,688,565	109,920,879

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, 2016

1. The Fund

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

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

The shares of the Company are divided into several classes (the "Classes"), one or more of which will be related to a Fund within the Company for which the Company maintains separate accounts. The assets of each Class of the Company are held exclusively for the benefit of the holders of the shares of the relevant Class. However, all assets of the Company are subject to the general creditors of the Company, in that the assets of each Class may be exposed to the liabilities of other Classes within the Company. At June 30, 2016, the Directors were not aware of any such specific existing or contingent liabilities.

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, 2016 (see also Note 10):

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

2. Significant Accounting Policies

The accompanying financial statements are prepared in conformity with U.S. generally accepted accounting principles ("U.S. GAAP"). The Company is an investment company as outlined in the Financial Accounting Standards Board ("FASB") Accounting Standards Update No. 2013-08, Financial Services – Investment Companies (Topic 946) – Amendments to the Scope, Measurement and Disclosure Requirements ("ASU 2013-08"). The significant accounting and reporting policies adopted by the Company are as follows:

(a) Investment transactions and income

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

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

HSBC Specialist Funds Limited

Notes to the Financial Statements

for the year ended June 30, 2016

2. Significant Accounting Policies (continued)

(b) Valuation of investments

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

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

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

Investments in securities are valued as follows:

- The fair value of debt instruments is estimated using various techniques, which may consider recently executed transactions in securities of the issuer or comparable issuers, market price quotations (where observable), bond spreads, fundamental data relating to the issuer, and credit default swap spreads adjusted for any basis difference between cash and derivatives instruments. While most debt instruments are categorized in Level 2 of the fair value hierarchy, in instances where lower relative weight is placed on transaction prices, quotations, or similar observable inputs, they are categorized in Level 3 of the fair value hierarchy.
- Commercial paper is estimated using amortized cost, which approximates fair value. To the extent the inputs are observable and timely, the values would be categorized in Level 2 of the fair value hierarchy.
- Investments in investee funds are valued based on reported net asset value per share as provided by the administrators of the investee funds.

(c) Cash and cash equivalents

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

(d) Interest and dividend income

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

(e) Expenses

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

(f) Use of estimates

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

HSBC Specialist Funds Limited

Notes to the Financial Statements

for the year ended June 30, 2016

2. Significant Accounting Policies (continued)

(g) Foreign currency translation

Assets and liabilities denominated in currencies other than the base currency of each Class are translated into the base currency at the rate of exchange prevailing at the date of the financial statements. Transactions during the year in currencies other than the base currency have been translated at the rate of exchange prevailing on the date of the transaction. Realized and unrealized gains and losses on translation of investment balances are included in the statement of operations under "net realized gains on sale of investments" and "net change in unrealized gains/(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 for the Short Duration Fixed Income Fund and on a monthly basis for the Alternative Fund in proportion to their respective interest in the net asset value of the respective Fund.

(j) New Accounting Pronouncements

In August 2014 the FASB issued Accounting Standards Update 2014-15, *Presentation of Financial Statements – Going Concern* ("ASU 2014-15") relating to the presentation of financial statements on a going concern basis under U.S GAAP. It sets forth that if conditions or events raise substantial doubt about an entity's ability to continue as a going concern, but the substantial doubt is alleviated as a result of consideration of management's plans, the entity should include a statement in the footnotes indicating that there is substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or available to be issued). Additionally, the entity should disclose information that enables users of the financial statements to understand all of the following: (i) principal conditions or events that raised substantial doubt about the entity's ability to continue as a going concern (before consideration of management's plans); (ii) management's evaluation of the significance of those conditions or events in relation to the entity's ability to meet its obligations; and (iii) management's plans that alleviated substantial doubt about the entity's ability to continue as a going concern. The requirements of the standard are effective for interim and annual reporting periods in fiscal periods that begin after December 15, 2016 with early application permitted. The impact on the Company's financial statement disclosures is not expected to be material.

In May 2015, the FASB issued Accounting Standards Update No. 2015-07 ("ASU 2015-07"), "Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)". ASU 2015-07 removes the requirement to categorize within the fair value hierarchy, all investments for which fair value is measured using net asset value per share (or its equivalent) using the practical expedient. ASU 2015-07 is effective for fiscal years beginning on or after December 15, 2016 for private companies, however, early adoption is permitted. The Company elected to early adopt ASU 2015-07. Accordingly, investments for which fair value is measured using net asset value per share (or its equivalent) as a practical expedient, have not been categorized within the fair value hierarchy.

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	2,500	799,010
Money market fund	443,008	-
	445,508	799,010

HSBC Specialist Funds Limited

Notes to the Financial Statements

for the year ended June 30, 2016

4. Manager

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

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

For the year ended June 30, 2016, 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 fees payable to the Custodian and Administrator by the Funds will proportionately reduce amounts payable by the Funds to the Manager.

5. Administrator

Under an agreement dated January 16, 2002 between the Company and HSBC Securities Services (Bermuda) Limited (the "Administrator"), a wholly-owned subsidiary of the Bank, the Administrator agreed to act as share registrar, transfer agent and the secretary, and to provide Foreign Accountant Tax Compliance Act (FATCA) assistance services, accounting and administrative services to the Funds. The Administrator is entitled to receive fees for services from the Short Duration Fixed Income Fund at the annual rate of 0.090% with effect from January 1, 2016 (0.100% till December 31, 2015) for the first \$500,000,000 and 0.072% with effect from January 1, 2016 (0.080% till December 31, 2015) in excess of \$500,000,000 in Net Assets or a minimum fee of \$162,000 per annum with effect from January 1, 2016 (\$180,000 per annum till December 31, 2015) out of the fees payable to the Manager.

For the Alternative Fund, the Administrator is entitled to receive fees from the Fund for services provided as agreed from time to time between the Fund and the Administrator out of the fees payable to the Manager. The Administrator receives a fixed fee of \$4,500 per month with effect from January 1, 2016 (\$5,000 per month till December 31, 2015) out of the fees payable to the Manager.

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

HSBC Specialist Funds Limited

Notes to the Financial Statements

for the year ended June 30, 2016

6. Custodian

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

7. Taxation

At the present time, no income, corporation, profit, withholding or capital gains taxes are levied in Bermuda and, accordingly, no provision for such taxes has been recorded by the Company. In the event that such taxes are levied, the Company has received an undertaking from the Bermuda Government, under the Exempted Undertaking Tax Protection Act 1966, exempting it from all such taxes until March 31, 2035.

8. Directors' Fees

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

For the year ended June 30, 2016, Mr. L. Anthony Joaquin and Ms. Julie E. McLean each were paid an annual fee at a rate of \$5,000 per annum.

9. Related Parties and Directors' Interests

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

<u>Director</u>	<u>Number of Shares</u>
Faith Outerbridge	724
Julie E. McLean	33
L. Anthony Joaquin	1,177

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

HSBC Specialist Funds Limited

Notes to the Financial Statements

for the year ended June 30, 2016

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 with effect from January 18, 2016 (USD 1,000,000 till January 17, 2016) 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 with effect from January 18, 2016 (USD 25,000,000 till January 17, 2016). The minimum initial subscription for Class AC and Class LC Shares in the Alternative Fund is USD 10,000.

Short Duration Fixed Income Fund						
	Class AC	Class AD	Class CC	Class CD	Class IC	Class ID
Shares in issue July 1, 2015	836,491	64,014	750,635	1	241,085	364,178
Shares issued during the year	78,519	-	15,767	-	-	2,786
Shares redeemed during the year	(220,372)	(54,155)	(82,509)	-	(19,015)	-
Shares in issue June 30, 2016	694,638	9,859	683,893	1	222,070	366,964

Alternative Fund		
	Class AC	Class LC
Shares in issue July 1, 2015	537,400	13,237
Shares issued during the year	14,930	979
Shares redeemed during the year	(85,253)	(2,505)
Shares in issue June 30, 2016	467,077	11,711

11. Cost of Investments

Cost of investments as at June 30, 2016	USD
Short Duration Fixed Income Fund	204,072,845
Alternative Fund	110,768,067

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.

HSBC Specialist Funds Limited

Notes to the Financial Statements

for the year ended June 30, 2016

12. Financial Instruments and Associated Risks (continued)

Liquidity Risk

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

Credit Risk

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

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, 2016, 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, 2016, the Alternative Class has an investment in GH Fund Class AP (the "investee fund") of the HSBC Portfolio Selection Fund, a related party fund managed by HSBC Management (Guernsey) Limited and advised by HSBC Alternative Investments Limited, representing 100% of its net assets. The objective of the investee fund is to provide a total return from selective investment in a number of hedge funds, which utilize and trade in a range of different strategies and markets worldwide.

The following table summarizes the proportionate share of investments of HSBC GH Fund of which the proportionate share is greater than 5% of the Alternative Fund's net assets. The below information is based on the position and holding in the underlying funds as at April 30, 2016:

Description	Value USD	% of Alternative Fund's Net Assets
D.E. Shaw Oculus International Fund	7,527,357	6.85%
MW Eureka Fund Plc	7,074,233	6.44%
Third Point Offshore Fund Limited	6,767,413	6.16%
Lansdowne UK Equity Fund Limited	6,511,836	5.92%
Two Sigma Spectrum Cayman Fund Limited	6,085,109	5.54%
Millennium International Limited	6,044,606	5.50%

HSBC Specialist Funds Limited

Notes to the Financial Statements

for the year ended June 30, 2016

13. Investments in Other Investment Funds (continued)

Summarized financial information pertaining to the relevant HSBC GH sub-fund based on its April 30, 2016 audited financial statements is as follows:

	As at 30 April 2016 USD'000
Current assets	
Cash and cash equivalents	2,745
Portfolio of investments	2,130,454
Debtors	2,847
Total assets	2,136,046
Liabilities	
Creditors: amounts falling due within one year	66,456
Total liabilities	66,456
Net assets	2,069,590
Income	
Net capital gains	4,936
Revenue	86
Interest expense	(1,910)
Operating expense	(23,245)
Net investment expense from operations	(25,069)
Change in net assets attributable to holders of redeemable participating units from investment activities	(20,133)

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.

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, 2016.

	USD
Dividends declared - Class AD - USD	16,921
Dividends declared - Class ID - USD	321,979
Dividends payable - Class AD - USD	2,366
Dividends payable - Class ID - USD	91,741

HSBC Specialist Funds Limited

Notes to the Financial Statements

for the year ended June 30, 2016

15. Management, Administration and Custodian Fees

	Short Duration Fixed Income Fund USD	Alternative Fund USD
Class AC management, administration and custodian fees	416,547	1,236,926
Class AD management, administration and custodian fees	15,289	-
Class CC management, administration and custodian fees	177,598	-
Class IC management, administration and custodian fees	96,286	-
Class LC management, administration and custodian fees	-	29,932
Class ID management, administration and custodian fees	150,568	-
Total management, administration and custodian fees	856,288	1,266,858
Management, administration and custodian fees payable	438,529	588,077

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, 2016 with respect to the Short Duration Fixed Income Fund:

	Level 1	Level 2	Level 3	Total
Assets				
Investments, at fair value:				
Fixed Income Notes	\$ -	\$ 148,648,097	\$ -	\$ 148,648,097
Floating Rate Notes	-	21,163,126	-	21,163,126
Municipal Bond	-	2,500,000	-	2,500,000
Treasury Notes	-	33,002,408	-	33,002,408
Total investments, at fair value	-	205,313,631	-	205,313,631
Cash equivalents	443,008	-	-	443,008
Total	\$ 443,008	\$ 205,313,631	\$ -	\$ 205,756,639

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, 2016 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.

HSBC Specialist Funds Limited

Notes to the Financial Statements

for the year ended June 30, 2016

17. Financial Highlights

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, 2016.

Schedule of Financial Highlights for Short Duration Fixed Income Fund for the year ended June 30, 2016		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	104.26	102.00	101.02	100.89	104.86	102.13
Income from investment operations						
Net investment income	0.76	0.74	0.99	1.13	0.87	0.84
Net realized gains on sale of investments and net change in unrealized gains on investments	<u>0.64</u>	<u>0.65</u>	<u>0.63</u>	<u>0.48</u>	<u>0.65</u>	<u>0.64</u>
Total from investment operations	<u>1.40</u>	<u>1.39</u>	<u>1.62</u>	<u>1.61</u>	<u>1.52</u>	<u>1.48</u>
Dividends declared	<u>-</u>	<u>(0.81)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(0.88)</u>
Net asset value at end of the year	<u>105.66</u>	<u>102.58</u>	<u>102.64</u>	<u>102.50</u>	<u>106.38</u>	<u>102.73</u>
Total return, excluding dividends declared	1.34 %	1.36 %	1.60 %	1.60 %	1.45 %	1.45 %
Ratios to average net assets						
Total expenses	0.53 %	0.53 %	0.28 %	0.03 %	0.43 %	0.43 %
Net investment income	0.72 %	0.65 %	0.97 %	1.12 %	0.82 %	0.82 %

Schedule of Financial Highlights for Alternative Fund for the year ended June 30, 2016		USD	
	Class AC	Class LC	
Selected per share data			
Net asset value at beginning of the year	233.14	233.14	
Loss from investment operations			
Net investment loss	(2.45)	(2.45)	
Net realized gains on sale of investments and net change in unrealized loss on investments	<u>(1.11)</u>	<u>(1.11)</u>	
Total from investment operations	<u>(3.56)</u>	<u>(3.56)</u>	
Net asset value at end of the year	<u>229.58</u>	<u>229.58</u>	
Total return	(1.53) %	(1.53) %	
Ratios to average net assets			
Total expenses	1.08 %	1.08 %	
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

The Directors have assessed and evaluated all subsequent events arising from the date of the statements of assets and liabilities up until September 26, 2016 and have concluded that no additional disclosures are required.

HSBC Specialist Funds Limited Management and Administration

for the year ended June 30, 2016

Directors and Officers

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

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

Wayne P. Chapman, Director (resigned February 16, 2016)
Head of Private Banking
HSBC Bank Bermuda Limited

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

Anthony T. Riker, Director (Appointed: February 16, 2016)
Vice President & Business Development Manager
HSBC Bank Bermuda Limited

Secretary and Registered Office

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

Manager

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

Banker

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

Custodian

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

Administrator

HSBC Securities Services (Bermuda) Limited
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