

HSBC Specialist Funds Limited

Annual Report June 2012

HSBC Specialist Funds Limited

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Short Duration Fixed Income Fund Manager's Report for the year ended June 30, 2012

Market Overview

Many of the factors that pervaded over the market in 2010 and into the first half of 2011 continued to impact fixed income market direction during the annual period ending June 30, 2012. The European crisis continued to deteriorate with concerns regarding Italy and Spain continuing to escalate and putting the Euro-zone on the verge of recession. A slowdown in the rate of economic growth in China factored strongly into a general global growth slowdown. Furthermore, the United States continued to muddle through a low growth environment which was hindered by softness in housing, employment and consumer spending. In addition, with a lack of coordinated and effective policy response from Euro-zone members combined with an approaching fiscal debt cliff in the United States in the second half of 2012, U.S. Treasuries benefitted for another year of flight to quality. The yield curve moved lower and flattened across the maturity spectrum with the 2 year and 5 year lower by 16 and 104 basis points, respectively, to yields of 0.30% and 0.72%. In the longer end the 10 year Treasury moved lower by 151 basis points and ended the period at a yield of 1.65%.

Portfolio Overview

As the Federal Reserve made clear at their last several meetings, we can expect that short term yields will remain low for an extended period of time. As such, over the course of the year we extended the duration of the Fund from 0.8 years to 1.4 years by increasing the Fund's weighting in 3 and 5 year fixed rate securities. In addition, given rating agency downgrades of many financial issuers and thereby making many financial issuers incompatible with the Fund's AA rating, the overweighed allocation towards financials will remain but at a lower level. This will invariably reduce the overall volatility of the Fund.

Outlook

Under an uncertain domestic and global macro economic backdrop the Federal Reserve has emphasized its desire to keep its target on the Fed Funds rate exceptionally low for an extended period of time. This has served to remove uncertainty around monetary policy and keep short duration rates (1-3 year maturities) in a relatively narrow range over the past year and will likely continue to do so. In terms of corporate credit quality corporations continue to maintain very healthy balance sheets and default rates remain relatively low from a historical standpoint. This provides excellent value to corporate credit going forward and particularly in the financial sector where capital raises have put U.S. banks and financial institutions in a relatively strong position from a debt holder's standpoint. As such we will continue to maintain overweights in corporate debt and in particular in U.S. Financials. In terms of duration positioning, we remain somewhat indifferent on rates as yields are at or near historical lows but will likely remain so in short term maturities. We find value in some longer dated corporates (5 year maturities) relative to shorter term corporates (1-3 year maturities) from a valuation perspective and will opportunistically add to positions.

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.



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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of assets and liabilities of the Fund, including the statements of net assets, as of June 30, 2012, and the related statements of operations and changes in net assets for the year then ended. These financial statements are the responsibility of the Fund's 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 an 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.

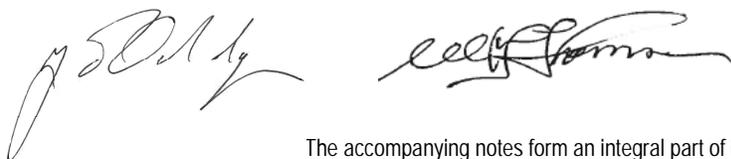
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of June 30, 2012 and the results of its operations and changes in its net assets for the year then ended in conformity with U.S. generally accepted accounting principles.

Chartered Accountants
Hamilton, Bermuda
September 28, 2012

HSBC Specialist Funds Limited
Statement of Assets and Liabilities
as at June 30, 2012

Short Duration
Fixed Income Fund
USD

Assets	
Investments at fair value (notes 11, 12 & 14)	240,731,735
Cash and cash equivalents (notes 3 & 14)	16,368,689
Interest receivable	1,340,835
Prepaid expenses	10,061
	258,451,320
Liabilities	
Due to broker	5,994,987
Administration and custodian fees payable (notes 5 & 6)	163,853
Dividends payable (note 13)	91,362
Management fees payable (note 4)	64,550
Accounts payable and accrued expenses	87,728
	6,402,480
Net assets	252,048,840
Net assets attributable to:	
Class AC Shares	96,864,345
Class AD Shares	12,088,714
Class IC Shares	87,357,444
Class ID Shares	50,969,914
Class R Shares	4,768,423
	252,048,840
Shares outstanding (note 10)	
Class AC Shares	951,503
Class AD Shares	119,946
Class IC Shares	855,900
Class ID Shares	505,125
Class R Shares	47,539
Net asset value per share	USD
Class AC Shares	101.80
Class AD Shares	100.78
Class IC Shares	102.06
Class ID Shares	100.91
Class R Shares	100.31



The accompanying notes form an integral part of these Financial Statements

HSBC Specialist Funds Limited

Statement of Net Assets

as at June 30, 2012

Short Duration Fixed Income Fund

	Nominal Value	Purchase Price USD	Fair Value USD	% of Net Assets
Certificate of Deposit				
Deutsche Bank AG/New York NY (Ser YCD) (Reg) FRN 01/18/2013	4,500,000	4,504,155	4,504,155	1.78
Royal Bank Of Scotland PLC/Greenwich CT (Ser YCD) (Reg) FRN 10/15/2012	900,000	901,264	901,264	0.36
		5,405,419	5,405,419	2.14
Fixed Income Notes				
3M Co 1% 06/26/2017	1,000,000	995,405	998,300	0.40
American Honda Finance (144A) 1.45% 02/27/2015	2,500,000	2,524,061	2,517,763	1.00
ANZ National International Ltd (144A) (Reg) 6.2% 07/19/2013	1,000,000	1,039,699	1,048,680	0.42
Bank Of Montreal (144A) (Reg) 1.3% 10/31/2014	3,000,000	3,020,794	3,043,860	1.21
Bank of Nova Scotia (Reg) 2.375% 12/17/2013	6,000,000	6,098,580	6,139,470	2.44
Barclays Bank Plc (Reg) 2.5% 01/23/2013	3,000,000	2,989,846	3,012,150	1.19
Barclays Bank Plc (Reg) 5.45% 09/12/2012	4,600,000	4,630,761	4,638,617	1.84
BK Nederlandse Gemeenten (BR) 3.75% 07/15/2013	3,000,000	3,071,313	3,091,575	1.23
BK Tokyo-Mitsubishi UFJ (144A) (Reg) 2.45% 09/11/2015	2,500,000	2,554,106	2,568,487	1.02
British Columbia (Province Of) (Reg) 2.85% 06/15/2015	2,000,000	2,119,622	2,130,640	0.84
Caisse Centrale Desjardins du Quebec (144A) (Reg) 1.7% 09/16/2013	4,000,000	4,013,588	4,022,404	1.60
Caisse Centrale Desjardins du Quebec (144A) (Reg) 2.65% 09/16/2015	2,500,000	2,586,173	2,586,330	1.03
Caisse D'Amortissement de la Dette Sociale (144A) 1.625% 07/06/2015	3,000,000	2,994,990	2,998,830	1.19
Canadian Imperial Bank of Commerce (144A) (Reg) 2% 02/04/2013	1,000,000	1,007,120	1,009,500	0.40
Canadian Imperial Bank of Commerce(144A) (Reg) 2.6% 07/02/2015	2,000,000	2,102,789	2,105,350	0.83
Caterpillar Financial SE (Reg) 1.1% 05/29/2015	500,000	499,845	503,880	0.20
Colgate-Palmolive Co (Reg) 1.3% 01/15/2017	3,000,000	3,022,174	3,038,400	1.20
Commonwealth Bank Australia (144A) (Reg) 2.75% 10/15/2012	1,930,000	1,937,315	1,939,841	0.77
Credit Suisse New York (Reg) 5% 05/15/2013	4,000,000	4,117,219	4,124,480	1.64
Daimler Finance NA LLC (144A) (Reg) 1.65% 04/10/2015	1,000,000	1,001,185	1,003,860	0.40
Duke Energy Carolinas (Reg) 5.3% 10/01/2015	1,000,000	1,134,790	1,139,340	0.45
European Investment Bank (Reg) 2.75% 03/23/2015	3,000,000	3,149,721	3,156,210	1.25
European Investment Bank (Reg) 3.25% 05/15/2013	900,000	911,532	922,122	0.37
Fannie Mae (Reg) 0.7% 05/29/2015	3,000,000	2,998,255	3,001,770	1.19
Fannie Mae (Reg) 1.25% 01/30/2017	5,000,000	5,046,137	5,088,350	2.02
Federal Farm Credit Bank (Reg) 0.98% 08/08/2016	3,000,000	3,000,000	2,993,481	1.19
Federal Home Loan Bank (Reg) 0.375% 01/29/2014	5,000,000	5,001,708	5,003,950	1.98

The accompanying notes form an integral part of these Financial Statements

HSBC Specialist Funds Limited

Statement of Net Assets (Continued)

as at June 30, 2012

Short Duration Fixed Income Fund	Nominal Value	Purchase Price USD	Fair Value USD	% of Net Assets
Fixed Income Notes (Continued)				
FHLMC (Reg) 1.125% 07/05/2017	3,000,000	2,999,997	2,997,750	1.19
Freddie Mac (Reg) 0.5% 04/17/2015	5,000,000	4,987,815	5,002,550	1.98
Glaxosmithkline Capital (Reg) 0.75% 05/08/2015	2,000,000	1,995,166	2,001,880	0.79
Goldman Sachs Group LP (144A) (Reg) 8% 03/01/2013	2,000,000	2,080,778	2,075,090	0.82
ING Bank NV (144A) (Reg) 2.65% 01/14/2013	1,000,000	1,005,277	1,002,680	0.40
John Deere Capital Corp 0.875% 04/17/2015	1,000,000	999,422	1,001,175	0.40
JP Morgan Chase (Reg) 4.75% 05/01/2013	2,000,000	2,066,845	2,057,410	0.82
KFW (Reg) 0.625% 04/24/2015	2,000,000	1,995,487	2,001,500	0.79
KFW (Reg) 3.25% 03/15/2013	2,000,000	2,021,637	2,041,270	0.81
Massmutual Global Funding (144A) (Reg) 2.875% 04/21/2014	3,000,000	3,106,335	3,090,336	1.23
Met Life Global Funding I (144A) (Reg) 2.5% 01/11/2013	1,500,000	1,504,815	1,517,202	0.60
Met Life Global Funding I (REGS) (Reg) 2.875% 09/17/2012	1,510,000	1,512,451	1,514,711	0.60
Met Life Global Funding I Ser (144A) (Reg) 2.875% 09/17/2012	500,000	500,762	502,757	0.20
Microsoft Corp (Reg) 0.875% 09/27/2013	2,270,000	2,268,444	2,285,220	0.91
National Australia Bank (144A) 2% 06/20/2017	3,000,000	2,995,498	3,003,360	1.19
National Bank Of Canada 1.5% 06/26/2015	1,000,000	997,593	1,004,150	0.40
Nationwide Building Society (144A) (Reg) 2.5% 08/17/2012	3,500,000	3,505,199	3,509,135	1.39
New York Life Global FDG (144A) (Reg) 3% 05/04/2015	2,500,000	2,639,045	2,642,378	1.05
New York Life Global FDG (144A) 5.375% 09/15/2013	2,400,000	2,516,109	2,534,246	1.00
Nordea Bank (144A) (Reg) 2.5% 11/13/2012	5,000,000	5,011,328	5,030,370	2.00
Nordic Investment Bank (Reg) 2.5% 07/15/2015	4,500,000	4,755,606	4,758,615	1.89
Ontario (Province Of) (Reg) 1.375% 01/27/2014	2,000,000	2,020,995	2,026,470	0.80
Ontario (Province Of) (Reg) 4.1% 06/16/2014	1,000,000	1,067,119	1,067,270	0.42
Ontario (Province Of) (Reg) 4.375% 02/15/2013	1,000,000	1,019,402	1,024,585	0.41
Oversea-Chinese Banking (144A) 1.625% 03/13/2015	2,100,000	2,096,194	2,112,726	0.84
Rabobank Nederland (144A) (Reg) 2.65% 08/17/2012	5,000,000	5,008,858	5,012,670	1.99
Rabobank Nederland (144A) 4.2% 05/13/2014	1,000,000	1,047,300	1,046,205	0.41
Royal Bank of Canada 2.1% 07/29/2013	3,600,000	3,599,728	3,660,462	1.45
Shell International Finance BV (Reg) 1.875% 03/25/2013	5,000,000	5,000,149	5,054,750	2.00
Statoil ASA (Reg) 1.8% 11/23/2016	2,500,000	2,556,324	2,560,625	1.02
Sumitomo Mitsui Banking (144A) (Reg) 3.1% 01/14/2016	2,500,000	2,600,554	2,626,775	1.04
Swedish Export Credit (Reg) 3.25% 09/16/2014	1,000,000	1,040,450	1,051,235	0.42

The accompanying notes form an integral part of these Financial Statements

HSBC Specialist Funds Limited

Statement of Net Assets (Continued)

as at June 30, 2012

Short Duration Fixed Income Fund

	Nominal Value	Purchase Price USD	Fair Value USD	% of Net Assets
Fixed Income Notes (Continued)				
Toronto-Dominion Bank (144A) (Reg) 0.875% 09/12/2014	2,000,000	1,989,319	2,011,120	0.80
Toyota Motor Credit Corp (Reg) 1.375% 08/12/2013	3,500,000	3,498,882	3,531,920	1.40
UBS AG/Stamford CT (Ser BKNT) (Reg) 2.75% 01/08/2013	2,000,000	2,016,751	2,015,508	0.80
United Parcel Service Inc. (Reg) 4.5% 01/15/2013	1,700,000	1,726,975	1,735,904	0.69
Wachovia Bank NA (Ser BKNT) (Reg) 4.875% 02/01/2015	2,500,000	2,686,797	2,684,025	1.06
Wal-Mart Stores Inc (Reg) 1.5% 10/25/2015	3,000,000	3,071,900	3,071,580	1.22
Westpac Banking Corp (Reg) 2.1% 08/02/2013	5,100,000	5,105,062	5,169,207	2.05
		172,187,096	172,864,462	68.58
Floating Rate Notes				
ANZ National International Ltd/New Zealand (144A) (Reg) FRN 12/20/2013	1,850,000	1,857,559	1,853,889	0.74
Australia & New Zealand Banking Group Ltd (144A) (Reg) FRN 01/10/2014	1,500,000	1,502,111	1,498,428	0.59
Berkshire Hathaway Inc (Ser FRN) (Reg) FRN 08/15/2014	4,000,000	4,000,000	4,033,960	1.60
Commonwealth Bank of Australia (144A) (Reg) FRN 03/17/2014	3,000,000	2,998,280	2,995,794	1.19
Commonwealth Bank of Australia (144A) (Reg) FRN 03/19/2013	1,695,000	1,692,704	1,701,661	0.68
Credit Agricole SA/London (144A) (Reg) FRN 01/21/2014	3,600,000	3,629,114	3,514,648	1.39
Credit Home Loan SFH (144A) (Reg) FRN 07/21/2014	6,000,000	5,993,789	5,860,368	2.33
General Electric Capital Corp. (BR) FRN 03/20/2014	800,000	777,136	782,544	0.31
General Electric Capital Corp (Reg) FRN 06/20/2014	1,000,000	985,469	980,551	0.39
General Electric Capital Corp. (Reg)FRN 06/20/2014	1,000,000	969,238	984,803	0.39
General Electric Capital Corp. (Ser EMT) FRN 12/20/2013	2,000,000	1,975,750	2,001,730	0.79
General Electric Capital Corp. FRN 03/20/2013	1,200,000	1,188,785	1,187,184	0.47
Mellon Funding Corp (Reg) FRN 05/15/2014	2,400,000	2,381,096	2,394,780	0.95
Metlife Institutional Funding II (144A) (Reg) FRN 04/04/2014	1,500,000	1,502,266	1,501,227	0.60
National Australia Bank (144A) (Reg) FRN 07/25/2014	3,000,000	3,000,000	3,002,520	1.19
Nordea Bank (144A) (Reg) FRN 01/14/2014	1,500,000	1,508,167	1,481,107	0.59
Procter & Gamble Co/The (Reg) FRN 02/06/2014	5,000,000	5,000,000	5,006,150	1.99
Royal Bank Of Canada (Ser MTN1) (Reg) FRN 04/17/2014	3,000,000	3,001,112	3,006,045	1.19
Stadshypotek (144A) (Reg) FRN 09/30/2013	500,000	500,293	497,394	0.20
Svenska Handelsbanken AB (144A) (Reg) FRN 09/14/2012	4,385,000	4,388,322	4,386,153	1.74

The accompanying notes form an integral part of these Financial Statements

HSBC Specialist Funds Limited
Statement of Net Assets (Continued)
as at June 30, 2012

Short Duration Fixed Income Fund	Nominal Value	Purchase Price USD	Fair Value USD	% of Net Assets
Floating Rate Notes (Continued)				
Swedish Export Credit (Reg) FRN 08/14/2014	1,300,000	1,307,453	1,307,404	0.52
Toronto-Dominion Bank (Reg) FRN 07/14/2014	1,000,000	1,000,000	1,003,471	0.40
Total Capital Canada Ltd (Reg) FRN 01/17/2014	5,000,000	5,010,871	5,024,840	1.99
United Technologies Corp (Ser FRN) FRN 12/02/2013	4,000,000	4,000,000	4,016,216	1.59
Wachovia Bank NA (Reg) FRN 03/15/2016	1,000,000	951,878	955,424	0.38
Westpac Banking Corp (144A) (Reg) FRN 03/31/2014	1,500,000	1,499,041	1,483,563	0.59
		62,620,434	62,461,854	24.79
Total investments		240,212,949	240,731,735	95.51
Other net assets			11,317,105	4.49
Total net assets			252,048,840	100.00

The accompanying notes form an integral part of these Financial Statements

HSBC Specialist Funds Limited
Statement of Operations
for the year ended June 30, 2012

	Short Duration Fixed Income Fund USD
Income	
Interest income	3,066,447
	<u>3,066,447</u>
Expenses	
Management fees (note 4)	789,479
Administration and custodian fees (notes 5 & 6)	336,367
Audit fees	29,152
Directors' fees (note 8)	15,069
Interest expense	222
Other expenses	21,753
	<u>1,192,042</u>
Net investment income	<u>1,874,405</u>
Net realized losses on sale of investments	(315,338)
Net change in unrealized losses on investments	(878,640)
	<u>(1,193,978)</u>
Net increase in net assets resulting from operations	<u>680,427</u>

The accompanying notes form an integral part of these Financial Statements

HSBC Specialist Funds Limited
Statement of Changes in Net Assets
for the year ended June 30, 2012

Short Duration Fixed Income Fund	Class AC USD	Class AD USD	Class IC USD	Class ID USD	Class R USD	Total
Net assets at start of the year	101,087,833	530,360	95,623,949	50,778,053	2,782,623	250,802,818
Net increase/(decrease) in net assets from operations						
Net investment income	775,124	97,869	560,756	417,871	22,785	1,874,405
Net realized losses on sale of investments	(148,697)	(29,319)	(63,807)	(67,109)	(6,406)	(315,338)
Net change in unrealized (losses)/gain on investments	(396,043)	15,470	(295,266)	(183,358)	(19,443)	(878,640)
	230,384	84,020	201,683	167,404	(3,064)	680,427
Subscriptions and redemptions						
Proceeds on issue of shares	32,971,042	18,825,000	71,694,719	402,100	4,783,280	128,676,141
Payments on redemption of shares	(37,424,914)	(7,264,287)	(80,162,907)	-	(2,794,416)	(127,646,524)
	(4,453,872)	11,560,713	(8,468,188)	402,100	1,988,864	1,029,617
Dividends (note 13)	-	(86,379)	-	(377,643)	-	(464,022)
Net assets at end of the year	96,864,345	12,088,714	87,357,444	50,969,914	4,768,423	252,048,840

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, 2012

1. The Fund

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

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

The shares of the Fund are divided into several classes (the "Classes") for which the Fund maintains separate accounts. The assets of each Class of the Fund are held exclusively for the benefit of the holders of the shares of the relevant Classes. However, all assets of the Fund are subject to the general creditors of the Fund, in that the assets of each Class may be exposed to the liabilities of other Classes within the Fund. At June 30, 2012, the Directors were not aware of any such specific existing or contingent liabilities. The following Fund and share classes existing as at June 30, 2012 were as follows (see also Note 10):

	Date of Inception
Short Duration Fixed Income Fund - Class AC - USD	March 8, 2010
Short Duration Fixed Income Fund - Class AD - USD	March 31, 2011
Short Duration Fixed Income Fund - Class IC - USD	March 8, 2010
Short Duration Fixed Income Fund - Class ID - USD	March 29, 2011
Short Duration Fixed Income Fund - Class R - USD	March 31, 2011

2. Significant Accounting Policies

The accompanying financial statements are prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"). The significant accounting and reporting policies adopted by the Fund are as follows:

- (a) Investment transactions and income
Investment transactions are recorded on the trade date. Realized gains and losses on investment transactions are calculated on a first in first out basis. Realized and unrealized gains and losses arising from investment transactions are included in the statement of operations.
Discounts and premiums on debt securities are amortized over the life of the respective securities using the effective interest rate method.
- (b) Valuation of investments
In accordance with US GAAP, fair value is defined as the price that the Fund would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date. Accounting guidelines for fair value measurements establishes a framework for measuring fair value, using a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability. Inputs may be observable or unobservable and refer broadly to the assumptions that market participants would use in pricing the asset or liability. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Fund. Unobservable inputs reflect the Fund's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. Each investment is assigned a level based upon the observability of the inputs which are significant to the overall valuation. The three-tier hierarchy of inputs is summarized below:
- Level 1 – observable prices and quoted prices in active markets for identical investments
 - Level 2 – other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)
 - Level 3 – significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)

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

HSBC Specialist Funds Limited

Notes to the Financial Statements

for the year ended June 30, 2012

2. Significant Accounting Policies (continued)

- (b) Valuation of investments (continued)
Investments in securities and derivative financial instruments are valued as follows:
- The fair value of debt instruments is estimated using various techniques, which may consider recently executed transactions in securities of the issuer or comparable issuers, market price quotations (where observable), bond spreads, fundamental data relating to the issuer, and credit default swap spreads adjusted for any basis difference between cash and derivatives instruments. While most debt instruments are categorized in Level 2 of the fair value hierarchy, in instances where lower relative weight is placed on transaction prices, quotations, or similar observable inputs, they are categorized in Level 3 of the fair value hierarchy.
 - Commercial paper is estimated using amortized cost, which approximates fair value. To the extent the inputs are observable and timely, the values would be categorized in Level 2 of the fair value hierarchy.
- (c) Cash and cash equivalents
Cash and cash equivalents include cash balances, money market funds, and short-term fixed deposits with maturity dates of less than 30 days from the date of purchase.
- (d) Interest and dividend income
Interest income is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date net of withholding tax.
- (e) Expenses
The Fund bears all operating expenses which are allocated between all Classes in proportion to the respective net asset value of each Class unless the expense is solely attributable to a specific Class upon which it is allocated to the respective Class.
- (f) Use of estimates
The preparation of financial statements in accordance with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.
- (g) Foreign currency translation
Assets and liabilities denominated in currencies other than the base currency of each Class are translated into the base currency at the rate of exchange prevailing at the date of the financial statements. Transactions during the year in currencies other than the base currency have been translated at the rate of exchange prevailing on the date of the transaction. Realized and unrealized gains and losses on translation of investment balances are included in the statement of operations under "net realized losses on sale of investments" and "net change in unrealized losses on investments", respectively. All other realized and unrealized losses arising from foreign currency translation are included in the line item to which they relate.
- (h) Mandatory redeemable financial instruments
Financial instruments, mandatorily redeemable at the option of the holder, are classified as liabilities when a redemption request has been received and the redemption amount has been determined.
- (i) Allocation of profits and losses
All investment income, realized and unrealized gains and losses are allocated to each Class of shares outstanding on a daily basis in proportion to their interest in the net asset value of the Fund.
- (j) New Accounting Pronouncement
In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards ("IFRSs"), which amends U.S. GAAP to conform it with fair value measurement and disclosure requirements in IFRSs. The amendments are of two types: (i) those that clarify the FASB's intent about the application of existing fair value measurement and disclosure requirements and (ii) those that change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurement.

HSBC Specialist Funds Limited

Notes to the Financial Statements

for the year ended June 30, 2012

2. Significant Accounting Policies (continued)

(j) New Accounting Pronouncement (continued)

The amendments that change a particular principle or requirement for measuring fair value or disclosing information about fair value measurements relate to (i) measuring the fair value of the financial instruments that are managed within a portfolio; (ii) application of premium and discount in a fair value measurement; and (iii) additional disclosures about fair value measurements. The amendments are to be applied prospectively and are effective for annual periods beginning after December 15, 2011. The Manager is currently evaluating the impact this accounting standard update will have on the Fund's financial statements.

3. Cash and Cash Equivalents

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

	Short Duration Fixed Income Fund USD
Cash at bank	-
Money market fund	16,368,689
	<u>16,368,689</u>

4. Manager

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

Class	Rate
AC	0.50%
AD	0.50%
IC	0.40%
ID	0.40%
R	0.75%

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

5. Administrator

Under an agreement dated January 16, 2002 between the Fund and HSBC Securities Services (Bermuda) Limited (the "Administrator"), a wholly-owned subsidiary of the Bank, the Administrator agreed to act as share registrar, transfer agent and the secretary, and to provide accounting and administrative services to the Fund. The Administrator is entitled to receive fees for services from the Short Duration Fixed Income Fund at the annual rate of 0.125%, of up to \$250,000,000 in Net Assets or a minimum fee of \$120,000 per annum as provided for in the administration agreement.

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.

HSBC Specialist Funds Limited

Notes to the Financial Statements

for the year ended June 30, 2012

6. Custodian

Under an agreement dated January 16, 2002, HSBC Institutional Trust Services (Bermuda) Limited (the "Custodian") was appointed Custodian for the Fund. The Custodian is entitled to receive fees from the Fund for services provided at such rates agreed from time to time between the Fund and the Custodian. 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 the Fund. In the event that such taxes are levied, the Fund has received an undertaking from the Bermuda Government, under the Exempted Undertaking Tax Protection Act 1966, exempting it from all such taxes until March 28, 2016.

8. Directors' Fees

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

For the year ended June 30, 2012, Mr. William D. Thomson and Ms. Julie E. McLean each received an annual fee of \$5,000.

9. Directors' Interests

As at June 30, 2012, Directors held nil shares in the Fund.

10. Share Capital

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

	Short Duration Fixed Income Fund (note 1)				
	Class AC	Class AD	Class IC	Class ID	Class R
Shares in issue July 1, 2011	995,252	5,240	939,974	501,133	27,734
Shares issued during the year	325,481	186,783	705,959	3,992	47,735
Shares redeemed during the year	(369,230)	(72,077)	(790,033)	-	(27,930)
Shares in issue June 30, 2012	951,503	119,946	855,900	505,125	47,539

11. Cost of Investments

Cost of investments as at June 30, 2012 is \$240,212,949.

HSBC Specialist Funds Limited

Notes to the Financial Statements

for the year ended June 30, 2012

12. Financial Instruments and Associated Risks

Price Risk

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

Currency Risk

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

Interest Rate Risk

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

Liquidity Risk

The Fund mainly invests in debt securities, which are not publicly traded. The Fund manages liquidity risk by investing mainly in debt securities that can be sold daily.

Credit Risk

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

13. Dividends

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

During the year ended June 30, 2012, the Directors declared the following dividends:

	USD
Dividends declared - Class AD - USD	86,379
Dividends declared - Class ID - USD	377,643

HSBC Specialist Funds Limited

Notes to the Financial Statements

for the year ended June 30, 2012

14. Fair Value Measurements

The following table summarizes the valuation of the Fund's investments by investment type by the fair value hierarchy levels as of June 30, 2012 with respect to the Short Duration Fixed Income Fund:

	Level 1	Level 2	Level 3	Total
Assets				
Investments, at fair value:				
Certificate of Deposit	\$ -	\$ 5,405,419	\$ -	\$ 5,405,419
Fixed Income Notes	-	172,864,462	-	172,864,462
Floating Rate Notes	-	62,461,854	-	62,461,854
Total investments, at fair value	-	240,731,735	-	240,731,735
Cash equivalents	16,368,689	-	-	16,368,689
Total	\$ 16,368,689	\$ 240,731,735	\$ -	\$ 257,100,424

The Fund's policy is to recognize transfers into and out of various levels of the fair value hierarchy as at the actual date of the event or change in circumstances that caused the transfer. No transfers were made during the year ended June 30, 2012.

15. Financial Highlights

Schedule of Financial Highlights for Short Duration Fixed Income Fund for the year ended June 30, 2012

	USD				
	Class AC	Class AD	Class IC	Class ID	Class R
Selected per share data					
Net asset value at beginning of the year	101.57	101.22	101.73	101.33	100.33
Income/(loss) from investment operations					
Net investment income	0.73	0.73	0.83	0.83	0.48
Net realized losses on sale of investments and net change in unrealized loss on investments	(0.50)	(0.51)	(0.50)	(0.50)	(0.50)
Total from investment operations	0.23	0.22	0.33	0.33	(0.02)
Dividends declared	-	(0.66)	-	(0.75)	-
Net asset value at end of the year	101.80	100.78	102.06	100.91	100.31
Total return, excluding dividends declared	0.23 %	0.22 %	0.32 %	0.33 %	(0.02) %
Ratios to average net assets					
Total expenses	0.53 %	0.53 %	0.43 %	0.43 %	0.78 %
Net investment income	0.72 %	0.73 %	0.81 %	0.82 %	0.47 %

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

16. Subsequent Events

On September 28, 2012 the HSBC Specialist Funds Limited Class AD and ID declared a dividend of \$0.13 and \$0.15 per share, respectively. It has an ex dividend date of September 28, 2012.

The Directors have assessed and evaluated all subsequent events arising from the date of the statement of assets and liabilities up until September 28, 2012 and have concluded that no other additional disclosure is required.

HSBC Specialist Funds Limited Management and Administration for the year ended June 30, 2012

Directors and Officers

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

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

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

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

Secretary and Registered Office

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

Manager

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

Banker

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

Custodian

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

Administrator

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

Auditors

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

Legal Advisers

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

Bermuda Stock Exchange

Listing Sponsor
Bermuda International Securities Limited
6 Front Street
Hamilton HM 11, Bermuda

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