

HSBC Specialist Funds Limited

Short Duration Fixed Income Fund Supplement

21 October 2016

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This document (the “Short Duration Fixed Income Fund Supplement”) is supplemental to the prospectus of the HSBC Specialist Funds Limited (the “Company”) dated 21 October 2016 (as it may be amended or supplemented from time to time, the “Prospectus”) and relates to the offer of a portfolio of shares known as the Short Duration Fixed Income Fund, which is divided into six classes of shares. Terms defined in the Prospectus have the same meanings in this Short Duration Fixed Income Fund Supplement unless the context of this Short Duration Fixed Income Fund Supplement requires otherwise, and with the Prospectus together constitutes the Prospectus for the offer of the Shares. This Short Duration Fixed Income Fund Supplement relates to the offer of the Shares.

This Short Duration Fixed Income Fund Supplement is an integral part of the Prospectus issued by the Company and the distribution of this Short Duration Fixed Income Fund Supplement is not authorised unless it is accompanied by the Prospectus. The Prospectus contains essential details of the Company and applies in every respect save as it may be modified by this Short Fund Duration Fixed Income Fund Supplement. This Short Duration Fixed Income Fund Supplement should be read in conjunction with the information appearing in the Prospectus and the documents described therein.

Introduction

The Company is a mutual fund company incorporated with limited liability in Bermuda and with unlimited duration on 5 September 2001, in accordance with *The Companies Act 1981*. The Company is open-ended in that it can issue and redeem its Shares at prices based upon their Net Asset Value per Share. The Company is managed by HSBC Global Asset Management (Bermuda) Limited (the “Manager”), a wholly-owned subsidiary of HSBC Bank Bermuda Limited.

By resolution of the Directors on 29 January 2010, the Company created a new Fund called the "Short Duration Fixed Income Fund" (the “Fund”) and two Classes of Shares in relation to such Fund, named “Captive Fund - Class A” (the “Class A Shares”) and “Captive Fund - Class I” (the “Class I Shares”).

Additional classes of shares may be established and issued in relation to this Fund. The base currency of the Fund has been designated as United States dollars and, as such, will be valued and the Shares related thereto priced in United States dollars.

By resolution of the Directors on 3 March 2011, the Company created three additional new classes of shares of the Fund named “Class AD”, and “Class ID”. The Directors also resolved to change the existing “Class A Shares” of the Fund of the Company to “Class AC” and the existing “Class I Shares” of the Fund of the Company to “Class IC Shares”.

By resolution of the Directors on 20 November 2013, the Company created two additional new classes of shares of the Fund named “Class CC” and “Class CD”.

Classes of Short Duration Fixed Income Fund of the Company
Class AC
Class AD
Class CC
Class CD
Class IC
Class ID

Investment Objectives

The principal objective of the Fund is to maximize income while attempting to minimize the risk of capital deterioration. The Fund aims to achieve its objective by applying a diversification strategy focused on high-quality fixed-income instruments with an average duration of one to three years. The investments of the Fund may include other mutual funds and/or collective investment schemes managed by the Manager or by one of the companies within the HSBC Group. Investment selection is based on stringent criteria established by the Manager and includes quantitative and qualitative evaluation of all prospective and continuing investments. The investment policy of the Company (which will be applicable to each Fund) is set out in the Prospectus.

There can be no assurance that the investments of the Fund will be successful or that the objectives of the Fund will be attained.

Investment Policies & Restrictions

The Fund provides a vehicle for investment in short duration fixed income products with the objective of maximizing the level of income while attempting to minimize the risk of capital deterioration.

The Fund will endeavour to obtain and maintain, a "Double A" rating from one of the two most recognised rating agencies. The Manager will ensure that the Fund will invest in securities which are consistent with maintaining this rating. The rating is not intended to evaluate the performance of the Fund with respect to appreciation, volatility of net asset value or yield.

The following credit portfolio requirements shall be maintained:

All securities in the Fund will have a minimum long term rating of single A (inclusive of A-/A3) or higher.

Long Term Rating Category Range	Maximum Operational Limits
Triple A	100%
Double A	70%
Single A	25%

In assigning a long term rating, guarantees and full and partial support will be taken into consideration. Where ratings from the two largest rating agencies conflict, the lowest of the two ratings issued will apply. Downgrading of investments in the portfolio may result in a security's rating falling below the permitted minimum. Any security outside of these guidelines shall be approved by the Manager for holding.

The Fund will normally consist of securities denominated in US dollars.

Additionally, the Directors intend that the Company **shall not** for the account of the Fund:

- 1) acquire securities or instruments with an unexpired maturity or interest rate refixing date of more than 5 years and 1 month;
- 2) invest more than 10% of the value of the net assets of the Fund in securities issued by any one body corporate or group of companies (except for securities issued by the government of an OECD country, supra-national entities and securities issued by agencies backed by such governments or supra-national entities and for Triple A rated money market funds). In the case of securities with a rating of Single A, the limit is reduced to 5%;
- 3) make loans (except to the extent that the acquisition of an investment might constitute a loan) or guarantee the repayment of loans other than the making of deposits with the Bank or any bank or deposit-taking institution approved by the Manager;
- 4) invest in real property, commodities or commodity contracts;
- 5) acquire any asset or investment which would involve the assumption of unlimited liability unless a corresponding hedge transaction is entered into in respect to that asset or investment;
- 6) make investments which will result in the Company exercising legal or management control of any underlying investments; and
- 7) sell securities short, buy securities on margin or buy, sell or deal in options in securities or warrants except for the purposes of hedging.

The Directors intend to adopt additional restrictions on their investment powers in respect of the Fund as set out in the Prospectus.

Borrowing & Leverage

Although the Company does not currently intend to leverage its portfolio, it is authorised to borrow up to 10% of the value of the net assets of the Fund from banks and other financial institutions in order to meet requests for redemption or when funds are required for investment. Such loans may be secured by assets of the Fund pledged to such lenders. Money borrowed will be subject to interest and other costs (which may include

commitment fees and/or the cost of maintaining minimum average balances), which may or may not exceed the income received from the instruments purchased with borrowed funds.

Risk Factors

The risk factors relating to the Company and the Fund are set out in the Prospectus.

Management & Administration

The Directors of the Company are responsible for the overall investment policy and administration of the Company and the Fund.

The Company has appointed the Manager, under an agreement between the Company and the Manager. The Manager has responsibility for the management and the supervision of the administration of the Company.

HSBC Institutional Trust Services (Bermuda) Limited (the "Custodian") has been appointed by the Company under an agreement between the Company and the Custodian and is the custodian of the investments and uninvested cash of the Fund, which is held on behalf of the Fund either directly by the Custodian or through sub-custodians, nominees, agents or delegates of the Custodian.

The Company has appointed HSBC Securities Services (Bermuda) Limited to act as its Administrator, Secretary and Registrar.

Issue of Shares

Subject to the Manager's sole and absolute discretion in any particular case or generally, the minimum initial subscription for each class of shares of the Fund is as follows:

Class AC is US\$100,000;

Class AD is US\$100,000;

Class CC is US\$50,000,000,

Class CD is US\$50,000,000,

Class IC is US\$10,000,000; and

Class ID is US\$10,000,000.

The minimum initial subscription amount for the Shares in the Fund is hereinafter referred to as the "Minimum Holding".

Subject to the Manager's sole and absolute discretion in any particular case or generally, the minimum amount for subsequent transactions for each class of Shares is as follows:

Class AC is US\$10,000;

Class AD is US\$10,000;

Class CC is US\$500,000;

Class CD is US\$500,000;

Class IC is US\$100,000; and

Class ID is US\$100,000.

Shares of the Fund will be allotted by the Company on each business day (the “Dealing Day”).

Completed applications for shares of the Fund must be received by the Administrator by 3:00 p.m. (Bermuda time) on the business day (which means a day on which banks are open for business in Bermuda and New York) (“Business Day”) preceding the relevant Dealing Day and payment in cleared funds must be received by the Administrator in cleared funds by 5.00 pm (Bermuda time) on the Business Day preceding the relevant Dealing Day. Payment must be made in United States dollars. The Company has the right to accept or reject (in whole or in part) any application for Shares.

The Subscription Price per Share of the Fund on each Dealing Day will be calculated at the close of business on the immediately preceding Business Day (the “Valuation Day”) and rounded to two decimal places.

Redemption of Shares

Requests for redemption should state the number of Shares, or value, in the Fund to be redeemed and the name in which such Shares are registered, and should be received by the Administrator by 3:00 p.m. (Bermuda time) on the Business Day preceding the relevant Dealing Day. **Unless the Manager in its discretion otherwise determines**, no redemption of part only of the holding of any shareholder may be made if as a result thereof such shareholder would hold less than the minimum number or amount of Shares as determined from time to time by the Directors either generally or in any particular case.

A shareholder redeeming Shares of the Fund will be paid an amount equal to the Redemption Price per Share of the Fund as at the close of business on the Valuation Day. Payment of the redemption monies will be by wire transfer and shall normally be paid in US dollars and will be paid to the redeeming shareholder at their risk and expense in accordance with the Bye-laws two Business Days after the relevant Dealing Day or after receipt of all necessary completed documentation, whichever is the later. If a redeeming shareholder shall require payment in a currency other than the US dollars, the Directors may, subject to receipt of any necessary exchange control or other governmental consent and at the risk of the shareholder and on his paying any costs thereby involved, arrange for the conversion of the sum to which the shareholder is entitled into such currency as the shareholder may require at the prevailing commercial exchange rate offered by the Bank;

Deferral of Redemption

In order to ensure that shareholders who remain invested in the Company are not disadvantaged by the reduction of the liquidity of the Company’s portfolio as a result of significant redemption applications received over a limited period, the Company’s Bye-laws authorize the Board of Directors to apply the procedures set out below in order to permit the orderly disposal of securities to meet redemptions, having regard to the fair and equal treatment of shareholders:

a) In the event that redemption requests are received for the redemption of Shares of any Class representing in the aggregate more than 10 per cent of the total number of Shares of the relevant Class outstanding, the Company shall be entitled to reduce the requests rateably and *pro rata* among all Members seeking to redeem Shares of the relevant Class on the relevant Dealing Day and carry out only sufficient redemptions which, in the aggregate, amount to 10 per cent of the Shares of the relevant Class outstanding. Shares of the relevant Class which are not redeemed but which would otherwise have been redeemed shall be redeemed on the next Dealing Day (subject to further deferral if the deferred requests themselves exceed 10 per cent of the Shares outstanding) in priority to any other Shares of the same Class for which redemption requests have been received;

b) In respect of any redemption, the Directors shall have the power to divide in specie the whole or any part of the assets of the Company and appropriate such assets in satisfaction or part satisfaction of the Redemption Price and any other sums payable on redemption.

Payment of redemption proceeds may be delayed if there are any specific statutory provisions such as foreign exchange restrictions, or any circumstances beyond the Company's control which make it impossible to transfer the redemption proceeds to the country where the redemption was requested.

Conversion Between Funds (Switching)

The shareholders will have the right, subject to any suspension of the determination of the Net Asset Value of any relevant Fund to convert all or part of their holding of any one Fund into Shares of another Fund(s) by giving notice to the Manager in writing or by facsimile of their requirements.

Conversion will be effected on the next Dealing Day falling after receipt of such conversion request. Any such conversion request received after 3:00 p.m. (Bermuda time) on a Business Day in Bermuda will be treated as having been received on the next such Business Day and will be dealt with on the next available Dealing Day.

Conversion of a part of a holding of Shares is permitted provided it would not result in the shareholder remaining registered as a holder of Shares of any Fund having a value of less than the applicable Minimum Holding or such other amount as the Manager in its sole and absolute discretion may determine either in any particular case or generally.

The price at which Shares are so converted is based upon the Net Asset Value per Share of the Class then held and the Net Asset Value per Share of the Class into which the holder is converting.

Transfer of Shares

Shares in the Fund are transferable by instrument in writing signed by (or in the case of a transfer by a body corporate, signed on behalf of or sealed by) the transferor. However, no transfer may be made (i) if as a result of such transfer either the transferor or the transferee of such Shares would hold less than the minimum number or amount of Shares as the Directors may from time to time determine either generally or in any particular

case, **unless the Manager in its discretion otherwise determines**, or (ii) if such transfer would in the opinion of Directors result in a breach of any restrictions imposed by the Directors under the Bye-laws, or (iii) to U.S. Persons or Canadian Residents, unless the Directors otherwise agree.

Dividend Policy

The declaration of dividends is at the discretion of the Directors. It is the present intention of the Directors of the Company to declare quarterly dividends with respect to Class AD, Class CD and Class ID shares of the Fund, the amount of which may fluctuate depending on market conditions. It is the policy of the Directors to distribute the net income from the underlying investments of the Class AD, Class CD, and Class ID shares of the Fund.

It is the intention of the Directors of the Company not to make distributions of net income to holders of the Class AC, Class CC, and Class IC shares of the Fund. Accordingly, shareholders will not receive dividends in respect of Class AC shares, Class CC and Class IC shares of the Fund. Income and profits are accumulated and reflected in the daily Net Asset Value per Share.

Charges & Expenses

Manager, Custodian & Administrator

The Manager is entitled to receive from the Company, out of the assets attributable to the Fund, a monthly management fee calculated at a rate of up to 1% per annum (currently 0.50% for Class AC and 0.50% for Class AD shares of the Fund, 0.25% for Class CC and 0.25% for Class CD shares of the Fund, 0.40% for Class IC and 0.40% for Class ID shares of the Fund) of the average net assets 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. If the current fee is to be increased, the Manager will give one month's notice.

The Manager, out of the management fee it receives for its services, shall be responsible for the payment of the fees and expenses of the Custodian and Administrator.

Other Expenses

The initial formation costs for the Fund have been fully paid. The formation costs of the Class CC and Class CD are estimated not to exceed US\$5,000 and will be amortised over a period not exceeding five years. Formation costs are borne by each Class of the Fund. Ongoing costs are shared by each Class, *pro rata* based on the Net Asset Value of each Class.

LISTING

The Shares of the Fund issued or to be issued have been or will be listed on the Bermuda Stock Exchange. It is not anticipated, at this time, that the Short Duration Fixed Income Fund Shares will be listed on any other stock exchange.