

# HSBC Specialist Funds Limited

Annual Report June 2013

# HSBC Specialist Funds Limited

## Contents

|                                     |    |
|-------------------------------------|----|
| Short Duration Fixed Income Fund    |    |
| Manager's Report                    | 1  |
| Independent Auditors' Report        | 2  |
| <b>Statements</b>                   |    |
| Statement of Assets and Liabilities | 3  |
| Statement of Net Assets             | 4  |
| Statement of Operations             | 8  |
| Statement of Changes in Net Assets  | 9  |
| Notes to the Financial Statements   | 10 |
| Management and Administration       | 16 |

# Short Duration Fixed Income Fund

## Manager's Report

for the year ended June 30, 2013

### Market Overview

The US economy has maintained a slow pace of growth over the last twelve months. Unemployment is improving slowly but remains elevated and inflation has continued to show benign results. The Federal Reserve has continued its quantitative easing policies and kept rates along the yield curve extremely low from a historical perspective. A slowdown in the rate of Chinese growth has contributed to a broader global slowdown as the Chinese economy continues its transition from an investment economy to a consumption economy. Europe has continued to sputter along but significant downside risks have been greatly reduced. More recently "Tapering" has become the new phrase that sent yields higher. Federal Reserve Chairman Bernanke remained steadfast in tying reductions in asset purchases to an improving outlook on the overall economy and not a predetermined rate of unemployment.

### Portfolio Overview

The Federal Reserve continues to make clear from their committee meetings that short term rates will remain low for an extended period of time. However, with the very front end of the short duration yield curve relatively flat we have maintained overall duration risk by increasing the portfolio's weighting in floating rate paper with quarterly reset rates while reducing the weighting in fixed rate longer duration fixed rate issues. This has enabled us to maintain increased credit spread duration while maintaining interest duration approximating that of the benchmark index. We remain comfortable overweighting corporate credit duration under current macro conditions. Despite the less than robust economy, macro conditions remain healthy enough to be supportive as corporate balance sheets remain very healthy. The market appetite for incremental yield through spread product has remained in place and will likely continue to lead to further spread compression and strong relative performance of the corporate sector.

### Outlook

With a macro backdrop which remains slow and a bit uncertain, the Federal Reserve continues to emphasise its desire to keep rates low for an extended period. This has kept rates low in the short duration (1-3 year) portion of the curve with very low volatility. Corporates generally remain attractive and defaults will continue to be below historical averages. We have reduced our overweight in financials and allocated more towards industrials as the incremental yield spread between financials and industrials has further narrowed over the last year. We continue to overweight the 3-5 year portion of the curve to take advantage of rate and spread roll down along the curve. We remain somewhat defensive on overall duration at this point as the ability for outperformance from duration positioning is presently limited for short duration portfolios by the narrow range that short duration yields have and will continue to be anchored in.

HSBC Global Asset Management (Bermuda) Limited – August 2013

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



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

Mailing Address:  
P.O. Box HM 906  
Hamilton HM DX Bermuda

Telephone +1 441 295 5063  
Fax +1 441 295 9132  
Internet [www.kpmg.bm](http://www.kpmg.bm)

## **INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying financial statements of the Fund, which comprise the statement of assets and liabilities, including the statement of net assets, as of June 30, 2013, and the related statements of operations, and changes in net assets for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

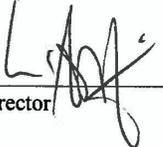
In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of HSBC Specialist Funds Limited as of June 30, 2013, and the results of its operations and changes in its net assets for the year then ended in accordance with U.S. generally accepted accounting principles.

***KPMG Audit Limited***

Chartered Accountants  
Hamilton, Bermuda  
September 26, 2013

HSBC Specialist Funds Limited  
Statement of Assets and Liabilities  
as at June 30, 2013

|   | Short Duration<br>Fixed Income Fund<br>USD |
|---|--|
| <b>Assets</b>   |  |
| Investments at fair value (notes 11, 12 & 14)           | 262,189,009                                |
| Cash and cash equivalents (notes 3 & 14)                | 15,482,177                                 |
| Interest receivable                                     | 870,755                                    |
| Prepaid expenses  | 16,869                                     |
|   | <b>278,558,810</b>                         |
| <b>Liabilities</b>                                      |  |
| Administration and custodian fees payable (notes 5 & 6) | 175,578                                    |
| Dividends payable (note 13)                             | 65,694                                     |
| Management fees payable (note 4)                        | 62,898                                     |
| Accounts payable and accrued expenses                   | 70,654                                     |
|   | <b>374,824</b>                             |
| <b>Net assets</b>                                       | <b>278,183,986</b>                         |
| <b>Net assets attributable to:</b>                      |  |
| Class AC Shares   | 72,980,448                                 |
| Class AD Shares   | 11,674,155                                 |
| Class IC Shares   | 139,396,025                                |
| Class ID Shares   | 51,375,617                                 |
| Class R Shares  | 2,757,741                                  |
|   | <b>278,183,986</b>                         |
| <b>Shares outstanding (note 10)</b>                     |  |
| Class AC Shares   | 712,344                                    |
| Class AD Shares   | 115,561                                    |
| Class IC Shares   | 1,355,504                                  |
| Class ID Shares   | 507,921                                    |
| Class R Shares  | 27,361                                     |
| <b>Net asset value per share</b>                        | <b>USD</b>                                 |
| Class AC Shares   | 102.45                                     |
| Class AD Shares   | 101.02                                     |
| Class IC Shares   | 102.84                                     |
| Class ID Shares   | 101.15                                     |
| Class R Shares  | 100.79                                     |

  
Director

The accompanying notes form an integral part of these Financial Statements

  
Director

# HSBC Specialist Funds Limited

## Statement of Net Assets

as at June 30, 2013

### Short Duration Fixed Income Fund

|   | Nominal<br>Value | Purchase<br>Price<br>USD | Fair<br>Value<br>USD | % of<br>Net<br>Assets |
|---|------------------|--------------------------|----------------------|-----------------------|
| <b>Fixed Income Notes</b>   |                  |                          |                      |                       |
| 3M Co 1% 06/26/2017   | 1,000,000        | 996,299                  | 982,245              | 0.35                  |
| ABN Amro Bank (144A) (Reg) 1.375% 01/22/2016                        | 1,200,000        | 1,199,763                | 1,193,394            | 0.43                  |
| America Movil SAB De CV (Reg) 3.625% 03/30/2015                     | 2,500,000        | 2,610,019                | 2,596,850            | 0.93                  |
| American Honda Finance (144A) 1.45% 02/27/2015                      | 1,500,000        | 1,517,430                | 1,515,667            | 0.55                  |
| AT & T Inc 0.8% 12/01/2015  | 4,100,000        | 4,099,169                | 4,084,563            | 1.47                  |
| Australia & New Zealand Banking Group Ltd (144A) 1% 10/06/2015      | 750,000          | 748,876                  | 753,292              | 0.27                  |
| BAA Funding Ltd (144A) (Reg) 2.5% 06/25/2015                        | 3,500,000        | 3,590,601                | 3,573,220            | 1.29                  |
| Bank Of Montreal (144A) (Reg) 1.3% 10/31/2014                       | 3,000,000        | 3,011,992                | 3,032,475            | 1.09                  |
| Bank of Nova Scotia 1.375% 12/18/2017                               | 1,500,000        | 1,498,506                | 1,460,347            | 0.53                  |
| Barclays Bank Plc (144A) (Reg) 2.25% 05/10/2017                     | 1,000,000        | 1,029,265                | 1,027,475            | 0.37                  |
| Barclays Bank Plc (Reg) 5.2% 07/10/2014                             | 1,500,000        | 1,560,398                | 1,566,090            | 0.56                  |
| BAT International Finance PLC (144A) (Reg) 1.4% 06/05/2015          | 4,000,000        | 4,047,423                | 4,033,340            | 1.45                  |
| BK Nederlandse Gemeenten (144a) (Reg) 1.375% 03/23/2015             | 3,000,000        | 3,016,804                | 3,041,955            | 1.09                  |
| BK Tokyo-Mitsubishi UFJ (144A) (Reg) 2.45% 09/11/2015               | 2,500,000        | 2,537,617                | 2,575,787            | 0.93                  |
| British Columbia (Province Of) (Reg) 2.85% 06/15/2015               | 2,000,000        | 2,079,765                | 2,092,390            | 0.75                  |
| Caisse Centrale Desjardins du Quebec (144A) (Reg) 2.65% 09/16/2015  | 2,500,000        | 2,559,966                | 2,585,425            | 0.93                  |
| Caisse D'Amortissement de la Dette Sociale (144A) 1.625% 07/06/2015 | 3,000,000        | 2,996,611                | 3,056,370            | 1.10                  |
| Canadian Imperial Bank of Commerce(144A) (Reg) 2.6% 07/02/2015      | 1,000,000        | 1,034,551                | 1,038,400            | 0.37                  |
| Chevron Corp (Reg) 0.889% 06/24/2016                                | 750,000          | 750,000                  | 749,996              | 0.27                  |
| Chevron Corp 1.104% 12/05/2017                                      | 1,000,000        | 1,000,000                | 977,165              | 0.35                  |
| Cred Mutuel - CIC Home LO (144A) 1.5% 11/16/2017                    | 3,750,000        | 3,752,789                | 3,650,175            | 1.31                  |
| Daimler Finance NA LLC (144A) 1.25% 01/11/2016                      | 3,500,000        | 3,502,319                | 3,487,190            | 1.25                  |
| DBS Bank Ltd/Singapore (144A) (Reg) 2.35% 02/28/2017                | 2,000,000        | 2,054,290                | 2,027,500            | 0.73                  |
| European Investment Bank (Reg) 2.75% 03/23/2015                     | 3,000,000        | 3,095,622                | 3,120,150            | 1.12                  |
| Export-Import Bank of Korea 1.25% 11/20/2015                        | 1,800,000        | 1,797,465                | 1,785,834            | 0.64                  |
| Fannie Mae (Reg) 0.4% 07/30/2015                                    | 7,000,000        | 7,000,000                | 6,992,300            | 2.51                  |
| Fannie Mae (Reg) 0.48% 01/29/2016                                   | 2,000,000        | 1,999,741                | 1,987,610            | 0.71                  |
| Fannie Mae (Reg) 0.5% 01/15/2016                                    | 6,000,000        | 6,000,000                | 5,966,940            | 2.14                  |
| Fannie Mae (Reg) 0.5% 07/02/2015                                    | 9,500,000        | 9,530,042                | 9,516,435            | 3.42                  |
| Fannie Mae (Reg) 0.625% 10/30/2014                                  | 3,000,000        | 3,014,522                | 3,012,630            | 1.08                  |
| Fannie Mae (Ser 0000) (Reg) 1% 11/28/2017                           | 4,000,000        | 4,000,000                | 3,924,840            | 1.41                  |
| Federal Farm Credit Bank (Reg) 0.78% 04/03/2017                     | 5,000,000        | 5,000,000                | 4,930,650            | 1.77                  |
| Federal Farm Credit Bank (Reg) 0.99% 09/05/2017                     | 3,000,000        | 2,999,242                | 2,952,495            | 1.06                  |
| Federal Home Loan Bank (Reg) 0.375% 06/24/2016                      | 12,000,000       | 11,918,493               | 11,867,760           | 4.27                  |
| Federal Home Loan Bank (Reg) 0.55% 02/12/2016                       | 5,875,000        | 5,875,000                | 5,840,044            | 2.10                  |
| Federal Home Loan Bank (Reg) 0.74% 08/09/2016                       | 909,091          | 909,091                  | 904,500              | 0.33                  |

The accompanying notes form an integral part of these Financial Statements

# HSBC Specialist Funds Limited

## Statement of Net Assets (Continued)

as at June 30, 2013

### Short Duration Fixed Income Fund

|  | Nominal<br>Value | Purchase<br>Price<br>USD | Fair<br>Value<br>USD | % of<br>Net<br>Assets |
|--|------------------|--------------------------|----------------------|-----------------------|
| <b>Fixed Income Notes (Continued)</b>                    |                  |                          |                      |                       |
| Federal Home Loan Bank (Reg) 1% 08/09/2017               | 2,350,000        | 2,348,529                | 2,319,567            | 0.83                  |
| FHLMC (Reg) 1.125% 07/05/2017                            | 3,000,000        | 2,999,998                | 2,977,425            | 1.07                  |
| Freddie Mac (Reg) 0.75% 10/05/2016                       | 3,000,000        | 3,000,000                | 2,999,325            | 1.08                  |
| General Electric Co (Reg) 0.85% 10/09/2015               | 1,000,000        | 1,000,705                | 999,155              | 0.36                  |
| Goldman Sachs Group Inc 3.3% 05/03/2015                  | 3,000,000        | 3,106,060                | 3,094,455            | 1.11                  |
| HBOS Treasury Services (144A) 5.25% 02/21/2017           | 2,000,000        | 2,260,728                | 2,250,650            | 0.81                  |
| Hutchison Whampoa Finance (144A) (Reg) 4.625% 09/11/2015 | 1,950,000        | 2,092,411                | 2,078,486            | 0.75                  |
| ING Bank (144A) 2% 09/25/2015                            | 4,000,000        | 3,991,306                | 4,030,820            | 1.45                  |
| JP Morgan Chase & Co (Ser GMTN) 1.1% 10/15/2015          | 4,000,000        | 3,998,736                | 3,978,100            | 1.43                  |
| KFW (Reg) 0.625% 04/24/2015                              | 2,000,000        | 1,997,071                | 2,006,900            | 0.72                  |
| KFW (Reg) 1.25% 10/05/2016                               | 1,000,000        | 1,017,835                | 1,010,800            | 0.36                  |
| Massmutual Global Funding (144A) (Reg) 2.875% 04/21/2014 | 3,000,000        | 3,048,053                | 3,058,286            | 1.10                  |
| Met Life Global Funding I (144A) 1.5% 01/10/2018         | 1,900,000        | 1,890,980                | 1,846,097            | 0.66                  |
| National Australia Bank (144A) 2% 06/20/2017             | 1,500,000        | 1,498,181                | 1,525,013            | 0.55                  |
| New York Life Global Funding (144A) 0.75% 07/24/2015     | 4,000,000        | 3,997,531                | 3,998,380            | 1.44                  |
| Norddeutsche Landesbank (144A) 0.875% 10/16/2015         | 2,000,000        | 1,995,881                | 2,002,500            | 0.72                  |
| Nordea Bank (144A) (Reg) 2.25% 03/20/2015                | 2,200,000        | 2,244,193                | 2,249,841            | 0.81                  |
| Nordea Bank AB (144A) 3.125% 03/20/2017                  | 1,000,000        | 1,045,726                | 1,035,410            | 0.37                  |
| Nordic Investment Bank (Reg) 2.5% 07/15/2015             | 4,500,000        | 4,672,615                | 4,678,290            | 1.68                  |
| Oversea-Chinese Banking (144A) 1.625% 03/13/2015         | 3,100,000        | 3,110,871                | 3,137,743            | 1.13                  |
| Paccar Financial Corp 0.8% 02/08/2016                    | 1,300,000        | 1,298,459                | 1,285,037            | 0.46                  |
| Principal Life Global Funding II (144A) 1% 12/11/2015    | 1,500,000        | 1,499,201                | 1,499,325            | 0.54                  |
| Rabobank Nederland (Reg) 2.125% 10/13/2015               | 2,000,000        | 2,052,815                | 2,048,480            | 0.74                  |
| Royal Bank of Canada 1.2% 09/19/2017                     | 1,500,000        | 1,499,873                | 1,464,473            | 0.53                  |
| Shell International Finance (Reg) 0.625% 12/04/2015      | 1,800,000        | 1,799,648                | 1,796,598            | 0.65                  |
| Statoil ASA (Reg) 1.8% 11/23/2016                        | 3,037,000        | 3,096,134                | 3,132,635            | 1.13                  |
| Statoil ASA (Reg) 2.9% 10/15/2014                        | 2,000,000        | 2,060,374                | 2,054,640            | 0.74                  |
| Sumitomo Mitsui Banking (144A) (Reg) 3.1% 01/14/2016     | 1,000,000        | 1,029,206                | 1,045,250            | 0.38                  |
| Sumitomo Mitsui Banking 1.5% 01/18/2018                  | 2,000,000        | 1,994,738                | 1,923,330            | 0.69                  |
| Swedish Export Credit (Reg) 1.75% 10/20/2015             | 4,000,000        | 4,083,638                | 4,093,280            | 1.47                  |
| Swedish Export Credit (Reg) 3.25% 09/16/2014             | 1,000,000        | 1,022,416                | 1,034,445            | 0.37                  |
| Toronto-Dominion Bank (144A) (Reg) 0.875% 09/12/2014     | 2,000,000        | 1,994,113                | 2,008,750            | 0.72                  |
| Total Capital International 0.75% 01/25/2016             | 1,000,000        | 999,442                  | 994,990              | 0.36                  |

The accompanying notes form an integral part of these Financial Statements

# HSBC Specialist Funds Limited

## Statement of Net Assets (Continued)

as at June 30, 2013

### Short Duration Fixed Income Fund

|  | Nominal<br>Value | Purchase<br>Price<br>USD | Fair<br>Value<br>USD | % of<br>Net<br>Assets |
|--|------------------|--------------------------|----------------------|-----------------------|
| <b>Fixed Income Notes (Continued)</b>                        |                  |                          |                      |                       |
| Toyota Motor Credit Corp 0.875% 07/17/2015                   | 3,000,000        | 2,998,907                | 3,007,050            | 1.08                  |
| UBS London (144A) 0.75% 03/24/2016                           | 4,000,000        | 3,990,597                | 3,957,740            | 1.42                  |
| Volkswagen International Finance (144A) 1.15% 11/20/2015     | 2,900,000        | 2,902,446                | 2,907,323            | 1.05                  |
| Wachovia Bank NA (Ser BKNT) (Reg) 4.875% 02/01/2015          | 2,500,000        | 2,616,205                | 2,655,788            | 0.95                  |
| Wal-Mart Stores Inc (Reg) 1.5% 10/25/2015                    | 3,000,000        | 3,050,581                | 3,058,350            | 1.10                  |
| Westpac Banking Corp (144A) 1.375% 07/17/2015                | 3,000,000        | 2,999,216                | 3,037,005            | 1.09                  |
|  | 206,671,091      | 208,639,090              | 208,185,231          | 74.83                 |
| <b>Floating Rate Notes</b>                                   |                  |                          |                      |                       |
| American Honda Finance (144A) FRN 05/26/2016                 | 1,700,000        | 1,700,920                | 1,697,305            | 0.61                  |
| Australia & New Zealand Banking Group NY FRN 05/15/2018      | 4,000,000        | 4,000,000                | 3,993,320            | 1.44                  |
| Bank Of Nova Scotia FRN 03/15/2016                           | 2,000,000        | 2,000,000                | 1,999,720            | 0.72                  |
| BB&T Corporation FRN 06/15/2018                              | 750,000          | 750,000                  | 751,860              | 0.27                  |
| Berkshire Hathaway Inc (Ser FRN) (Reg) FRN 08/15/2014        | 4,000,000        | 4,000,000                | 4,027,160            | 1.45                  |
| BP Capital Markets Plc FRN 05/10/2018                        | 2,000,000        | 2,003,505                | 1,957,260            | 0.70                  |
| BPCE FRN 04/25/2016  | 1,250,000        | 1,250,000                | 1,259,750            | 0.45                  |
| Commonwealth Bank of Australia (144A) FRN 09/18/2015         | 4,000,000        | 4,000,000                | 4,045,640            | 1.45                  |
| Credit Home Loan SFH (144A) (Reg) FRN 07/21/2014             | 4,000,000        | 3,997,650                | 4,018,400            | 1.45                  |
| General Electric Capital Corp. (Reg) FRN 02/15/2017          | 1,000,000        | 986,532                  | 994,925              | 0.36                  |
| Metlife Institutional Funding II (144A) (Reg) FRN 04/04/2014 | 1,500,000        | 1,500,911                | 1,509,008            | 0.54                  |
| National Australia Bank (144A) (Reg) FRN 07/25/2014          | 3,000,000        | 3,000,000                | 3,027,705            | 1.09                  |
| Nordea Bank (144A) (Reg) FRN 05/13/2016                      | 2,000,000        | 2,003,056                | 1,999,940            | 0.72                  |
| Procter & Gamble Co/The (Reg) FRN 02/06/2014                 | 3,000,000        | 3,000,000                | 2,998,770            | 1.08                  |
| Rabobank Nederland (Ser FRN) FRN 03/18/2016                  | 2,000,000        | 2,000,000                | 2,005,870            | 0.72                  |
| Rio Tinto Finance USA Plc (Ser FRN) FRN 06/17/2016           | 2,400,000        | 2,400,000                | 2,402,904            | 0.86                  |
| Royal Bank Of Canada (Ser GMTN) FRN 03/08/2016               | 3,000,000        | 3,000,000                | 3,006,600            | 1.08                  |
| Swedish Export Credit (Reg) FRN 08/14/2014                   | 1,300,000        | 1,303,939                | 1,310,491            | 0.47                  |
| Toronto-Dominion Bank (Reg) FRN 04/30/2018                   | 2,000,000        | 2,013,951                | 2,002,440            | 0.72                  |
| Total Capital Canada Ltd (Reg) FRN 01/17/2014                | 3,000,000        | 3,002,382                | 3,006,165            | 1.08                  |
| Wachovia Bank NA (Reg) FRN 03/15/2016                        | 1,000,000        | 964,461                  | 990,165              | 0.36                  |
| Wells Fargo & Company FRN 04/23/2018                         | 1,000,000        | 1,000,000                | 999,805              | 0.36                  |
| Westpac Banking Corp (144A) (Reg) FRN 03/31/2014             | 1,500,000        | 1,499,626                | 1,507,500            | 0.54                  |
|  | 51,400,000       | 51,376,933               | 51,512,703           | 18.52                 |

The accompanying notes form an integral part of these Financial Statements

HSBC Specialist Funds Limited  
Statement of Net Assets (Continued)  
as at June 30, 2013

| Short Duration Fixed Income Fund  | Nominal<br>Value | Purchase<br>Price<br>USD | Fair<br>Value<br>USD | % of<br>Net<br>Assets |
|---|------------------|--------------------------|----------------------|-----------------------|
| <b>Municipal Bond</b>   |                  |                          |                      |                       |
| Florida Hurricane Catastrophe Fund Finance Corp Revenue Ser A 1.298% 07/01/2016 | 2,500,000        | 2,500,000                | 2,491,075            | 0.90                  |
|   | <b>2,500,000</b> | <b>2,500,000</b>         | <b>2,491,075</b>     | <b>0.90</b>           |
| <b>Total investments</b>  |                  | <b>262,516,023</b>       | <b>262,189,009</b>   | <b>94.25</b>          |
| <b>Other net assets</b>   |                  |                          | <b>15,994,977</b>    | <b>5.75</b>           |
| <b>Total net assets</b>   |                  |                          | <b>278,183,986</b>   | <b>100.00</b>         |

The accompanying notes form an integral part of these Financial Statements

HSBC Specialist Funds Limited  
Statement of Operations  
for the year ended June 30, 2013

Short Duration  
Fixed Income Fund  
USD

|  |           |
|--|-----------|
| Income   |           |
| Interest income                                      | 2,481,292 |
|  | 2,481,292 |
| Expenses   |           |
| Management fees (note 4)                             | 758,467   |
| Administration and custodian fees (notes 5 & 6)      | 345,716   |
| Audit fees   | 6,057     |
| Directors' fees (note 8)                             | 10,000    |
| Interest expense                                     | 3,687     |
| Other expenses                                       | 18,022    |
|  | 1,141,949 |
| Net investment income                                | 1,339,343 |
| Net realized gains on sale of investments            | 1,096,065 |
| Net change in unrealized losses on investments       | (845,194) |
|  | 250,871   |
| Net increase in net assets resulting from operations | 1,590,214 |

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, 2013

| Short Duration Fixed Income Fund               | Class AC<br>USD | Class AD<br>USD | Class IC<br>USD | Class ID<br>USD | Class R<br>USD | Total         |
|--|-----------------|-----------------|-----------------|-----------------|----------------|---------------|
| Net assets at start of the year                | 96,864,345      | 12,088,714      | 87,357,444      | 50,969,914      | 4,768,423      | 252,048,840   |
| Net increase in net assets from operations     |                 |                 |                 |                 |                |               |
| Net investment income                          | 404,332         | 55,230          | 567,820         | 299,052         | 12,909         | 1,339,343     |
| Net realized gains on sale of investments      | 391,415         | 50,081          | 406,074         | 229,933         | 18,562         | 1,096,065     |
| Net change in unrealized losses on investments | (139,836)       | (36,518)        | (524,102)       | (143,180)       | (1,558)        | (845,194)     |
|  | 655,911         | 68,793          | 449,792         | 385,805         | 29,913         | 1,590,214     |
| Subscriptions and redemptions                  |                 |                 |                 |                 |                |               |
| Proceeds on issue of shares                    | 22,415,420      | 12,739,365      | 94,288,789      | 283,455         | 480,000        | 130,207,029   |
| Payments on redemption of shares               | (46,955,228)    | (13,178,256)    | (42,700,000)    | -               | (2,520,595)    | (105,354,079) |
|  | (24,539,808)    | (438,891)       | 51,588,789      | 283,455         | (2,040,595)    | 24,852,950    |
| Dividends (note 13)                            | -               | (44,461)        | -               | (263,557)       | -              | (308,018)     |
| Net assets at end of the year                  | 72,980,448      | 11,674,155      | 139,396,025     | 51,375,617      | 2,757,741      | 278,183,986   |

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, 2013

### 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, 2013, the Directors were not aware of any such specific existing or contingent liabilities. The following Fund and share classes existing as at June 30, 2013 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, 2013

### 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 gains on sale of investments" and "net change in unrealized losses on investments", respectively. All other realized and unrealized gains and losses arising from foreign currency translation are included in the line item to which they relate.

(h) Mandatory redeemable financial instruments

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

(i) Allocation of profits and losses

All investment income, realized and unrealized gains and losses are allocated to each Class of shares outstanding on a daily basis in proportion to their interest in the net asset value of the Fund.

(j) New Accounting Pronouncements

In December 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2011-11, Disclosures about Offsetting Assets and Liabilities (ASU 2011-11 or the ASU). The ASU amends Accounting Standards Codification 210, Balance Sheet (ASC 210) that requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. Amendments are effective for annual periods beginning on or after January 1, 2013.

In January 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2013-01, the main objective in developing this update is to address implementation issues about the scope of Accounting Standards Update No. 2011-11, Balance Sheet: Disclosures about Offsetting Assets and Liabilities.

# HSBC Specialist Funds Limited

## Notes to the Financial Statements

for the year ended June 30, 2013

### 2. Significant Accounting Policies (continued)

(j) New Accounting Pronouncements (continued)

The amendments clarify that the scope of update 2011-11 applies to derivatives accounted for in accordance with Topic 815, Derivatives and Hedging, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset or subject to an enforceable master netting arrangement or similar agreement. The management is evaluating the implication of these ASU, and its impact on the 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<br>Fixed Income Fund<br>USD |
|-------------------|--|
| Cash at bank      | 3,964                                      |
| Money market fund | 15,478,213                                 |
|                   | <u>15,482,177</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 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% for the first \$250,000,000, 0.100% for the next \$250,000,000 and 0.080% in excess of \$500,000,000 in Net Assets or a minimum fee of \$180,000 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, 2013

### 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 31, 2035.

### 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 for 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, 2013, Mr. L. Anthony Joaquin and Ms. Julie E. McLean each were paid an annual fee at a rate of \$5,000 per annum.

### 9. Directors' Interests

As at June 30, 2013, 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, 2012    | 951,503                                   | 119,946   | 855,900   | 505,125  | 47,539   |
| Shares issued during the year   | 218,353                                   | 125,429   | 913,644   | 2,796    | 4,756    |
| Shares redeemed during the year | (457,512)                                 | (129,814) | (414,040) | -        | (24,934) |
| Shares in issue June 30, 2013   | 712,344                                   | 115,561   | 1,355,504 | 507,921  | 27,361   |

### 11. Cost of Investments

Cost of investments as at June 30, 2013 is \$262,516,023.

### 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.

# HSBC Specialist Funds Limited

## Notes to the Financial Statements

for the year ended June 30, 2013

### 12. Financial Instruments and Associated Risks (continued)

#### 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, 2013, the Directors declared the following dividends:

|                                     | USD     |
|-------------------------------------|---------|
| Dividends declared - Class AD - USD | 44,461  |
| Dividends declared - Class ID - USD | 263,557 |

# HSBC Specialist Funds Limited

## Notes to the Financial Statements

for the year ended June 30, 2013

### 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, 2013 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               | -             | \$ 208,185,231 | \$ -    | \$ 208,185,231 |
| Floating Rate Notes              | -             | 51,512,703     | -       | 51,512,703     |
| Municipal Bond                   | -             | 2,491,075      | -       | 2,491,075      |
| Total investments, at fair value | -             | 262,189,009    | -       | 262,189,009    |
| Cash equivalents                 | 15,478,213    | -              | -       | 15,478,213     |
| Total                            | \$ 15,478,213 | \$ 262,189,009 | \$ -    | \$ 277,667,222 |

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, 2013.

### 15. Financial Highlights

Schedule of Financial Highlights for Short Duration Fixed Income Fund  
for the year ended June 30, 2013

USD

|  | Class AC | Class AD | Class IC | Class ID | Class R |
|--|----------|----------|----------|----------|---------|
| <b>Selected per share data</b>   |          |          |          |          |         |
| Net asset value at beginning of the year   | 101.80   | 100.78   | 102.06   | 100.91   | 100.31  |
| <b>Income from investment operations</b>   |          |          |          |          |         |
| Net investment income  | 0.50     | 0.49     | 0.60     | 0.59     | 0.32    |
| Net realized gains on sale of investments and net change in unrealized loss on investments | 0.15     | 0.18     | 0.18     | 0.17     | 0.16    |
| Total from investment operations   | 0.65     | 0.67     | 0.78     | 0.76     | 0.48    |
| Dividends declared   | -        | (0.43)   | -        | (0.52)   | -       |
| Net asset value at end of the year   | 102.45   | 101.02   | 102.84   | 101.15   | 100.79  |
| Total return, excluding dividends declared   | 0.64 %   | 0.66 %   | 0.76 %   | 0.76 %   | 0.48 %  |
| <b>Ratios to average net assets</b>  |          |          |          |          |         |
| Total expenses   | 0.51 %   | 0.51 %   | 0.41 %   | 0.41 %   | 0.67 %  |
| Net investment income  | 0.47 %   | 0.48 %   | 0.57 %   | 0.58 %   | 0.33 %  |

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

### 16. Subsequent Events

On September 26, 2013 the HSBC Specialist Funds Limited Class AD and ID declared a dividend of USD0.085 and USD0.11 per share, respectively. It has an ex dividend date of September 30, 2013.

The Directors have assessed and evaluated all subsequent events arising from the date of the statement of assets and liabilities up until September 26, 2013 and have concluded that no other additional disclosure is required.

# HSBC Specialist Funds Limited Management and Administration for the year ended June 30, 2013

## Directors and Officers

William D. Thomson (resigned on November 28, 2012)  
Director and President  
Retired Executive Vice President  
HSBC Bank Bermuda Limited

L. Anthony Joaquin (appointed on November 28, 2012)  
Director and President  
Retired Managing Partner  
Ernst & Young

Faith Outerbridge, Director and Vice President  
Head of Global Asset Management  
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 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  
Bermuda International Securities Limited  
6 Front Street  
Hamilton HM 11, Bermuda

## Client Services

Telephone: (441) 299 6900  
Facsimile: (441) 299 6061  
Email: [ifs.investor.services@us.hsbc.com](mailto:ifs.investor.services@us.hsbc.com)

## Sales Team

Telephone: (441) 299 6644  
Facsimile: (441) 299 6554  
Email: [asset.management@hsbc.bm](mailto:asset.management@hsbc.bm)

**[www.hsbc.bm](http://www.hsbc.bm)**

HSBC Bank Bermuda Limited  
6 Front Street  
Hamilton HM 11  
Bermuda

HSF\_FS\_2013 October 2013

Issued by HSBC Bank Bermuda Limited

© Copyright HSBC Bank Bermuda Limited 2013. All Rights Reserved.

HSBC Bank Bermuda Limited is licensed to conduct investment  
business by the Bermuda Monetary Authority.