

HSBC Fund of Funds Limited

Annual Report June 2010



The world's local bank

HSBC Fund of Funds Limited

Contents

Bond Class	
Manager's Report	1
Equity Class	
Manager's Report	2
Independent Auditors' Report	3
Statements	
Statements of Assets & Liabilities	4
Statements of Net Assets	5
Statements of Operations	8
Statements of Changes in Net Assets	9
Notes to the Financial Statements	10
Management and Administration	19

Bond Class Manager's Report for the year ended June 30, 2010

Portfolio Overview

The Bond Class rebounded this fiscal year up 10.8% as investors slowly began to favour credit markets over government securities, however lapses in confidence of the recovery meant there were still periods of government bond outperformance.

- The portfolio was predominately led by corporate bonds, high yield and emerging markets however in the second half of 2010 US government securities came into favour amid concerns that economic growth was faltering.
- We remain cautious but also believe the recovery will continue and as such, along with investment grade bonds, we favour higher yielding funds. By the start of 2009 our in house views on credit and high yield turned positive and we moved during the course of the year to increase these allocations.

Global growth has improved however the strength of the recovery remains questionable.

- Interest rates in North America and Europe remain low as Central Banks stay focused on weak growth amid benign inflation. US economic numbers remain mixed with manufacturing and industrial production figures showing some strength yet employment, which remains a key to improved growth, remains very weak among most developed nations. Consensus economic growth for the US is 3.3% for 2010 and 3.1% for 2011. In Europe, there remains concern with budget deficits, however some of the fears have been eased following EU support of countries such as Greece and the austerity plans that many nations have begun to put in place to reduce spending and increase revenue.
- Asia and emerging markets such as Latin America continue to lead global growth. Economic data has been strong in both regions including South Korea reporting near 20% increase in industrial production and Brazil having a 9.0% rise in GDP growth as examples. The one region that remains weak within emerging markets is Eastern Europe. Despite strong industrial production figures from Russia and Poland, labour markets and consumption remains weak.

Outlook

Growth is expected to improve at a slow pace as high unemployment in the developed nations remains high. We do not expect to see a quick rebound in growth of the developed markets and instead see emerging markets leading the recovery. Corporate balance sheets continue to improve with effective cost cutting measures having taken place and as such we expect default rates to normalize making investment grade and high yield sectors attractive.

HSBC Global Asset Management (Bermuda) Limited

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

Equity Class Manager's Report for the year ended 30 June 2010

Portfolio Overview

Equity markets managed to recover some of the losses experienced in the prior year however a weak growth recovery in developed markets and high unemployment has tempered market rallies.

- The portfolio was up 8.5% this fiscal year led by Asian and emerging market sectors.
- Despite favouring US and Asian markets where performance was relatively better than the overall global benchmark, weak performance in Europe and surprising resilience in Japan where we are underweight, pared back the relative returns.

Global growth has improved however the strength of the recovery remains questionable.

- Interest rates in North America and Europe remain low as Central Banks stay focused on weak growth amid benign inflation. US economic numbers remain mixed with manufacturing and industrial production figures showing some strength yet employment, which remains a key to improved growth, remains very weak among most developed nations. Consensus economic growth for the US is 3.3% for 2010 and 3.1% for 2011. In Europe, there remains concern with budget deficits, however some of the fears have been eased following EU support of countries such as Greece and the austerity plans that many nations have begun to put in place to reduce spending and increase revenue.
- Asia and emerging markets such as Latin America continue to lead global growth. Economic data has been strong in both regions including South Korea reporting near 20% increase in industrial production and Brazil having a 9.0% rise in GDP growth as examples. The one region that remains weak within emerging markets is Eastern Europe. Despite strong industrial production figures from Russia and Poland, labour markets and consumption remains weak.

Outlook

Growth is expected to improve but at a slow pace as high unemployment in the developed nations remains high. We do not expect to see a quick rebound in growth of the developed markets and instead see emerging markets leading the recovery. Given the weakness in the recovery of the developed countries we remain cautious in these markets, and favour regions such as Latin America where growth is strong.

HSBC Global Asset Management (Bermuda) Limited

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of assets and liabilities of the Bond Class USD, the Equity Class USD and the Alternative Class USD (together constituting "HSBC Fund of Funds Limited"), including the statements of net assets, as of June 30, 2010, and the related statements of operations and changes in net assets for the year then ended. These financial statements are the responsibility of the Funds' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of HSBC Fund of Funds Limited as of June 30, 2010, and the results of its operations and the changes in its net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Chartered Accountants
Hamilton, Bermuda
September 29, 2010

HSBC Fund of Funds Limited
Statements of Assets & Liabilities
as at June 30, 2010

	Bond Class USD	Equity Class USD	Alternative Class USD
Assets			
Investments at fair value (notes 3, 11, 12, 13 & 15)	71,236,904	42,265,384	172,622,408
Cash and cash equivalents (notes 3 & 15)	1,781,984	789,101	-
Receivable for investments sold	6,888,043	-	1,342,000
Dividends and interest receivable	55,980	-	-
Prepaid expenses	263	484	2,674
	79,963,174	43,054,969	173,967,082
Liabilities			
Bank overdraft (note 3(b))	-	-	52,727
Dividends payable (note 14)	390,988	-	-
Payable for investments purchased	-	1,229,091	-
Subscriptions received in advance	-	-	826,635
Management and administration fees payable (notes 4 & 5)	196,278	110,708	442,875
Accounts payable and accrued expenses	23,366	18,912	57,809
	610,632	1,358,711	1,380,046
Net assets	79,352,542	41,696,258	172,587,036
Share capital (note 10)			
Shares outstanding	601,521	340,177	947,385
Net asset value per share	USD131.92	USD122.57	USD182.17

The accompanying notes form an integral part of these Financial Statements

HSBC Fund of Funds Limited

Statements of Net Assets

as at June 30, 2010

Bond Class	Liquidity Period	Holdings in Shares	Purchase Price USD	Fair Value USD	% of Net Assets
Investments in investee funds and securities:					
Europe					
Alliance Bernstein Global Bond Portfolio Class I	Daily	439,933	4,106,547	4,188,161	5.28
Cypresstree Leveraged Alternative Income Fund Ltd.	Monthly	2,227	95,760	98,388	0.12
Franklin Templeton Investment Funds - Franklin High Yield Fund Class I (MDIS)	Daily	194,293	2,002,576	1,981,789	2.50
Franklin Templeton Investment Funds - Franklin US Total Return Fund Class I (MDIS)	Daily	528,336	5,564,688	5,695,457	7.18
HSBC GIF Global Emerging Markets Bond Fund Class AD	Daily	187,407	3,204,734	3,465,161	4.37
HSBC International Select Fund MultiAlpha Global Aggregate Bond Class ID	Daily	400,541	4,086,969	4,253,747	5.36
Invesco Emerging Markets Bond Fund Class C	Daily	79,181	1,545,742	1,580,461	1.99
PIMCO GIS High Yield Bond Fund Institutional Class	Daily	363,286	3,299,068	3,287,739	4.14
PIMCO GIS Low Average Duration Fund	Daily	491,523	5,072,309	5,170,816	6.52
PIMCO GIS Stocks Plus Fund Class Institutional	Daily	192,833	1,575,780	1,527,236	1.92
			30,554,173	31,248,955	39.38
Global					
Bank of NT. Butterfield & Son Ltd. (Reg S) Preferred	Daily	302	369,950	354,850	0.45
Franklin Templeton Investment Funds - Templeton Global Bond Fund Class A (DIS)	Daily	202,388	3,078,980	3,804,899	4.79
Goldman Sachs Global Fixed Income Portfolio	Daily	134,599	1,900,857	2,091,675	2.64
Goldman Sachs Global High Yield Portfolio Class I	Daily	285,230	2,872,368	2,812,368	3.54
Legg Mason Global Funds Plc - Brandywine Global Fixed Income	Daily	44,230	5,031,428	5,213,002	6.57
PIMCO GIS Global Bond Fund Class Institutional Income	Daily	270,929	3,643,036	4,107,277	5.18
PIMCO GIS Total Return Bond Fund Class Institutional Accumulation	Daily	379,670	5,635,598	5,896,273	7.43
			22,532,217	24,280,344	30.60
North America					
Bac Capital Trust V (Reg) 6.00% 11/03/2034 Preferred	Daily	80,000	1,574,400	1,593,600	2.01
Bear Stearns Co. Inc. (Reg) 5.35% 02/01/2012	Daily	1,000,000	1,074,270	1,060,500	1.34
Citigroup Capital IX (Reg) 6.00% 02/14/2033 Preferred	Daily	40,000	714,000	772,000	0.97
Citigroup Capital XI 6.00% 09/27/2034	Daily	60,000	1,128,000	1,152,000	1.45
Citigroup Capital XII VAR Preferred	Daily	10,000	250,000	249,900	0.31
Countrywide Capital IV (Reg) Preferred	Daily	50,000	1,075,000	1,050,000	1.32
General Electric Capital Corp (Reg) Preferred	Daily	50,000	1,237,000	1,248,000	1.57
Goldman Sachs Group Inc. (Reg) FRN 01/12/2015	Daily	1,500,000	1,432,860	1,362,180	1.72
HSBC Global Investment Funds - US Dollar Core Plus Bond Class ZC	Daily	190,220	2,500,000	2,729,652	3.44
JPMorgan Chase Capital XI (Reg) 5.875% Preferred	Daily	40,000	893,600	919,200	1.16
JPMorgan Chase Capital XVI (Reg) 06/01/2035 Preferred	Daily	35,600	849,060	846,568	1.07
Merrill Lynch & Co. (Reg) FRN 01/15/2015	Daily	1,500,000	1,401,165	1,345,545	1.70
Morgan Stanley (Reg) FRN 10/15/2015	Daily	1,000,000	929,300	891,660	1.12
RBS Capital Funding Trust VII Series G (Reg) 6.08% Preferred	Daily	40,000	468,800	486,800	0.61
			15,527,455	15,707,605	19.79
Total investments			68,613,845	71,236,904	89.77
Other net assets				8,115,638	10.23
Total net assets				79,352,542	100.00

The accompanying notes form an integral part of these Financial Statements

HSBC Fund of Funds Limited
Statements of Net Assets (Continued)
as at June 30, 2010

Equity Class	Liquidity Period	Holdings in Shares	Purchase Price USD	Fair Value USD	% of Net Assets
Investments in investee funds:					
Asia					
GAM Star Fund Plc - Japan Equity JPY Class	Daily	148,259	1,000,000	1,471,946	3.53
Invesco Fund Series - Asian Equity Fund Class C	Daily	636,028	2,061,499	3,116,535	7.47
Polar Capital Japan Fund	Daily	69,204	1,000,000	1,103,806	2.65
			4,061,499	5,692,287	13.65
Emerging Market					
Polunin Emerging Markets Strategy Funds - Developing Countries Fund	Weekly	3,997	2,750,000	2,716,064	6.51
Traditional Funds Plc - Global Emerging Markets Fund Class Accumulation	Daily	210,140	2,550,000	2,727,615	6.54
			5,300,000	5,443,679	13.05
Europe					
Alliance Bernstein European Value Fund	Daily	89,847	1,228,000	1,083,066	2.60
Baring Eastern Europe Fund	Daily	6,319	546,775	606,971	1.46
Gartmore SICAV Continental European Fund Class A1	Daily	381,078	1,526,377	2,298,308	5.51
MFS Meridian Funds - Continental European Equity Fund Class I2	Daily	12,615	1,486,652	2,243,719	5.38
			4,787,804	6,232,064	14.95
Global					
Orbis Global Equity Fund	Weekly	13,264	819,980	1,338,602	3.21
Schroder Alternative Solutions Commodity Fund Class C	Daily	7,017	1,000,000	813,000	1.95
			1,819,980	2,151,602	5.16
North America					
Findlay Park American Smaller Companies Fund USD Class	Daily	48,856	1,200,000	1,885,825	4.52
Investec Global Strategy Fund American Equity Fund Class A	Daily	52,761	4,522,200	3,529,698	8.47
JPMorgan Investment Funds - US Select Equity Fund CII - Accumulation	Daily	45,562	3,921,503	3,685,037	8.84
Morgan Stanley SICAV US Value Equity Fund Class I	Daily	122,697	2,164,377	2,298,117	5.51
Schroder International Selection US Smaller Companies Fund Class C	Daily	40,050	1,622,422	2,787,473	6.68
T Rowe Price Funds SICAV US Large Cap Growth Equity Fund Class I	Daily	183,554	2,500,000	2,279,736	5.47
			15,930,502	16,465,886	39.49
United Kingdom					
HSBC Global Investment Funds UK Equity	Daily	34,344	2,039,850	1,150,044	2.76
Invesco Fund Series - UK Equity Fund Class C	Daily	153,231	2,112,555	1,082,112	2.59
			4,152,405	2,232,156	5.35
Total investments in investee funds			36,052,190	38,217,674	91.65
Investments in securities:					
Equities					
Financial Select Sector SPDR Fund	Daily	135,000	2,542,155	1,864,350	4.47
iShare Dow Jones US Technology Sector Index Fund	Daily	32,500	1,895,243	1,677,000	4.02
iShares S&P Latin America 40 Index Fund	Daily	12,225	501,994	506,360	1.22
Total investments in securities			4,939,392	4,047,710	9.71
Total investments			40,991,582	42,265,384	101.36
Other net liabilities				(569,126)	(1.36)
Total net assets				41,696,258	100.00

The accompanying notes form an integral part of these Financial Statements

HSBC Fund of Funds Limited
 Statements of Net Assets (Continued)
 as at June 30, 2010

Alternative Class	Liquidity Period	Holdings in Shares	Purchase Price USD	Fair Value USD	% of Net Assets
Investment in investee fund:					
Multi-Strategy					
HSBC Portfolio Selection Fund GH Fund Class AP	Monthly	1,284,488	146,997,372	172,622,408	100.02
Total investments			146,997,372	172,622,408	100.02
Other net liabilities				(35,372)	(0.02)
Total net assets				172,587,036	100.00

The accompanying notes form an integral part of these Financial Statements

HSBC Fund of Funds Limited
Statements of Operations
for the year ended June 30, 2010

	Bond Class USD	Equity Class USD	Alternative Class USD
Income			
Dividend income	1,740,191	90,632	-
Interest income	37,205	1,549	-
Other income	1,168	4,385	4,057
	<u>1,778,564</u>	<u>96,566</u>	<u>4,057</u>
Expenses			
Management and administration fees (notes 4 & 5)	512,678	447,674	1,679,863
Audit fees	6,839	18,969	68,738
Directors' fees (note 8)	1,478	2,550	10,886
Bank charges (note 3)	504	168	2,121
Other expenses	43,516	49,707	28,228
	<u>565,015</u>	<u>519,068</u>	<u>1,789,836</u>
Net investment income (loss)	<u>1,213,549</u>	<u>(422,502)</u>	<u>(1,785,779)</u>
Net realized gains on sale of investments	952,031	2,572,945	4,204,733
Net change in unrealized gains on investments	1,534,008	1,176,940	4,505,397
	<u>2,486,039</u>	<u>3,749,885</u>	<u>8,710,130</u>
Net increase in net assets resulting from operations	<u>3,699,588</u>	<u>3,327,383</u>	<u>6,924,351</u>

The accompanying notes form an integral part of these Financial Statements

HSBC Fund of Funds Limited
Statements of Changes in Net Assets
for the year ended June 30, 2010

	Bond Class USD	Equity Class USD	Alternative Class USD
Net assets at start of the year	20,280,458	37,457,852	146,122,037
Net increase in net assets from operations			
Net investment income (loss)	1,213,549	(422,502)	(1,785,779)
Net realized gains on sale of investments	952,031	2,572,945	4,204,733
Net change in unrealized gains on investments	1,534,008	1,176,940	4,505,397
	3,699,588	3,327,383	6,924,351
Subscriptions and redemptions			
Proceeds on issue of shares	65,882,963	9,434,083	41,065,692
Payments on redemption of shares	(9,272,614)	(8,523,060)	(21,525,044)
	56,610,349	911,023	19,540,648
Dividends (note 14)	(1,237,853)	-	-
Net assets at end of the year	79,352,542	41,696,258	172,587,036

The accompanying notes form an integral part of these Financial Statements

HSBC Fund of Funds Limited

Notes to the Financial Statements

for the year ended June 30, 2010

1. The Fund

HSBC Fund of Funds Limited (the "Fund") is an open-ended exempted mutual fund company incorporated with limited liability and unlimited duration in Bermuda on May 26, 1998 in accordance with The Companies Act 1981 of Bermuda.

The principal objective of the Fund is to achieve capital growth while attempting to limit investment risk by investing in open-ended investment funds.

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

The Fund has been classified as a standard fund under the Investment Funds Act 2006 of Bermuda.

The Shares of the Fund are divided into several classes ("Classes") for which the Fund maintains separate accounts. The assets of each class of the Fund are held exclusively for the benefit of the holders of the shares of the relevant classes. However, all assets of the Fund are subject to the general creditors of the Fund in that the assets of each Class may be exposed to the liabilities of other Classes within the Fund. At June 30, 2010 the Directors were not aware of any such specific existing or contingent liabilities. The following Classes are currently available:

	Date of inception
Bond Class	June 26, 1998
Equity Class	June 26, 1998
Alternative Class	October 29, 1999

2. Significant Accounting Policies

The accompanying financial statements are prepared in conformity with accounting principles generally accepted in the United States of America ("US GAAP"). The significant accounting and reporting policies adopted by the Fund are as follows:

- (a) Investment transactions and income
Investment transactions are recorded on the trade date. Realized gains and losses on investment transactions are calculated on a weighted average cost basis and are included in the statements of operations.

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

- (b) Valuation of investments
Investments are valued at fair value at the latest available price as quoted by the management of the respective mutual funds or the last published prices as of valuation day for investments traded on a recognized exchange.

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

HSBC Fund of Funds Limited

Notes to the Financial Statements (Continued)

for the year ended June 30, 2010

2. Significant Accounting Policies (continued)

- (b) Valuation of investments (continued)
inputs which are significant to the overall valuation. The three-tier hierarchy of inputs is summarized below:
- Level 1 – observable prices and quoted prices in active markets for identical investments
 - Level 2 – other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)
 - Level 3 – significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)
- (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 90 days from the 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.
- (e) Expenses
The Fund bears all operating expenses which are allocated between all Classes in proportion to the respective net asset value of each Class unless the expense is solely attributable to a specific Class upon which it is allocated to the respective class.
- (f) Use of estimates
The preparation of financial statements in accordance with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.
- (g) Foreign currency translation
Assets and liabilities denominated in currencies other than the base currency of each Class are translated into the base currency at the rate of exchange prevailing at the date of the financial statements. Transactions during the year in currencies other than the base currency have been translated at the rate of exchange prevailing on the date of the transaction. Realized and unrealized gains and losses on translation of investment balances are included in the statements of operations in "net realized gains on sale of investments" and "net change in unrealized gains on investments" respectively. All other realized and unrealized gains and losses on 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) Taxation
The Fund adopted the provision of FASB Interpretation No. 48, now included in ASC Subtopic 740-10 ("FIN 48"), on July 1, 2008. As a result of the implementation of ASC Subtopic 740-10 (FIN 48), the Fund was not required to recognize any amount of uncertain tax positions.

HSBC Fund of Funds Limited

Notes to the Financial Statements (Continued)

for the year ended June 30, 2010

2. Significant Accounting Policies (continued)

(j) Forward currency contracts

Forward currency contracts are valued at the forward rate and are marked-to-market daily. The change in market value is recorded by the respective Class as an unrealized gain or loss in the statement of operations. When the contract is closed, the Class records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed.

(k) Adoption of Accounting Standards Codification

In June 2009, the Financial Accounting Standards Board ("FASB") established the FAS Accounting Standards Codification (the "Codification") as the single source of authoritative accounting principles recognized by the FASB in the preparation of financial statements in conformity with US GAAP. The Codification did not change US GAAP but rather organized it into a hierarchy where all guidance within the codification carries an equal level of authority. The Codification became effective in September 2009. Adoption of the Codification did not have a material effect on the Fund's financial statements.

3. Cash and Cash Equivalents and Bank Overdraft

(a) Cash and cash equivalents

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

	Bond Class USD	Equity Class USD	Alternative Class USD
Cash at bank	68,609	22,206	-
Money market fund	1,713,375	766,895	-
	1,781,984	789,101	-

(b) Bank overdraft

Under an agreement dated October 16, 2006, the Bank made available a US Dollar uncommitted overdraft facility to the Fund. The maximum amount that may be advanced is the lesser of 10% of the Net Value of Assets in custody ("NVAC") of each Class or a combined \$4,500,000.

Under the terms of the agreement, all assets of the Fund held in the Bank's custody are pledged as security against advances made by the Bank. The amount outstanding is due upon demand and interest is payable on overdrawn balances at an amount equal to the Bank's Base Rate plus 125 basis points. At June 30, 2010, \$52,727 is outstanding under this facility. Interest charged during the year relating to the balances drawn totaled \$888.

(c) Foreign Exchange Transactions Facility

Under an agreement dated July 18, 2007, the Bank made available an uncommitted foreign exchange transactions facility to the Fund. This facility provides for a Foreign Currency Transaction Line up to a maximum at any time of the lesser at such time of \$22.5 million or 100% of the NAV with respect to Bond, Equity and Alternative Class. The Bank reserves the right at its absolute discretion to decide whether or not any utilization may be made and to specify conditions only upon compliance with which such utilization may be made. This facility will be governed by an ISDA Master Agreement. At June 30, 2010 and for the year then ended, nil is outstanding under this facility. The facility is collateralized by the Fund's assets held in the Bank's custody.

HSBC Fund of Funds Limited

Notes to the Financial Statements (Continued)

for the year ended June 30, 2010

4. Manager

Under an agreement dated May 29, 1998, the Manager is entitled to receive a quarterly fee calculated at a rate of 1.0% per annum of the average of the weekly value of the net assets of each of the Equity Class and Bond Class, respectively, during the quarter, and 1.0% per annum of the average of the monthly value of the net assets of the Alternative Class during the quarter. If the current fee rates are to be changed, notice must first be given to the Fund and shareholders. The maximum management fee permitted under the terms of the agreement is 1.5% for the Bond Class and Equity Class, and 2.5% for the Alternative Class.

The fees and expenses payable to the Custodian and Administrator by the Fund will proportionately reduce amounts payable by the Fund to the Manager.

For the year ended June 30, 2010, 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.

5. Administrator

Under an agreement dated May 29, 1998 between the Fund and HSBC Securities Services (Bermuda) Limited (the "Administrator"), a wholly-owned subsidiary of the Bank, the Administrator agreed to act as share registrar, transfer agent and secretary and to provide accounting and administrative services to the 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.

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

6. Custodian

Under an agreement dated May 29, 1998, the Bank was appointed as Custodian for the Fund.

The Custodian is entitled to receive fees from the Fund for services provided at such rates agreed from time to time between the Fund and the Custodian. Such fees will proportionately reduce the amounts payable by the Fund to the Manager (see Note 4).

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

7. Taxation

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

8. Director's Fees

Each of the Directors are entitled to receive from the Fund a fee at such a rate as may be set from time to time by the Board of Directors, provided such remuneration shall not exceed an aggregate amount of \$30,000 per annum without prior consent of the shareholders in general meeting. The Directors may also be reimbursed for all travel, hotel and other expenses properly

HSBC Fund of Funds Limited

Notes to the Financial Statements (Continued)

for the year ended June 30, 2010

8. Directors' Fees (continued)

incurred by them in attending meetings of the Fund. No such fees will be payable where the Director is employed by the Bank or any of its subsidiaries or affiliates.

For the year ended June 30, 2010, Mr. John Hawkins, Mr. William Thomson and Ms. Julie McLean each received an annual fee of \$5,000.

9. Directors' Interests

As at June 30, 2010, Mr. Guillermo Konecny holds approximately 527 shares of the Equity Class.

10. Share Capital

The present authorized share capital of \$512,000 of the Fund is divided into 5,000,000 voting participating shares ("Shares") of \$0.10 par value each and 120,000 founders' shares of \$0.10 par value each. The Manager holds all founders' shares, nil paid. The founders' shares do not have any voting or other rights and are only entitled to the return of capital paid upon a winding-up. Participating shares may be subscribed for and redeemed on a monthly basis.

	Bond Class	Equity Class	Alternative Class
Shares in issue July 1, 2009	166,604	331,650	843,182
Shares issued during the year	505,308	72,922	221,674
Shares redeemed during the year	(70,391)	(64,395)	(117,471)
Shares in issue June 30, 2010	601,521	340,177	947,385

On January 29, 2010, the Fund's Board of Directors have decided that it is in the best interest of the shareholders of HSBC Specialist Funds Limited-US Dollar Income Fund to combine their assets with the Fund. On February 4, 2010, the shares of the US Dollar Income Fund invested the full value of its investments in shares of the Fund. On June 1, 2010, all shares of the US Dollar Income Fund were redeemed by way of a compulsory redemption with the proceeds paid by way of an in-kind distribution of shares in the Fund of \$22,886,663. The investments were valued at fair value at the time of the contribution.

11. Cost of Investments

Cost of Investments as at June 30, 2010	USD
Bond Class	68,613,845
Equity Class	40,991,582
Alternative Class	146,997,372

12. Financial Instruments and Associated Risks

Market Risk

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

Currency Risk

Currency risk is the risk that future changes in exchange rates will make financial instruments held by the Fund less valuable. The investments of each Class are denominated in the related base currency thus minimizing currency risk.

HSBC Fund of Funds Limited

Notes to the Financial Statements (Continued)

for the year ended June 30, 2010

12. Financial Instruments and Associated Risks (continued)

Interest Rate Risk

The Fund is exposed to interest rate risk to the extent that the fair value of the Fund's financial instruments may fluctuate with movements in interest rates. The Fund manages interest rate risk by investing in short duration debt instruments and floating rate notes. The Fund may also use forward contracts for hedging purposes and as independent profit opportunities.

Liquidity Risk

The Fund may invest in debt securities and other investment companies that are not publicly traded or for which there is no liquid market. The Fund is exposed to liquidity risk to the extent that it is unable to realize its positions to meet liabilities and redemptions as they fall due in a timely and favorable manner. The liquidity profile of the Fund's investment portfolio as at June 30, 2010 is disclosed in the statements of net assets. The Fund manages liquidity risk by investing mainly in funds with daily redemptions.

Credit Risk

Credit risk is the risk that a counterparty will fail to discharge its obligation or commitment related to a financial instrument it has issued. Financial assets that potentially expose the Fund to credit risk consist primarily of cash and cash equivalents and investments. 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 Fund would have received at June 30, 2010, if it had liquidated its investments. The Fund has the ability to liquidate its investments periodically depending on the provisions of the respective investee fund's offering documents.

As of June 30, 2010, the Alternative Class has an investment in GH Fund Class AP (the "investee fund") of the HSBC Portfolio Selection Fund, a fund managed by HSBC Management (Guernsey) Limited and advised by HSBC Alternative Investments Limited, representing 100.00% 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 a range of different strategies and markets worldwide.

The investment funds in which the 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 contracts, forward contracts, 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 respective class' investment in each investee fund.

Complete information about the underlying investments held by the investee funds is not readily available, so it is unknown whether the investee funds hold any single investment whereby each class' proportionate share exceeds 5% of the respective class' net assets as of June 30, 2010.

14. Dividends

The Directors' intention is to declare dividends with respect to the Bond Class Shares. Dividends are paid quarterly and are automatically reinvested in the form of additional shares in the same Class, unless the shareholder elects for payment in cash. With respect to the Equity Class and Alternative Class, it is the intention of the Directors not to make distributions of net income by way of dividends.

HSBC Fund of Funds Limited

Notes to the Financial Statements (Continued)

for the year ended June 30, 2010

14. Dividends (continued)

During the year ended June 30, 2010, the Directors of the Bond Class declared the following dividends:

	USD
Dividends declared	1,237,853
Dividends payable	390,988

15. Fair Value Measurements

Bond Class

The following table summarizes the valuation of the Fund's investments by region and/or strategy within each class by the fair value hierarchy levels as of June 30, 2010:

	Level 1	Level 2	Level 3	Total
Assets (at fair value)				
Investments in investee funds and securities:				
Europe	\$ 31,150,567	\$ 98,388	\$ -	\$ 31,248,955
Global	24,280,344	-	-	24,280,344
North America	15,707,605	-	-	15,707,605
Total investments in investee funds and securities	71,138,516	98,388	-	71,236,904
Cash equivalents	1,713,375	-	-	1,713,375
Total	\$ 72,851,891	\$ 98,388	\$ -	\$ 72,950,279

Equity Class

The following table summarizes the valuation of the Fund's investments by region and/or strategy within each class by the fair value hierarchy levels as of June 30, 2010:

	Level 1	Level 2	Level 3	Total
Assets (at fair value)				
Investments in investee funds:				
Asia	\$ 5,692,287	\$ -	\$ -	\$ 5,692,287
Emerging Markets	2,727,615	2,716,064	-	5,443,679
Europe	6,232,064	-	-	6,232,064
Global	813,000	1,338,602	-	2,151,602
North America	16,465,886	-	-	16,465,886
United Kingdom	2,232,156	-	-	2,232,156
Total investments in investee funds	34,163,008	4,054,666	-	38,217,674
Investments in securities:				
Equities	4,047,710	-	-	4,047,710
Cash equivalents	766,895	-	-	766,895
Total	\$ 38,977,613	\$ 4,054,666	\$ -	\$ 43,032,279

HSBC Fund of Funds Limited

Notes to the Financial Statements (Continued)

for the year ended June 30, 2010

15. Fair Value Measurements (continued)

Alternative Class

The following table summarizes the valuation of the Fund's investments by strategy within each class by the fair value hierarchy levels as of June 30, 2010:

Assets (at fair value)	Level 1	Level 2	Level 3	Total
Investment in investee fund:				
Multi-Strategy	\$ -	\$ 172,622,408	\$ -	\$ 172,622,408
Total	\$ -	\$ 172,622,408	\$ -	\$ 172,622,408

For investments in investee funds, the Fund has used the net asset value per share reported by the administrator of the investee fund to arrive at fair value.

At June 30, 2010, the Fund held positions in investee funds which utilize the following investment strategies as disclosed in the statements of net assets:

Bond Class – This strategy mainly holds long bond positions and the manager may have a geographical focus.

Equity Class – This strategy mainly holds long equity positions and the manager may have a geographical or sector specific focus.

Alternative Class – This strategy includes investments in hedge funds that provide diversification by investing in different strategies to reduce risk.

16. Financial Highlights

Schedule of Financial Highlights for Bond Class for year ended June 30, 2010

	USD
Selected per share data	
Net asset value at July 1, 2009	121.73
Income from investment operations	
Net investment income	3.26
Net realized gains on sale of investments and change in unrealized gains on investments	<u>9.84</u>
Total from investment operations	<u>13.10</u>
Dividends declared	<u>(2.91)</u>
Net asset value at end of the year	<u>131.92</u>
Total return	10.76 %
Ratios to average net assets	
Total expenses	1.11 %
Net investment income	<u>2.39 %</u>

HSBC Fund of Funds Limited
Notes to the Financial Statements (Continued)
for the year ended June 30, 2010

16. Financial Highlights (continued)

Schedule of Financial Highlights for Equity Class
for year ended June 30, 2010

USD

Selected per share data

Net asset value at July 1, 2009 112.94

Income (loss) from investment operations

Net investment loss (1.25)

Net realized gains on sale of investments and change
in unrealized gains on investments 10.88

Total from investment operations 9.63

Net asset value at end of the year 122.57

Total return 8.53 %

Ratios to average net assets

Total expenses 1.18 %

Net investment loss (0.96) %

Schedule of Financial Highlights for Alternative Class
for year ended June 30, 2010

USD

Selected per share data

Net asset value at July 1, 2009 173.30

Income (loss) from investment operations

Net investment loss (2.05)

Net realized gains on sale of investments and change
in unrealized gains on investments 10.92

Total from investment operations 8.87

Net asset value at end of the year 182.17

Total return 5.12 %

Ratios to average net assets

Total expenses 1.12 %

Net investment loss (1.12) %

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

17. Subsequent Events

The Board of Directors has assessed and evaluated all subsequent events arising from the date of the statements of assets and liabilities up until September 29, 2010 and has concluded that no additional disclosure is required.

HSBC Fund of Funds Limited Management and Administration for the year ended June 30, 2010

Directors and Officers

William D. Thomson, Director and President
Retired Executive Vice President
HSBC Bank Bermuda Limited

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

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

John A. Hawkins, Director
Retired Executive Vice President
HSBC Bank Bermuda Limited

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

Michael L. Schrum, Director
Chief Financial Officer
HSBC Bank Bermuda Limited

Secretary and Registered Office

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

Manager

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

Banker

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

Custodian

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

Administrator

HSBC Securities Services (Bermuda) Limited
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Legal Advisers

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We are a principal member of the HSBC Group, one of the world's largest banking and financial services organisations with around 8,000 offices in 87 countries and territories.

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