

# HSBC Specialist Funds Limited

Alternative Fund Supplement

21 October 2016

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This document (the “Alternative 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 Alternative Fund, which is divided into two classes of shares. Terms defined in the Prospectus have the same meanings in this Alternative Fund Supplement unless the context of this Alternative Fund Supplement requires otherwise, and with the Prospectus together constitutes the Prospectus for the offer of the Shares. This Alternative Fund Supplement relates to the offer of the Shares.

This Alternative Fund Supplement is an integral part of the Prospectus issued by the Company and the distribution of this Alternative 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 Alternative Fund Supplement. This Alternative 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 11 December 2014, the Company created a new Fund called the "Alternative Fund" (the “Fund”) and two Classes of Shares in relation to such Fund, named “Alternative Fund - Class AC” (the “Class AC Shares”) and “Alternative Fund - Class LC” (the “Class LC 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.

<b>Classes of Alternative Fund of the Company</b>
Class AC
Class LC

## **Investment Objectives, Policies and Investment Restrictions**

The objective of the Fund is to provide a total return from selected investment in a number of hedge funds, which utilise and trade a range of different strategies and markets worldwide. It is the current intention of the Manager to primarily invest in the HSBC GH Fund-AP Class of the HSBC Portfolio Selection Fund (the "HSBC GH Fund"), a diversified fund of hedge funds to which HSBC Alternative Investments Limited is the investment adviser. Appendix A on pages 8 to 11 contains a copy of the HSBC GH Fund-AP Class section of the HSBC Portfolio Selection Fund Prospectus. A full Prospectus of the HSBC Portfolio Selection Fund is available to shareholders on request. The Alternative Fund aims to make positive returns regardless of market cycle while attempting to limit investment risks. Alternative investments have low correlation to traditional asset class returns and therefore the Fund is designed to complement an investor's portfolio. 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 is to be substantially fully invested, however the Fund may invest in cash or cash equivalents, including money market funds managed by the Manager, during periods of pending investments.

The Manager may also elect to invest in other HSBC funds or other mutual funds and may receive additional management fees, on the Company's assets invested in those funds, directly from those funds. All related commissions or rebates received from sponsors of funds in which the Company invests on behalf of the Fund or from the investment managers of the discretionary investment accounts may be received by and retained for the benefit of the Manager.

The investment restrictions relating to the Company and the Fund are 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.**

## **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. The underlying funds of the Fund may use borrowing to leverage the portfolio.

## **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 is US\$10,000 for each class of shares of the Fund and US\$5,000 for subsequent transactions for each class of shares of the Fund.

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

For investors in the Fund through participation in the *lifePlan* offered by the Banker or an affiliate of the Banker, the minimum initial subscription and minimum subsequent contributions thereafter in Class LC Shares of the Company for the duration of the *lifePlan* term is as described in the *lifePlan* Terms and Conditions, or such other amount as the Manager in its sole and absolute discretion may determine either in any particular case or generally.

Shares of the Fund will be allotted by the Company on each Dealing Day (which means the last Business Day in each month and/or such other day or days as the Directors may determine).

Completed applications for shares of the Fund must be received by the Administrator by 12:00 noon (Bermuda time) and payment for shares in cleared funds must also be received by the Custodian on the fifth business day immediately 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 Valuation Day (which means the last day in each month and/or such other day or days as the Directors may determine) 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 12:00 noon (Bermuda time) the Dealing Day of the previous month minus five business days or by such other time on such other day preceding the relevant Dealing Day as the Manager, in its absolute discretion may determine either in any particular case or generally.

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 will be paid an amount equal to the Redemption Price relevant to those Shares as at the close of business on the relevant Dealing Day

## **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 provided that the said request is received by 12:00 noon (Bermuda time) on the relevant Dealing Day of the previous month minus five business days for which purposes any such conversion request received after 12:00 noon (Bermuda time) on a Business Day in Bermuda will be treated as having been received on the next such Business 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 Holding, 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 intention of the Directors of the Company not to make distributions of net income to holders of the Class AC and Class LC 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 2.5% per annum (currently 1.0% for Class AC and 1.0% for Class LC 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 and paid as at the last Valuation Day in each calendar quarter. 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 by the Manager. 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 Alternative Fund Shares will be listed on any other stock exchange.

## **APPENDIX A: Excerpt from the GH Fund Prospectus**

Fund Section for the HSBC GH Fund

– AP Class

### Investment Objective

To provide a total return from selective investment in a number of hedge funds, which utilise and trade a range of different strategies and markets worldwide.

### Current Investment Policy

To provide a level of return commensurate with the risks associated with investment in a diversified portfolio of high risk, but potentially high reward funds as measured in Index terms.

The Fund will invest in Portfolio Funds utilising a range of different alternative strategies, including, without limitation, long/short equity on a regional, global or sectoral basis, global macro, arbitrage and event driven strategies.

### Benchmark

Twice US Dollar 3 month LIBOR (the “Index”).

### Fund Characteristics

**1) Initial Share Price:** US\$100.00.

**2) Base Currency:** US dollar

**3) Reference Currency of Share Class:** US dollar.

**4) Type of Shares to be issued:** Accumulation.

**5) Dividend Policy:** All income will be “rolled-up”.

**6) Dealing Days:** For applications for Units subscription instructions must be received 4 Business Days prior to the last Business Day of each calendar month, with the relevant Valuation Point being 5.00pm Guernsey time on the last Business Day of such month.

For redemption of Shares instructions must be received 4 Business Days prior to the last Business Day of the previous month with the relevant Valuation Point being 5.00pm Guernsey time on the last Business Day of the following month.

**7) Minimum Holding and Transaction Size:** Minimum holding US\$10,000,000, minimum transaction size US\$25,000.

**8) Accounting Date:** Valuation Point in April annually.

**9) Initial fee:** No Initial Charge.

**10) Annual fees:** Management Fee Rate 0.70%, Trustee’s fee 0.05%, Bid Offer Spread 0%, no Performance Fee.

### The Investment Adviser(s):

The Investment Adviser of the Fund is HSBC Alternative Investments Limited, a company incorporated with limited liability in the United Kingdom which is authorised and regulated by the Financial Conduct Authority in the conduct of designated investment business and having its principal address at 78 St James’s Street, London SW1A 1JB.

The Investment Adviser is wholly owned by parties that are affiliated with the Manager.



The Investment Adviser has been appointed by the Manager to provide professional services in the management of the Fund and is authorised by the Manager to transact on a fully discretionary basis a complete range of investment management transactions that are in accordance with the Class B Rules and the investment advisory agreement's investment guidelines (to which the Manager and the Investment Adviser are party) and the investment restrictions set out in this Prospectus.

**Investment Limitations & Restrictions:**

a) The Fund will acquire direct interests or shares in established mutual funds or companies operated by selected portfolio managers where each such Portfolio Fund has substantial interests in all asset classes including, but not limited to, investment in currencies, fixed term securities, equities, futures, options, warrants and any other instruments considered appropriate.

b) The Fund will also have cash, near cash and other short-term instruments.

c) Any cash held pending investment or held for meeting redemptions or operational expenses or otherwise may be deposited with an Approved Bank or HSBC so that the total aggregate exposure to any one bank does not exceed 20% of the Fund's Net Asset Value provided that this restriction shall not apply if such an exposure would result in an amount less than USD5 million or currency equivalent per institution

d) At each Valuation Point, (a) a minimum of 20% of the Fund's Net Asset Value will be held in Portfolio Funds with a monthly dealing frequency or better; (b) a further 60% of the Fund's Net Asset Value will be held in Portfolio Funds with a quarterly dealing frequency or better; and (c) not more than 20% of the Fund's Net Asset Value shall be held in Portfolio Funds with a dealing frequency in excess of quarterly (including side pocket holdings) or otherwise be shares or interests in closed-ended funds, for which no established market for the sale of such shares or interests exists

e) All Unit Classes denominated in US Dollars:

Assets and liabilities expressed in currencies other than the Reference Currency of the Unit class may, or may not, be hedged back to the relevant Reference Currency.

f) If an interest is acquired in a Portfolio Fund via any form of mutual fund or investment syndicate which is managed or operated by an affiliate of the Manager or the Trustee, the Manager shall procure that all fees accruing to any such affiliate shall be refunded to this Fund in respect of such interest acquired so that any possible double charging of fees is negated

As a result of the authorisation of the Fund in Switzerland, the following investment limitations and restrictions also apply:

a) The Fund shall not purchase or own more than 20% of the securities issued by any single Portfolio Fund.

b) An investment in any one Portfolio Fund shall not exceed 20% of the Fund's net assets.

c) The Fund shall not invest in Portfolio Funds whose investment objective is to invest primarily in other Portfolio Funds.

d) The Fund shall not invest in more than 30% of its net assets in Portfolio Funds managed by the same manager.

e) The Fund shall not invest more than 30% of its net assets in (i) Portfolio Funds which are managed directly or indirectly by the Fund, by the Manager and/or by an affiliate of the Manager, or (ii) Portfolio Funds affiliated with the Manager. For the purposes of paragraph (ii), a Portfolio Fund will be affiliated with the Manager if it is managed by a company to which the Fund and/or the Manager is linked in the following manner (A) they are associated through common management or control, or (B) they are associated through holdings of more than 10% of the capital or voting rights. In addition, investments of up to 30% of the net assets of the Fund into Portfolio Funds managed by the Manager or by an affiliate of the Manager, into affiliated Portfolio Funds are subject to the following conditions:

- no subscription fee may be paid by the Fund to such affiliated Portfolio Funds;
  - no “kick-back” may be received by the Selection Fund, the Manager or the Investment Adviser from such affiliated Portfolio Fund; and
  - the Management Fee owed to the Manager will be reduced by an amount equal to the management fee received by the affiliated Portfolio Fund for the assets managed by, or invested in, such affiliated Portfolio Fund and in no event shall not exceed 0.25%
- f) The Fund shall not invest more than 20% of its net assets in closed-ended Portfolio Funds whose shares or units are neither listed on a stock exchange nor traded on another regulated market open to the public. In addition, the Fund shall at all times ensure that it manages its portfolio of Portfolio Funds in a manner that enables sufficient liquidity to meet its redemption obligations
- g) The Fund shall not make any investment which exposes the Fund to unlimited liability.
- h) The Fund shall not issue warrants or other rights to subscribe for Units in the Fund.
- i) The Fund shall not acquire real estate.
- j) The Fund shall not grant loans or guarantees in favour of third parties (including other Funds).
- k) The Fund shall not invest in, or in Portfolio Funds whose purpose is to invest in, commodities, antiques or art, provided that the Portfolio Funds may, under exceptional circumstances and for a limited period of time, be compelled to acquire physical commodities positions.
- l) The Fund shall not invest in Managed Accounts, except in the manner set out in the section entitled “Investments Through Managed Accounts”.
- m) Not more than 40% of the Fund’s Net Asset Value may be invested in the same strategies of investment.
- n) The Fund shall not sell short any asset provided however that the Portfolio Funds in which the Fund invests may carry out such short sales.

As a result of the rules of the Japan Securities Dealers Association, the following additional investment limitations and restrictions apply:

- a) Not more than 50% of the total number of the outstanding shares of stock of any one target investment or not more than 50% of the total voting rights of any one company may be acquired on behalf of all funds managed by the Manager. This percentage may be computed either at the time of the purchase or at the market price.
- b) Not more than 15% of the net assets of the relevant Fund may be invested in any investments without liquidity, such as shares of stock privately placed or unlisted shares of stock, which cannot be readily realised.
- c) The Manager shall not carry out any transactions that would be deemed to be against the protection of the interest of any Fund’s Holders or to impair the appropriate management of the Fund’s assets, such as transactions that would be carried out for its own benefit or the benefit of any third parties other than Holders of any Fund.

**Limits on Hedging & Derivative Transactions:**

The Fund may utilise derivative transactions for the purposes of hedging only. The Fund shall not invest in derivative instruments for speculative purposes. Where the Fund utilises derivatives, no more than 15% of the Fund’s Net Asset Value may be utilised as margin or premium to effect these transactions.

**Borrowing Limits:**

The Fund may borrow up to a total of 25% of its Net Asset Value as follows:

a) (i) for a period of up to one month to cover a cash shortfall caused by mismatched settlement dates on purchase and sale transactions of Portfolio Funds; and (ii) for a period of up to three months, to fund redemptions by Holders (including in both cases to fund related currency hedging cash flows); and  
b) for investment purposes, subject to a maximum of 10% of the Fund's Net Asset Value, to facilitate additional investment in Portfolio Funds

#### Limits on Redemptions

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

#### Risk Warnings and Disclosures:

Please refer to sections headed "Risk Warnings and Disclosures" and "Additional Risk Warnings applicable to Swiss Registered Funds".

In addition to the above Risk Warnings and Disclosures, investors should note that this Fund carries a greater investment risk generally and should be for experienced investors only. An investment in this Fund should not represent a large part of an investor's assets.