

# HSBC Specialist Funds Limited

Annual Report June 2023



# 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 19, 2023 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, 2023

### Short Duration Fixed Income Fund

#### Market Review

Fixed income markets have been taking a deep breath after what looks to be one of the most aggressive Fed tightening cycles experienced to date. To combat inflation, from March 2022 to July 2023 the Fed hiked short-term interest rates by a cumulative total of 525bp. 2022 was a story of poor performance across the board, though bond markets have rebounded to an extent YTD during 2023.

Over the one-year period from 6/30/2022 to 6/30/2023, yields were up across the curve, with the front-end further inverting. During this span, the yield on the 2y US Treasury rose by almost 2%, and the spread between the 2y and 10y, a common measure of yield curve steepness, fell from +6bp to ~-100bp. This is despite the regional bank crisis materializing during 1Q23, which caused market participants to briefly panic and temporarily pull forward rate-cutting expectations significantly.

In spite of this episode, concerns waned in relatively quick order and risk assets would eventually rally throughout the summer of 2023, with the interest rate markets practically going back to, and beyond pre-SVB levels. This reversal in sentiment was also felt within the credit markets, including short-term fixed income. During the 1y period, spreads on the ICE US 1-3y Corporate Index tightened by about 20bp and the index returned 1.66% with the help of higher coupons and spread tightening.

#### Performance and positioning

After a challenging 2022, the fund was able to rebound during 2023 after the Fed slowed its pace of tightening. Over a one-year period, the fund provided positive gross performance on an absolute basis and relative to its benchmark. The fund's exposure to spread product was a contributor to portfolio relative returns. Income and spread tightening in the corporate and ABS space was beneficial.

The portfolio remains overweight to corporate bonds vs US Treasuries with an allocation to high quality ABS. The average credit rating is lower than that of the benchmark at AA/AA- with an overweight to AA and A and an underweight to AAA rated bonds. The portfolio currently maintains a duration near that of its benchmark, however it maintains relative overweights in the 0-1y and 3-5y sections of the curve, with an underweight in the 1-3y space. Country-wise, the portfolio continues to benefit from regional diversification and enhanced spread-pick up opportunities by allocating across non-US issuers.

#### Outlook

For the remainder of 2023, we expect limited tightening / a pause from the Fed, with 4%+ inflation still presenting an issue to its dual mandate. This view is in-line with expectations of most market participants, but we differ in our outlook beyond 2023. During the past several months, many have shifted stance on their macro-outlook and are now assigning higher probabilities to the materialization of a "soft landing" or "no landing" scenario regarding a recession occurring in the US. We are more inclined to believe that a recession of some sort will materialize and expect the Fed to pivot on its forward guidance during 1H24 and cut rates at a faster rate than what is currently being forecasted and priced into markets during 2024 and 2025.

Taking our outlook into consideration, we are more constructive on duration in the front-end, believing that we may be near "peak-rates". We see the 2-year yield edging down over the next three months, as data continue to point to a gradual loss of growth momentum and inflation drifts lower, albeit slowly. The case for lower rates should be much clearer towards year-end, which opens the path for a further decline in the 2-year yield. Within IG, spreads may widen as the economic cycle deteriorates, but many corporates have stable balance sheets. A selective approach can help investors capitalize on some good income opportunities while avoiding the risks associated with downgrades. Sector-wise, we see spreads on financials to be fairly attractive compared to non-financials at the moment and have the latitude to express our conviction on this view where we see fit.

HSBC Global Asset Management (Bermuda) Limited – September, 2023

*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 of HSBC Specialist Funds Limited**

#### **Opinion**

We have audited the financial statements of HSBC Specialist Funds Limited (comprised of Short Duration Fixed Income Fund and the Alternative Fund) (the "Company"), which comprise the statements of assets and liabilities, including the statements of net assets as of June 30, 2023, and the related statements of operations and changes in net assets for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2023, and the results of its operations for the year then ended in accordance with U.S. generally accepted accounting principles.

#### **Basis for opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### **Responsibilities of management for the financial statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

#### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.



In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

### **Other information**

Management is responsible for the other information included in the annual report. The other information comprises the information included in the annual report on page 1 but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

*KPMG Audit Limited*


Chartered Professional Accountants  
Hamilton, Bermuda  
October 19, 2023

# HSBC Specialist Funds Limited


## Statements of Assets and Liabilities

as at June 30, 2023

	Short Duration Fixed Income Fund USD	Alternative Fund USD
<b>Assets</b>		
Investments at fair value (notes 11, 12, 13 & 16)	91,271,585	31,006,699
Cash and cash equivalents (notes 3 & 16)	1,789,044	60,555
Receivable for investments sold	979,786	150,000
Interest receivable	580,189	-
Prepaid expenses	8,998	4,607
	94,629,602	31,221,861
<b>Liabilities</b>		
Bank overdraft	478,846	-
Due to shareholders	-	18,194
Management fee payable (notes 4 & 15)	25,199	25,638
Dividends payable (note 14)	128,558	-
Redemption payable	2,001,093	-
Accounts payable and accrued expenses	41,519	10,479
	2,675,215	54,311
<b>Net assets</b>	<b>91,954,387</b>	<b>31,167,550</b>
<b>Net assets attributable to:</b>		
Class AC Shares	32,760,352	28,528,103
Class AD Shares	17,658,227	-
Class CC Shares	41,535,808	-
Class LC Shares	-	2,639,447
<b>Shares outstanding (note 10)</b>		
Class AC Shares	293,810	88,586
Class AD Shares	178,228	-
Class CC Shares	378,306	-
Class LC Shares	-	8,193
<b>Net asset value per share</b>		
Class AC Shares	111.50	322.05
Class AD Shares	99.08	-
Class CC Shares	109.79	-
Class LC Shares	-	322.05

  
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, 2023

### Short Duration Fixed Income Fund

	Nominal Value	Amortized Cost USD	Fair Value USD	% of Net Assets
<b>Fixed Income Notes</b>				
<b>Australia</b>				
Australia New Zealand Banking 4.675% 15/06/2026	500,000	500,000	494,454	0.54
Australia New Zealand Banking 5.088% 08/12/2025	930,000	930,000	925,288	1.01
Commonwealth Bank of AustraliaN 5.079% 10/01/2025	295,000	295,000	294,283	0.32
Commonwealth Bank of AustraliaN 5.316% 13/03/2026	680,000	679,968	682,045	0.74
Macquarie Bank Ltd 5.208% 15/06/2026	500,000	500,000	495,881	0.54
National Australia Bank Ltd 1.388% 12/01/2025	250,000	245,684	235,484	0.26
National Australia Bank LtdNew 4.966% 12/01/2026	1,000,000	1,000,000	994,059	1.08
Westpac Banking Corp 2% 16/01/2026	1,500,000	1,537,733	1,421,765	1.55
	5,655,000	5,688,385	5,543,259	6.04
<b>Canada</b>				
Bank of Montreal 5.2% 12/12/2024	500,000	499,646	495,854	0.54
Federation des Caisses Desjardins 4.4% 23/08/2025	250,000	244,333	241,616	0.26
Royal Bank of Canada 4.875% 12/01/2026	500,000	501,846	494,381	0.54
TorontoDominion BankThe 4.701% 05/06/2027	1,000,000	1,000,000	989,453	1.07
TorontoDominion BankThe 5.103% 09/01/2026	500,000	500,632	497,643	0.54
	2,750,000	2,746,457	2,718,947	2.95
<b>Finland</b>				
Nordea Bank Abp 3.6% 06/06/2025	1,000,000	999,928	958,481	1.04
	1,000,000	999,928	958,481	1.04
<b>France</b>				
Banque Federative du Credit Mut 4.524% 13/07/2025	500,000	500,000	486,352	0.53
Banque Federative du Credit Mut 4.935% 26/01/2026	1,000,000	1,000,000	981,610	1.07
Banque Federative du Credit Mutuel 0.65% 27/02/2024	500,000	499,461	483,286	0.53
BPCE SA 1% 20/01/2026	500,000	451,401	445,297	0.48
BPCE SA 4% 04/15/2024	250,000	256,461	246,052	0.27
Caisse dAmortissement de la Det 1.125% 29/11/2024	2,000,000	1,999,748	1,885,361	2.05
Credit Agricole SA 5.589% 05/07/2026	1,500,000	1,500,000	1,498,321	1.63
Credit Agricole SALondon 2.375% 22/01/2025	250,000	248,559	237,324	0.26
Societe Generale SA 4.351% 13/06/2025	1,000,000	1,000,000	967,214	1.05
	7,500,000	7,455,630	7,230,817	7.87
<b>Japan</b>				
Mitsubishi UFJ Financial Gr 5.063% VRN 12/09/2025	1,500,000	1,500,000	1,482,969	1.61
Mitsubishi UFJ Financial Gr 5.719% VRN 20/02/2026	500,000	498,501	497,622	0.54
NTT Finance Corp 0.583% 01/03/2024	500,000	500,047	483,185	0.52
NTT Finance Corp 4.239% 25/07/2025	990,000	987,136	963,444	1.05
Sumitomo Mitsui Financial Group 5.464% 13/01/2026	500,000	498,103	499,479	0.54
	3,990,000	3,983,787	3,926,699	4.26

The accompanying notes form an integral part of these Financial Statements

HSBC Specialist Funds Limited  
**Statements of Net Assets (Continued)**  
as at June 30, 2023

**Short Duration Fixed Income Fund (continued)**

	Nominal Value	Amortized Cost USD	Fair Value USD	% of Net Assets
<b>Fixed Income Notes (continued)</b>				
<b>Netherlands</b>				
Cooperatieve Rabobank UA 5% 13/01/2025	500,000	499,931	496,077	0.54
Rabobank Nederland NY 3.375% 21/05/2025	250,000	249,386	240,980	0.26
SABIC Capital II BV 4% 10/10/2023	500,000	504,179	497,205	0.54
Siemens Financieringsmat 3.25% 27/05/2025	500,000	485,288	482,942	0.52
	<u>1,750,000</u>	<u>1,738,784</u>	<u>1,717,204</u>	<u>1.86</u>
<b>Norway</b>				
Equinor ASA 1.75% 22/01/2026	500,000	458,730	461,020	0.50
	<u>500,000</u>	<u>458,730</u>	<u>461,020</u>	<u>0.50</u>
<b>South Korea</b>				
Korea EastWest Power Co Ltd 1.75% 05/06/2025	750,000	762,711	699,395	0.76
	<u>750,000</u>	<u>762,711</u>	<u>699,395</u>	<u>0.76</u>
<b>Sweden</b>				
Skandinaviska Enskilda Banken AB 0.65% 09/09/2024	875,000	874,584	822,602	0.89
Skandinaviska Enskilda Banken AB 1.4% 19/11/2025	500,000	455,159	450,614	0.49
Svenska Handelsbanken AB 3.65% 10/06/2025	250,000	243,291	240,205	0.26
	<u>1,625,000</u>	<u>1,573,034</u>	<u>1,513,421</u>	<u>1.64</u>
<b>Switzerland</b>				
Credit Suisse AG New York NY 3.7% 21/02/2025	1,000,000	999,221	957,390	1.04
UBS AG London 0.45% 02/09/2024	1,000,000	998,670	966,645	1.05
UBS AG London 0.7% 09/08/2024	1,000,000	999,581	943,105	1.03
	<u>3,000,000</u>	<u>2,997,472</u>	<u>2,867,140</u>	<u>3.12</u>
<b>United Kingdom</b>				
Nationwide Building Society 0.55% 22/01/2024	1,200,000	1,199,053	1,164,880	1.27
Reckitt Benckiser Treasury Services 2.75% 26/06/2024	466,000	463,606	453,241	0.49
Santander UK PLC 2.875% 18/06/2024	500,000	508,736	485,411	0.53
Santander UK Plc 4% 13/03/2024	500,000	511,439	493,324	0.54
	<u>2,666,000</u>	<u>2,682,834</u>	<u>2,596,856</u>	<u>2.83</u>
<b>United States of America</b>				
BA Credit Card Trust 0.44% 15/09/2026	250,000	249,997	240,161	0.26
Bank of New York Mellon The 5.224% VRN 21/11/2025	500,000	501,157	497,545	0.54
BMW Vehicle Owner Trust 0.48% 25/10/2024	500,000	25,616	25,486	0.03
CarMax Auto Owner Trust 2021-2 0.52% 17/02/2026	500,000	330,630	319,645	0.35
CCG Receivables Trust 2021-1 0.3% 14/06/2027	1,750,000	376,682	368,198	0.40
CCG Receivables Trust 2022-1 3.91% 16/07/2029	1,500,000	1,138,009	1,116,008	1.21

The accompanying notes form an integral part of these Financial Statements



HSBC Specialist Funds Limited  
**Statements of Net Assets (Continued)**  
as at June 30, 2023

**Short Duration Fixed Income Fund (continued)**

	Nominal Value	Amortized Cost USD	Fair Value USD	% of Net Assets
<b>Fixed Income Notes (continued)</b>				
<b>United States of America (continued)</b>				
Chevron Corp 3.326% 17/11/2025	1,500,000	1,462,993	1,447,161	1.57
Discover Card Execution Note Tr 4.31% 15/03/2028	1,500,000	1,499,915	1,468,220	1.60
Equitable Financial Life Global F 0.8% 12/08/2024	500,000	485,190	472,499	0.51
Equitable Financial Life Global F 1.4% 07/07/2025	500,000	470,302	455,195	0.49
Equitable Financial Life Global F 5.5% 02/12/2025	1,000,000	999,746	987,643	1.07
Federal National Mortgage Assoc 1.875% 24/09/2026	4,000,000	3,788,264	3,693,121	4.02
Federal National Mortgage Assoc 2.125% 24/04/2026	11,757,000	11,255,663	10,997,380	11.96
Federal National Mortgage Associ 0.75% 08/10/2027	3,500,000	3,121,787	3,037,982	3.30
GM Financial Consumer Automobile 0.51% 16/04/2026	300,000	199,458	192,826	0.21
JPMorgan Chase Co 5.546% VRN 15/12/2025	500,000	500,000	498,155	0.54
Kenvue Inc 5.35% 22/03/2026	1,000,000	999,390	1,008,104	1.10
Kenvue Inc 5.5% 22/03/2025	585,000	588,630	586,748	0.64
MassMutual Global Funding II 4.15% 26/08/2025	660,000	655,237	641,228	0.70
Mercedes-Benz Auto Receivables 5.21% 16/08/2027	1,000,000	999,821	995,980	1.08
MercedesBenz Finance North Americ 5.5% 27/11/2024	500,000	505,544	499,245	0.54
Met Tower Global Funding 3.7% 13/06/2025	250,000	242,800	239,878	0.26
Met Tower Global Funding 5.4% 20/06/2026	500,000	499,584	498,013	0.54
Metropolitan Life Global Funding 4.05% 25/08/2025	1,000,000	999,672	963,948	1.05
Morgan Stanley 2.72% VRN 22/07/2025	250,000	240,730	241,082	0.26
Morgan Stanley 3.875% 27/01/2026	250,000	241,161	241,152	0.26
Navient Private Education Refi 1.06% 15/10/2069	1,000,000	591,710	511,041	0.56
Navient Private Education Refi 2.23% 15/07/2070	1,500,000	1,244,899	1,080,525	1.18
Navient Private Education Refi LN 1.11% 18/02/2070	1,000,000	731,691	611,618	0.66
Nestle Holdings Inc 4% 12/09/2025	1,000,000	999,706	982,936	1.07
Nestle Holdings Inc 5.25% 13/03/2026	1,000,000	999,618	1,007,842	1.10
New York Life Global Funding 3.6% 05/08/2025	1,000,000	975,591	961,791	1.05
New York Life Global Funding 4.7% 02/04/2026	500,000	499,484	492,371	0.54
Nissan Auto Receivables 2021-A 0.33% 15/10/2025	1,850,000	1,395,199	1,354,332	1.47
PACCAR Financial Corp 2.85% 07/04/2025	1,500,000	1,499,728	1,436,699	1.56
PACCAR Financial Corp 4.95% 03/10/2025	250,000	249,205	248,615	0.27
PepsiCo Inc 4.55% 13/02/2026	250,000	247,529	249,616	0.27
Pricoa Global Funding I 2.4% 23/09/2024	500,000	509,502	477,869	0.52
Pricoa Global Funding I 4.2% 28/08/2025	335,000	334,833	324,940	0.35
Principal Life Global Funding I 1.375% 10/01/2025	250,000	239,390	233,312	0.25
Principal Life Global Funding II 0.75% 12/04/2024	410,000	409,846	393,678	0.43
Principal Life Global Funding II 0.75% 23/08/2024	500,000	499,726	470,520	0.51

The accompanying notes form an integral part of these Financial Statements

HSBC Specialist Funds Limited  
**Statements of Net Assets (Continued)**  
as at June 30, 2023

**Short Duration Fixed Income Fund (continued)**

	Nominal Value	Amortized Cost USD	Fair Value USD	% of Net Assets
<b>Fixed Income Notes (continued)</b>				
<b>United States of America (continued)</b>				
Principal Life Global Funding II 1.25% 23/06/2025	250,000	235,529	228,217	0.25
Roche Holdings Inc 3% 10/11/2025	1,000,000	952,893	955,343	1.04
SMB Private Education Loan Trust 1.31% 17/07/2051	1,835,000	996,334	878,551	0.96
Toyota Auto Receivables 2022-D 5.3% 15/09/2027	1,000,000	999,913	999,362	1.09
Toyota Auto Receivables Owner T 0.35% 15/01/2025	1,000,000	200,118	198,029	0.22
Toyota Motor Credit Corp 1.8% 13/02/2025	250,000	247,327	236,795	0.26
Toyota Motor Credit Corp 3.65% 18/08/2025	500,000	499,659	484,200	0.53
Walmart Inc 3.9% 09/09/2025	1,000,000	999,436	980,132	1.07
Walmart Inc 4% 15/04/2026	1,000,000	999,540	981,765	1.07
World Omni Auto Receivables Trust 0.3% 15/01/2026	1,000,000	506,853	492,310	0.54
	57,732,000	50,443,237	49,005,012	53.31
<b>Singapore</b>				
Pfizer Investment Enterprises Pt 4.45% 19/05/2026	750,000	750,655	740,338	0.81
Pfizer Investment Enterprises Pt 4.65% 19/05/2025	840,000	839,647	832,014	0.90
	1,590,000	1,590,302	1,572,352	1.71
	90,508,000	83,121,291	80,810,603	87.89
<b>Floating Rate Notes</b>				
<b>Australia</b>				
Commonwealth Bank of Australia FRN 13/03/2026	750,000	783,326	748,834	0.81
Macquarie Bank Ltd FRN 15/06/2026	320,000	320,000	321,968	0.35
Westpac Banking Corp FRN 26/02/2024	250,000	250,797	250,533	0.27
	1,320,000	1,354,123	1,321,335	1.43
<b>Canada</b>				
Canadian Imperial Bank of Commerce FRN 07/04/2025	500,000	500,709	501,374	0.55
	500,000	500,709	501,374	0.55
<b>Japan</b>				
Mizuho Financial Group Inc FRN 22/05/2026	500,000	494,538	498,569	0.54
	500,000	494,538	498,569	0.54
<b>Norway</b>				
DNB Bank ASA FRN 28/03/2025	250,000	250,129	249,790	0.27
	250,000	250,129	249,790	0.27

The accompanying notes form an integral part of these Financial Statements

HSBC Specialist Funds Limited  
**Statements of Net Assets (Continued)**  
as at June 30, 2023

**Short Duration Fixed Income Fund (continued)**

	Nominal Value	Amortized Cost USD	Fair Value USD	% of Net Assets
<b>Floating Rate Notes (continued)</b>				
<b>Sweden</b>				
Skandinaviska Enskilda Banken AB FRN 09/06/2025	250,000	249,243	250,577	0.27
	250,000	249,243	250,577	0.27
<b>United Kingdom</b>				
NatWest Markets PLC FRN 22/03/2025	250,000	250,189	251,169	0.27
	250,000	250,189	251,169	0.27
<b>United States of America</b>				
Athene Global Funding FRN 24/05/2024	500,000	494,940	495,243	0.54
Bank of America Corp FRN 02/04/2026	500,000	501,052	504,425	0.55
Federal Home Loan Banks FRN 25/09/2023	500,000	500,000	500,040	0.54
Jackson National Life Global Fundi FRN 28/06/2024	1,175,000	1,176,276	1,176,697	1.28
JPMorgan Chase Co FRN 24/02/2026	500,000	497,838	500,658	0.54
Metropolitan Life Global Funding I FRN 07/01/2024	250,000	250,234	249,805	0.27
New York Life Global Funding FRN 09/06/2026	250,000	249,805	246,998	0.27
PepsiCo Inc FRN 13/02/2026	500,000	497,132	502,556	0.55
Toyota Motor Credit Corp FRN 18/06/2024	250,000	249,957	249,740	0.27
	4,425,000	4,417,234	4,426,162	4.81
	7,495,000	7,516,165	7,498,976	8.14
<b>Treasury Notes</b>				
<b>United States of America</b>				
United States Treasury NoteBond 3.625% 31/05/2028	750,000	739,047	733,652	0.80
United States Treasury NoteBond 4.125% 15/06/2026	1,000,000	992,202	990,000	1.08
United States Treasury NoteBond 4.25% 31/05/2025	750,000	743,413	740,610	0.81
United States Treasury NoteBond 4.625% 30/06/2025	500,000	497,715	497,744	0.54
	3,000,000	2,972,377	2,962,006	3.23
	3,000,000	2,972,377	2,962,006	3.23
Total investments		93,609,833	91,271,585	99.26
Other net assets			682,802	0.74
<b>Net assets</b>			<b>91,954,387</b>	<b>100.00</b>

The accompanying notes form an integral part of these Financial Statements

HSBC Specialist Funds Limited  
**Statements of Net Assets (Continued)**  
as at June 30, 2023

<b>Alternative Fund</b>	Liquidity Period	Holdings In Shares	Purchase Price USD	Fair Value USD	% of Net Assets
<b>Investment in investee fund:</b>					
<b>Guernsey</b>					
<b>Multi-Strategy</b>					
HSBC Portfolio Selection Fund Acc*	Monthly	113,490	21,617,329	31,006,699	99.48
Total investments				31,006,699	99.48
Other net assets				160,851	0.52
Net assets				31,167,550	100.00

**\* Limits on Redemptions**

The Manager may limit the number of units in the fund which may be redeemed on any dealing day to not more than 10% of the total number of units in issue immediately before such date. Such 10% limit shall be calculated in respect of the fund as a whole and not in respect of each individual unit class. Any units failing to be redeemed upon the exercise of this discretion by the Manager will be carried forward to the next dealing day and shall be redeemed pro rata in priority to any other units in respect of which a redemption notice has subsequently been received.

The accompanying notes form an integral part of these Financial Statements

HSBC Specialist Funds Limited  
**Statements of Operations**  
for the year ended June 30, 2023

	Short Duration Fixed Income Fund USD	Alternative Fund USD
<b>Income</b>		
Interest income	2,378,067	-
Other income	1,497	-
	2,379,564	-
<b>Expenses</b>		
Management fee (notes 4 & 15)	306,587	313,309
Audit fees	25,159	8,575
Directors' fees (note 8)	8,829	3,097
Other expenses	60,045	10,701
	400,620	335,682
Net investment income/(loss)	1,978,944	(335,682)
Net realized (losses)/gains on sale of investments	(1,854,134)	1,034,128
Net change in unrealized gains on investments	657,997	268,621
	(1,196,137)	1,302,749
Net increase in net assets resulting from operations	782,807	967,067

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, 2023

<b>Short Duration Fixed Income Fund</b>	Class AC USD	Class AD USD	Class CC USD	Total
Net assets at start of the year	29,901,636	17,859,755	46,649,310	94,410,701
<b>Net increase in net assets from operations</b>				
Net investment income	634,554	362,486	981,904	1,978,944
Net realized losses on sale of investments	(606,506)	(354,871)	(892,757)	(1,854,134)
Net change in unrealized gains on investments	218,167	130,584	309,246	657,997
	246,215	138,199	398,393	782,807
<b>Subscriptions and redemptions</b>				
Proceeds on issue of shares	3,920,000	-	-	3,920,000
Payments on redemption of shares	(1,307,499)	-	(5,511,895)	(6,819,394)
	2,612,501	-	(5,511,895)	(2,899,394)
Dividends (note 14)	-	(339,727)	-	(339,727)
<b>Net assets at end of the year</b>	<b>32,760,352</b>	<b>17,658,227</b>	<b>41,535,808</b>	<b>91,954,387</b>
<b>Alternative Fund</b>		Class AC USD	Class LC USD	Total
Net assets at start of the year		29,315,339	2,489,316	31,804,655
<b>Net increase in net assets from operations</b>				
Net investment loss		(308,032)	(27,650)	(335,682)
Net realized gains on sale of investments		948,312	85,816	1,034,128
Net change in unrealized gains on investments		246,186	22,435	268,621
		886,466	80,601	967,067
<b>Subscriptions and redemptions</b>				
Proceeds on issue of shares		1,458,606	106,110	1,564,716
Payments on redemption of shares		(3,132,308)	(36,580)	(3,168,888)
		(1,673,702)	69,530	(1,604,172)
<b>Net assets at end of the year</b>		<b>28,528,103</b>	<b>2,639,447</b>	<b>31,167,550</b>

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, 2023

### 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 Company consists of two Funds namely Short Duration Fixed Income Fund and the Alternative Fund (the "Funds"). 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, 2023, 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, 2023 (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
Alternative Fund - Class AC - USD	March 31, 2015
Alternative Fund - Class LC - USD	March 31, 2015

### 2. Significant Accounting Policies

#### Basis of preparation

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. Bad debts are immediately recognized as an expense when unable to collect the income to offset the revenue.

# HSBC Specialist Funds Limited

## Notes to the Financial Statements (Continued)

for the year ended June 30, 2023

### 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. For nonpublic entities, 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 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 three-tier hierarchy of inputs is summarized below:

- Level 1 – observable prices and quoted prices in active markets for identical investments that the Fund is able to access
- 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 and no commercial paper investment recorded as at June 30, 2023.
- Investments in other investment funds are valued based on reported net asset value per share as provided by the administrators of the other investment funds. Investee Funds measured using net asset value as a practical expedient are not categorized within the fair value hierarchy.

#### (c) Cash and cash equivalents and bank overdrafts

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. Cash and cash equivalents include bank overdrafts with maturities of three months or less, from date of purchase.

#### (d) Interest and dividend income

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

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 statements 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.



# HSBC Specialist Funds Limited

## Notes to the Financial Statements (Continued)

for the year ended June 30, 2023

### 2. Significant Accounting Policies (continued)

- (f) Use of estimates  
Preparing financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions in determining the reported amounts of assets and liabilities, including the fair value of investments, and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.
- (g) Foreign currency translation  
Assets and liabilities denominated in currencies other than the base currency of each Class are translated into the base currency at the rate of exchange prevailing at the date of the financial statements. Transactions during the year in currencies other than the base currency have been translated at the rate of exchange prevailing on the date of the transaction. Realized and unrealized gains and losses on translation of investment balances are included in the statements of operations under "net realized losses 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) Redemption payable  
In accordance with FASB ASC Topic 480, *Distinguishing Liabilities from Equity*, 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. Redemptions are recognized as liabilities when the amount requested in the redemption notices becomes fixed, which generally occurs on the last day of the year covered by the financial statements. As a result, redemptions paid after the end of the year, based on the NAV of the Fund at year-end, are included in redemptions payable at June 30, 2023. Redemption notices received for which the dollar amount is not fixed remain in net assets until the net asset values used to determine the redemption and share amounts are 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  
ASU 2020-04, Facilitation of the Effects of Reference Rate Reform on Financial Reporting

On March 12, 2020, the FASB has issued the Accounting Standard Update 2020-04 by adding Topic 848, Reference Rate Reform. The ASU is intended to help stakeholders during the global market-wide reference rate transition period. The amendments in this Update are elective and apply to all entities, subject to meeting certain criteria, that have contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The amendments in this Update provide optional expedients and exceptions for applying generally accepted accounting principles (GAAP) to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met.

The amendment is applicable only to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The expedients and exceptions provided by the amendments do not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2024, except for hedging relationships existing as of December 31, 2024, that an entity has elected certain optional expedients for and that are retained through the end of the hedging relationship.

There are no new accounting standards, amendments and interpretations to existing standards that are expected to have an impact on the financial statements of the Company.

# HSBC Specialist Funds Limited

## Notes to the Financial Statements (Continued)

for the year ended June 30, 2023

### 3. Cash and Cash Equivalents

Cash balances & Bank overdraft 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	-	60,555
Bank overdraft	(478,846)	-
Money market fund	1,789,044	-
	1,310,198	60,555

### 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.

For the year ended June 30, 2023, 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	0.40%
Short Duration Fixed Income	AD	0.40%
Short Duration Fixed Income	CC	0.25%
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, November 8, 2017 and as amended and signed on January 31, 2020 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.

# HSBC Specialist Funds Limited

## Notes to the Financial Statements (Continued)

for the year ended June 30, 2023

### 6. Custodian

Under an agreement dated January 4, 2021, HSBC Continental Europe (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.

FASB ASC Topic 740 "Income Taxes" ("ASC 740") provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. ASC 740 requires the evaluation of tax positions taken or expected to be taken to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be derecognized and recorded as a tax expense in the current year. The Investment Manager has determined that the Company has no uncertain tax positions as of June 30, 2023 that have a material effect on the results of operations or financial position of the Company.

### 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 USD 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, 2023, Ms. Julie E. McLean received an annual fee of USD 6,000, Ms. Robin Masters received a directors' fees of USD 6,000.

### 9. Related Parties and Directors' Interests

As at June 30, 2023, Directors held the following shares in the Alternative Fund:

<u>Director</u>	<u>Number of Shares</u>
Faith Outerbridge (HBBM Pension)	1,013.46

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.

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

# HSBC Specialist Funds Limited

## Notes to the Financial Statements (Continued)

for the year ended June 30, 2023

### 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 and for Class CC Shares it is USD 10,000,000. The minimum initial subscription for Class AC Shares in the Alternative Fund is USD 10,000.

	Short Duration Fixed Income Fund		
	Class AC	Class AD	Class CC
Shares in issue July 1, 2022	270,272	178,228	428,852
Shares issued during the year	35,249	-	-
Shares redeemed during the year	(11,711)	-	(50,546)
Shares in issue June 30, 2023	293,810	178,228	378,306

	Alternative Fund	
	Class AC	Class LC*
Shares in issue July 1, 2022	93,885	7,972
Shares issued during the year	4,586	336
Shares redeemed during the year	(9,885)	(115)
Shares in issue June 30, 2023	88,586	8,193

\*Class LC Shares in the Alternative Fund is closed for new investments effective from July 30, 2019.

### 11. Cost of Investments

Cost of investments as at June 30, 2023	USD
Short Duration Fixed Income Fund	93,609,833
Alternative Fund	21,617,329

### 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 Funds' 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 (Continued)

for the year ended June 30, 2023

### 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 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 Funds' 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.

#### COVID-19 Risk

The risk related to a novel coronavirus known as COVID-19 has declined significantly since last year. On May 5th of this year the World Health Organization declared it was ending the Covid global health emergency however it is still recognized that the virus could flare up in the future. With the decline in infections we have seen supply chains, consumer demand and travel either come close to or surpass levels prior to the onset of the virus in 2020.

#### Situation in Ukraine

Management acknowledges the situation in Ukraine continues to affect global economics, particularly regarding food and energy supplies. We continue to monitor the developments closely and have no direct allocation to either the Ukraine or Russia, however, there remains a high level of uncertainty regarding the effects of the conflict on global markets overall and as such on the funds.

# HSBC Specialist Funds Limited

## Notes to the Financial Statements (Continued)

for the year ended June 30, 2023

### 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, 2023, 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, 2023, 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 99.48% 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, 2023 compared to Alternative Fund's net assets as at June 30, 2023:

Description	Investment Strategy	Value USD	% of Alternative Fund's Net Assets
D.E. Shaw Oculus International Fund	Multi-Strategy	2,158,113	6.92%
MW Eureka Fund Plc	Equity Long/Short	2,055,928	6.60%
Elliot International Limited	Event Driven	1,928,991	6.19%
Citadel Kennington Global Strategies Fund Limited	Multi-Strategy	1,672,461	5.37%

# HSBC Specialist Funds Limited

## Notes to the Financial Statements (Continued)

for the year ended June 30, 2023

### 13. Investments in Other Investment Funds (continued)

Summarized financial information pertaining to the relevant HSBC GH sub-fund based on its April 30, 2023 audited financial statements is as follows:

	As at 30 April 2023 USD'000
Current assets	
Cash and cash equivalents	15,332
Portfolio of investments	2,141,489
Debtors	62,043
<b>Total assets</b>	<b>2,218,864</b>
Liabilities	
Creditors: amounts falling due within one year	47,624
<b>Total liabilities</b>	<b>47,624</b>
<b>Net assets</b>	<b>2,171,240</b>
Income	
Net capital gains	67,026
Revenue	362
Interest expense	(421)
Operating expense	(16,621)
<b>Net investment expense from operations</b>	<b>(16,680)</b>
Change in net assets attributable to holders of redeemable participating units from investment activities	50,346

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 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 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 and Class CC shares of the Short Duration Fixed Income Fund and holders of the Class AC shares of the Alternative Fund.

The table below reflects the dividends declared during the year and dividends payable as at June 30, 2023.

<b>Short Duration Fixed Income Fund</b>	USD
Dividends declared - Class AD - USD	(339,727)
<b>Short Duration Fixed Income Fund</b>	USD
Dividends payable - Class AD - USD	(128,558)

HSBC Specialist Funds Limited  
Notes to the Financial Statements (Continued)  
for the year ended June 30, 2023

15. Management Fees

	Short Duration Fixed Income Fund USD	Alternative Fund USD
Class AC management fee	122,573	287,503
Class AD management fee	71,054	-
Class CC management fee	112,960	-
Class LC management fee	-	25,806
Total management fee	306,587	313,309
Management fee payable	25,199	25,638

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, 2023 with respect to the Short Duration Fixed Income Fund:

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Investments, at fair value:				
Fixed Income Notes	\$ -	\$ 80,810,603	\$ -	\$ 80,810,603
Floating Rate Notes	-	7,498,976	-	7,498,976
Treasury Notes	-	2,962,006	-	2,962,006
Total investments, at fair value	-	91,271,585	-	91,271,585
Cash equivalents	1,789,044	-	-	1,789,044
Total	\$ 1,789,044	\$ 91,271,585	\$ -	\$ 93,060,629

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, 2023 comprised solely of investments in other investment companies are valued using the net asset value per share (or its equivalent) practical expedient, Alternative Fund's Investments with a fair value of USD31,006,699. Cash equivalents of money market fund are classified as level 1.

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, 2023.



# HSBC Specialist Funds Limited

## Notes to the Financial Statements (Continued)

for the year ended June 30, 2023

### 17. Financial Highlights

#### Schedule of Financial Highlights for Short Duration Fixed Income Fund for the year ended June 30, 2023

	USD		
	Class AC	Class AD	Class CC
<b>Selected per share data</b>			
Net asset value at beginning of the year	110.64	100.21	108.78
<b>Income from investment operations</b>			
Net investment income	2.26	2.04	2.38
Net realized losses on sale of investments and net change in unrealized losses on investments	(1.40)	(1.26)	(1.37)
Total from investment operations	<u>0.86</u>	<u>0.78</u>	<u>1.01</u>
Dividends declared	-	(1.91)	-
Net asset value at end of the year	<u>111.50</u>	<u>99.08</u>	<u>109.79</u>
Total return, excluding dividends declared	0.78 %	0.78 %	0.93 %
<b>Ratios to average net assets</b>			
Total expenses	0.50 %	0.50 %	0.35 %
Net investment income	2.07 %	2.04 %	2.17 %

#### Schedule of Financial Highlights for Alternative Fund for the year ended June 30, 2023

	USD	
	Class AC	Class LC
<b>Selected per share data</b>		
Net asset value at beginning of the year	312.25	312.25
<b>Income from investment operations</b>		
Net investment loss	(3.40)	(3.40)
Net realized gains on sale of investments and net change in unrealized gains on investments	13.20	13.20
Total from investment operations	<u>9.80</u>	<u>9.80</u>
Net asset value at end of the year	<u>322.05</u>	<u>322.05</u>
Total return	3.14 %	3.14 %
<b>Ratios to average net assets</b>		
Total expenses	1.08 %	1.08 %
Net investment loss	(1.08) %	(1.08) %

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

# HSBC Specialist Funds Limited

## Notes to the Financial Statements (Continued)

for the year ended June 30, 2023

### **18. Commitments and Contingencies**

In the normal course of operations, the Company enters into contracts that contain a variety of representations and warranties which provide general indemnifications. The Company's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Company that have not yet occurred. However, based on experience, the Company expects the risk of loss to be remote.

### **19. Subsequent Events**

Subsequent to 30 June 2023, Alternative Fund had subscriptions of USD 534,696 and redemptions of USD 236,790.

Subsequent to 30 June 2023, Short Duration Fixed Income Fund had subscriptions of USD 10,000 and redemptions of USD Nil.

Management have assessed and evaluated all subsequent events arising from the date of the statements of assets and liabilities up until October 19, 2023 and have concluded that no additional disclosures are required.

# HSBC Specialist Funds Limited Management and Administration

for the year ended June 30, 2023

## Directors and Officers

Barry Harbison, President  
Head of Liquidity Investment Specialists, Americas  
HSBC Global Asset Management  
USA

Robin Masters, Non-Executive Director

Julie E. McLean, Non-Executive Director

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

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

## Secretary and Registered Office

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

## Manager

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

## Custodian

HSBC Continental Europe  
1 Grand Canal Square  
Dublin 02 P820, Ireland

## Banker

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

## Administrator and Registrar

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

## Auditors

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

## Legal Advisers

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

## Bermuda Stock Exchange Listing Sponsor

Cohort Limited  
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## Client Services

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