

# **HSBC SPECIAL OPPORTUNITIES FUND**

## **Annual Report and Audited Consolidated Financial Statements**

**For the Year Ended 30 April 2022**



**HSBC**  
Global Asset  
Management

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# General Information

**Manager and Registrar:**

HSBC Management (Guernsey) Limited  
Arnold House  
St Julian's Avenue  
St Peter Port  
Guernsey GY1 1WA  
Channel Islands

**Designated Administrator:**

HSBC Securities Services (Guernsey) Limited  
Arnold House  
St Julian's Avenue  
St Peter Port  
Guernsey GY1 3NF  
Channel Islands

**Trustee:**

HSBC Custody Services (Guernsey) Limited  
Arnold House  
St Julian's Avenue  
St Peter Port  
Guernsey GY1 3NF  
Channel Islands

**Investment Adviser:**

HSBC Alternative Investments Limited  
Level 24, 8 Canada Square  
London E14 5HQ  
United Kingdom

**Transfer Agent:**

HSBC Securities Services (Ireland) DAC  
1 Grand Canal Square  
Grand Canal Harbour  
Dublin 2  
Ireland

**Independent Auditor:**

PricewaterhouseCoopers CI LLP  
Royal Bank Place  
PO Box 321  
1 Gategny Esplanade  
St Peter Port  
Guernsey GY1 4ND  
Channel Islands

**Custodians:**

HSBC Continental Europe  
1 Grand Canal Square  
Grand Canal Harbour  
Dublin 2  
Ireland

**HSBC Bank plc, Guernsey Branch**

Arnold House  
St Julian's Avenue  
St Peter Port  
Guernsey GY1 3NF  
Channel Islands

**Sub-Custodian:**

HSBC Private Bank (Suisse) SA  
Quai des Bergues 9 - 17  
PO Box 2888  
1211 Genève 1  
Switzerland

**Swiss Representative:**

HSBC Global Asset Management (Switzerland) AG  
Gartenstrasse 26  
P.O. Box  
8002 Zurich  
Switzerland

**Swiss Paying Agent:**

HSBC Private Bank (Suisse) SA  
Quai des Bergues 9 - 17  
PO Box 2888  
1211 Genève 1  
Switzerland

**Legal Adviser as to Guernsey Law:**

Mourant Ozannes  
Royal Chambers  
St Julian's Avenue  
St Peter Port  
Guernsey GY1 4HP  
Channel Islands

## General Information (continued)

### The Fund:

HSBC Special Opportunities Fund (the "Trust") is a sub-fund of HSBC Alternative Strategy Fund, an open ended Guernsey unit trust which is authorised under the Protection of Investors (Bailiwick of Guernsey) Law, 2020 and is subject to the provisions of The Authorised Collective Investment Schemes (Class B) Rules and Guidance, 2021 (the "Rules").

The Trust owns 100% of the shares of HSBC Special Opportunities Investments Limited (the "Company") a Guernsey registered company. The Trust funds the activities of the Company.

The Company owns the investments listed in the Portfolio of Investments. These consolidated financial statements include all the assets and liabilities of the Trust and the Company (together the "Fund").

HSBC Alternative Strategy Fund was established under a unit trust deed dated 8 February 2007. On 26 June 2014, the trust deed was updated to comply with developments in the Rules and as subsequently amended from time to time. HSBC Alternative Strategy Fund currently consists of one sub-fund, HSBC Special Opportunities Fund. Under the terms of the trust deed, HSBC Management (Guernsey) Limited (the "Manager") and HSBC Custody Services (Guernsey) Limited (the "Trustee") may, from time to time, establish one or more sub-funds. The Trust was the last sub-fund that was created by the former Trustee, HSBC SFT (C.I.) Limited. A copy of the latest version of the HSBC Alternative Strategy Fund's Prospectus is available from the Manager or the Trustee on request.

On 27 September 2022 the Manager wrote to unitholders informing them that the Trust is to be terminated. The final Net Asset Value will be calculated on 31 December 2022 and redemption proceeds will be returned to investors in tranches commencing February 2023. The Manager believes that the first distribution will comprise an estimated 90% of redemption proceeds with subsequent lesser distributions made in 2023. All distributions are contingent upon the liquidity of the underlying Portfolio holdings that may be subject to change. As a result of the intended closure of the Trust, these Annual Report and Consolidated Financial Statements have been prepared on a basis other than going concern. This has no material impact on the financial statements as the investments held are at fair value. The liquidation costs are not expected to be material and so no adjustment has been included in the financial statements.

Copies of the latest available Unaudited Interim Financial Statements and full Annual Audited Financial Statements for the sub-fund under HSBC Alternative Strategy Fund are also available from the Manager or the Trustee on request.

### Investment Objective:

The Fund is a fund of hedge funds and aims to provide an absolute total return from selective investment in a number of hedge funds which utilise and trade a range of different strategies with a longer term investment horizon.

### Investment Policy:

To provide a level of return commensurate with the risks associated with investment in hedge funds which utilise and trade a range of different strategies with a longer term investment horizon as measured in index terms. The Fund will invest in investment funds utilising a range of different alternative strategies, including, without limitation, event driven, merger arbitrage, activist special situations, equity long/short and distressed investing strategies. At all times, at least two-thirds of the Fund's net assets shall be invested in strategies with a longer term investment horizon.

## General Information (continued)

Units Classes/ Benchmark: HSBC Special Opportunities Fund – US Dollar Class,  
*3 Month Adjusted Term SOFR plus 5% per annum*<sup>^</sup>

HSBC Special Opportunities Fund – Euro Hedged Class,  
*3 Month Adjusted Term ESTR plus 5% per annum*<sup>^</sup>

<sup>^</sup> LIBOR was demised with effect 31 December 2021. From 1 September the Manager and Trustee adopted a 3 Month Adjusted Term Risk Free Rate, the “Fallback Rate”. Between 1 September 2021 and 31 December 2021, parallel calculations of performance fees using LIBOR and the Fallback Rates were produced, investors received the most favourable result of the parallel calculations.

# Additional Disclosure Required for Swiss Registered Funds

The state of the origin of the Fund is Guernsey. This document may only be distributed in Switzerland to qualified investors within the meaning of art 10 para. 3, 3bis and 3ter CISA. In Switzerland, the representative is HSBC Global Asset Management (Switzerland) AG, Gartenstrasse 26, CH-8002 Zurich, whilst the paying agent is HSBC Private Bank (Suisse) SA, Quai des Bergues 9-17, PO Box 2888, CH-1211 Geneva 1. The basic documents of the Fund as well as the annual and, if applicable, semi-annual report may be obtained free of charge from the representative. In respect of the units distributed in or from Switzerland, the place of performance and jurisdiction is at the registered office of the representative. Past performance is no indication of current or future performance. The performance data does not take account of the commissions and costs incurred on the issue and redemption of units.

# Investment Adviser's Report

The HSBC Special Opportunities Fund ("the Fund") USD share class returned -0.21% during the period 1<sup>st</sup> May 2021 – 30<sup>th</sup> April 2022 ("the period"), whilst the Dow Jones Credit Suisse Event Driven Multi-Strategy Hedge Fund Index returned +0.61% over the period.

The Fund began the reporting period with a moderately positive May, driven by positions in fintech and consumer lending sectors, albeit partly offset by long positions in Asia which unwound during the month. In the third quarter of 2021, August and September were positive months with particularly strong gains being generated in August. Fundamental equities positions benefited from strong earnings reports as well as from a rebound in a number of high-quality secular growth companies. Merger arbitrage also generally contributed positively during the month. Fundamental and event equity positioning delivered negative results in November, but the Fund was able to take advantage of idiosyncratic opportunities in December to finish the year positively.

The first four months of 2022 have been challenging for the strategy, with the Fund slightly outperforming the peer index down almost (-2.8% vs -3.9%). On the back of geopolitical turbulence and higher interest rates, losses have largely been driven by exposure in both fundamental and event driven equity books. Detractors on the equity side have been widespread, with growth (technology) holdings impacted in the earlier part of the year.

While net returns were negative over the period, gross returns were positive (+1.57%), with all strategies contributing positively to performance. DE Shaw Composite International Fund L.P., a multi-strategy fund, led the contributors, followed by Palmerston Credit Feeder Fund Limited and CQS ABS Feeder Fund Ltd (both Credit funds). Two Asia focused funds, MY Asian Opportunities and BFAM Asian Opportunities, were the largest detractors over the period.

HSBC Alternative Investments Limited  
September 2022

# Disclosures to Investors

## **Additional Disclosures under the European Union's Alternative Investment Fund Managers Directive ("AIFMD")**

Pursuant to the transparency requirements of the AIFMD, HSBC Management (Guernsey) Limited (the "Manager") is required to make certain disclosures available to investors periodically and on an annual basis. HSBC Management (Guernsey) Limited is an Alternative Investment Fund Manager ("AIFM") and HSBC Special Opportunities Fund (the "Fund") is an Alternative Investment Fund ("AIF") for the purposes of AIFMD. Both the Manager and the Fund are established outside the European Union. The Manager is a non-EEA AIFM.

The Manager is a company limited by shares, incorporated in Guernsey. The Manager is 100% owned by HSBC Global Asset Management Limited. The Manager is licensed by the Guernsey Financial Services Commission. As the AIFM, the Manager has retained the risk management activities under the AIFMD and delegated the portfolio management to HSBC Alternative Investments Limited (the "Investment Adviser").

### **Disclosure of information to investors**

The pre-investment disclosures that the Manager is required to make available to investors before they invest in the AIF under Article 23 of AIFMD are included in the Prospectus in issue (the "Prospectus") that is provided to investors prior to subscription.

There has been no material change to the information disclosed in accordance with Article 23 of AIFMD since the version of the Prospectus provided to investors.

The Fund has complied with the defined risk and leverage limits throughout the year. There have been no changes to the limits disclosed in the Prospectus. The Manager has an ongoing process for identifying, evaluating and managing the principal risks faced by the Fund, these policies and procedures are as detailed in the Prospectus.

### **Remuneration**

The Manager and the Investment Adviser are subject to the HSBC Group remuneration policy which is designed to ensure that the Manager and the Investment Adviser, as entities of the HSBC Group, have sound remuneration practices that aim at increasing investor protection and avoiding conflicts of interest that may lead to excessive risk taking.

### **Quantitative remuneration disclosures**

The Manager acts as the non-EEA AIFM of 40 AIFs, including the Fund. Based on the most recently available information as at 31 December 2021 the total net assets under management ("AUM") are US\$17.38 billion (31 December 2020: US\$12.5 billion). The total remuneration set out below relates to the proportion of the total remuneration of the staff of the AIFM attributable to the Fund. This represents an average of 14 beneficiaries throughout the year.

The total remuneration of the Manager has been allocated on an AUM basis at the financial year end of the Manager.

There is no correlation between the variable remuneration as disclosed herein and the performance fee paid by the Fund to the Investment Adviser in accordance with the Prospectus. The full remuneration policy is available on request from the Manager.



## Disclosures to Investors (continued)

### Additional Disclosures under the European Union's AIFMD (continued)

Total remuneration for financial year:	Total for HMG staff identified	Allocation to Fund
Fixed (US\$)	1,811,115	3,454
Variable (US\$)	106,815	204
Number of beneficiaries	14	14

#### Aggregate remuneration broken down as follows:

Senior Management with a material impact on the risk profile (US\$)	445,176	849
Staff with a material impact on the risk profile (US\$)	756,410	1.443

#### Overview of the AIFM Identified Staff:

The remuneration disclosure will include the following individuals which have been designated as "Identified Staff" for the purpose of AIFMD and for the avoidance of doubt exclude staff who have no material impact on the risk profile of the Manager or are employed by other group companies of HSBC:

Senior Management:	1 Head of Business 1 Senior Manager 4 Non-executive Directors
Other Identified Staff:	7 Senior Administrators 1 Chair of the Risk Management Committee

#### Leverage

In accordance with the Prospectus, leverage can be used by the Fund. The total amount of leverage employed by the Fund is disclosed in the enclosed financial statement. The maximum level of leverage which can be used by the Manager on behalf of the Fund has not changed and remains as disclosed in the Prospectus.

#### Depository

As a non-EEA AIFM, the Manager is not authorised under AIFMD and consequently is not required to appoint a depository for the Fund.

#### Business risks

The Manager and the Trustee are responsible for managing assets in accordance with the fund documents and these assets are subject to a variety of financial risks and non-financial risks.

The principal financial risk and uncertainty facing the Fund is market volatility. Market volatility had an impact and may continually affect the Fund which could result in financial loss or gain through a change in net asset value. Other non-financial risks are operational risk, conduct and regulatory risk, reputational risk and cyber risk.

## **Disclosures to Investors (continued)**

### **Additional Disclosures under the European Union's AIFMD (continued)**

#### **Business risks (continued)**

In respect of regulatory risk, the Guernsey regulators may take further actions that could result in changes in industry practices, which may then impact the current regulation that the Fund follows.

The Manager and the Trustee maintains a strong compliance culture and monitors the regulatory environment closely to react proactively to changes and reduce risk to the Fund. In addition, the Manager continues to improve the governance and controls framework to protect information and technical infrastructure against ever-increasing and sophisticated cyber threats.

Portfolios are actively monitored and stress testing performed as the need arises. A specific emphasis was placed on capital risk to ensure the Fund could withstand plausible stress. The Manager continues to work with regulators and our investors in an effort to manage risks as they arise, particularly in relation to the Fund. The Manager and the Trustee has been monitoring the risk profile of the Fund during this period and the ongoing effectiveness of its control environment to manage these risks on an ongoing basis.

#### **UKRAINE/ RUSSIA**

The Russian invasion of Ukraine continues to impact on the financial markets. The Fund has no direct or indirect investment or investor exposure to Russia however there is the risk that the invasion will continue to generate increased energy prices and disrupt supply chains which could fuel inflationary pressures. This, plus more aggressive monetary tightening that might be undertaken by central banks to curb inflation raises the risk of a global recession.

# Report of the Trustee

To the Unitholders of HSBC Special Opportunities Fund (the “Fund”)

In our opinion the Manager has managed the Trust for the year ended 30 April 2022 in accordance with the principal documents and The Authorised Collective Investment Schemes (Class B) Rules and Guidance, 2021.



HSBC Custody Services (Guernsey) Limited  
Arnold House  
St Julian's Avenue  
St Peter Port  
Guernsey GY1 3NF  
Channel Islands

Date: 29 September 2022

# Statement of the Manager's Responsibilities

The Authorised Collective Investment Schemes (Class B) Rules and Guidance, 2021, (the "Rules") requires the Manager to prepare financial statements for each annual accounting period which give a true and fair view of the financial affairs of the Fund and of its income and expenditure for the year. The Manager has elected to prepare the consolidated financial statements in accordance with United Kingdom Accounting Standards comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the Statement of Recommended Practice for Authorised Funds ("UK SORP") issued by the Investment Management Association, of the financial affairs of the Fund and of its income and expenditure for the year. In preparing the consolidated financial statements the Manager is required to:

- ◆ select suitable accounting policies and apply them consistently;
- ◆ make judgements and estimates that are reasonable and prudent;
- ◆ state whether applicable accounting standards including FRS 102 have been followed subject to any material departures disclosed and explained in the consolidated financial statements;
- ◆ keep proper accounting records which enable it to demonstrate that the consolidated financial statements as prepared are in accordance with the Trust's principal documents and the Rules;
- ◆ assess the ability to continue as a going concern; and
- ◆ prepare the consolidated financial statements on the going concern basis unless it is inappropriate to presume the Fund will continue in business, these financial statements have been prepared on a basis other than going concern.

The Manager is also responsible for the management of the Fund in accordance with its principal documents and the Rules. The Manager, together with the Trustee, is responsible for taking reasonable steps for the prevention and detection of fraud and other irregularities.

So far as the Manager is aware, there is no relevant audit information of which the Fund's auditor is unaware and the Manager has taken all the steps that should have been taken as Manager in order to make themselves aware of any relevant audit information and to establish that the Fund's auditor is aware of that information.

## Statement of the Trustee's Responsibilities

Under The Authorised Collective Investment Schemes (Class B) Rules and Guidance, 2021, it is the duty of the Trustee to enquire into the conduct of the Manager in the management of the Fund in each annual accounting period and report thereon to Unitholders in a report which shall contain matters prescribed by the principal documents and the Rules. The Trustee is also responsible for safeguarding the assets of the Fund and, together with the Manager, for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# Independent auditor's report to the unitholders of HSBC Special Opportunities Fund

## Report on the audit of the consolidated financial statements

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### Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of HSBC Special Opportunities Fund (the "trust") and its subsidiary (together the "Fund") as at 30 April 2022, and of their consolidated financial performance for the year then ended in accordance with United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and have been properly prepared in accordance with the provisions of the Trust Deed.

### What we have audited

The Fund's consolidated financial statements comprise:

- the consolidated balance sheet statement as at 30 April 2022;
- the consolidated statement of total return for the year then ended;
- the consolidated statement of changes in net assets attributable to the Unitholders of the Fund for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

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### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

### Independence

We are independent of the Fund in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code") and with SEC Independence Rules. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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### Emphasis of matter – consolidated financial statements prepared on a basis other than going concern

We draw attention to note 2 in the consolidated financial statements, which explains the manager's intention to terminate the trust. These consolidated financial statements have therefore been prepared using a basis other than going concern. Our opinion is not modified in respect of this matter.

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### Other information

The manager is responsible for the other information. The other information comprises all the information included in the Annual Report and Audited Consolidated Financial Statements but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

# Independent auditor's report to the unitholders of HSBC Special Opportunities Fund (continued)

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## Responsibilities of the manager for the consolidated financial statements

The manager is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with United Kingdom Accounting Standards, comprising FRS 102, the provisions of the Trust Deed and for such internal control as the manager determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the manager is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the manager either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so. See note 2 to the consolidated financial statements, which refers to the manager's conclusion on preparing the consolidated financial statements on a basis other than going concern.

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## Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the manager.
- Conclude on the appropriateness of the manager's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Fund to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Fund audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

# Independent auditor's report to the unitholders of HSBC Special Opportunities Fund (continued)

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## Use of this report

This independent auditor's report, including the opinion, has been prepared for and only for the unitholders as a body in accordance with Paragraph 4.2(4) of The Authorised Collective Investment Schemes (Class B) Rules 2021 and the Trust Deed and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

*PricewaterhouseCoopers CI LLP*

PricewaterhouseCoopers CI LLP  
Chartered Accountants  
Guernsey, Channel Islands  
29 September 2022

# Consolidated Statement of Total Return

		Year Ended 30 April 2022		Year Ended 30 April 2021	
	Notes	US\$'000	US\$'000	US\$'000	US\$'000
Income			858		93
Net capital (losses)/gains	3		(164)		8,538
Interest expense	11	(1)		(1)	
Operating expenses	4	(782)		(929)	
<b>Net expenses</b>			<b>(783)</b>		<b>(930)</b>
<b>Change in net assets attributable to the unitholders of the Fund from investment activities</b>			<b>(89)</b>		<b>7,701</b>

All results are derived from continuing operations. The Fund has no items of other comprehensive income and therefore the change in net attributable to the unitholders of the Fund from investment activities reflects the total comprehensive income for the year.

# Consolidated Statement of Changes in Net Assets Attributable to the Unitholders of the Fund

	Year Ended 30 April 2022		Year Ended 30 April 2021	
	US\$'000	US\$'000	US\$'000	US\$'000
<b>Net assets attributable to the unitholders of the Fund at the start of the year</b>		<b>33,644</b>		<b>31,568</b>
Movement due to issue and redemption of redeemable participating units:				
Amounts received/receivable on issues	300		-	
Less: Amounts paid/payable on redemptions	(1,652)		(5,625)	
		<b>(1,352)</b>		<b>(5,625)</b>
<b>Change in net assets attributable to the unitholders of the Fund from investment activities</b>		<b>(89)</b>		<b>7,701</b>
<b>Net assets attributable to the unitholders of the Fund at the end of the year</b>		<b>32,203</b>		<b>33,644</b>

The notes on pages 15 to 29 form an integral part of these consolidated financial statements.




# Consolidated Balance Sheet Statement

		As at 30 April 2022		As at 30 April 2021	
Assets	Notes	US\$'000	US\$'000	US\$'000	US\$'000
Current Assets					
Portfolio of investments	13		32,012		33,780
Debtors	6	4		15	
Cash and cash equivalents	7	263		14	
			267		29
Total assets			32,279		33,809
Liabilities					
Creditors: amounts falling due within one year	8	(76)		(165)	
Total Liabilities			(76)		(165)
Net assets attributable to the unitholders of the Fund			32,203		33,644

The consolidated financial statements were approved by the Manager, HSBC Management (Guernsey) Limited, on 29 September 2022 and were signed on its behalf by:



Director  
For and on behalf of HSBC Management  
(Guernsey) Limited



Director  
For and on behalf of HSBC Management  
(Guernsey) Limited

The notes on pages 16 to 30 form an integral part of these consolidated financial statements.

# Notes to the Consolidated Financial Statements

## 1 Structure of the Fund

HSBC Special Opportunities Fund (the “Trust”) is a sub-fund of HSBC Alternative Strategy Fund, an open ended Guernsey unit trust scheme established as an umbrella fund which is authorised as a Class B Scheme under The Authorised Collective Investment Schemes (Class B) Rules and Guidance, 2021.

The registered office of the Manager of the Trust is Arnold House, St Julian’s Avenue, St Peter Port, Guernsey GY1 1WA, Channel Islands.

The Trust owns 100% of the units in HSBC Special Opportunities Investments Limited (the “Company”), a Guernsey registered company. The Trust also loans monies to the Company to fund its investing activities.

The Company owns the investments listed in the Portfolio of Investments.

These consolidated financial statements include all the assets and liabilities of the Trust and the Company (together the “Fund”).

The Trust registered as an Alternative Investment Fund (“AIF”) with effect from 1 July 2014, with the Financial Conduct Authority and the Commission de Surveillance du Sector Financier. As a non-EEA AIF with a non-EEA AIFM the Trust is not authorised or regulated under AIFMD and consequently is not required to have a depositary.

### Statement of compliance

The consolidated financial statements have been prepared in compliance with the Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland (“FRS 102”) and the Statement of Recommended Practice for Authorised Funds (the “SORP”) issued by the Investment Management Association in May 2014 and effective for accounting periods commencing on or after 1 January 2015.

## 2 Principal Accounting Policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to these consolidated financial statements:

### Basis of preparation

The consolidated financial statements have been prepared on a basis other than going concern and under the historical cost convention as modified by the revaluation of the financial assets at fair value through profit or loss.

### Going Concern

The Manager has written to investors informing them of their decision to terminate the Trust. As a result, the going concern basis of accounting is not appropriate and these financial statements have been prepared on a basis other than going concern. This has no material impact on the financial statements as the investments are current and held at fair value,

### Cash Flow Statement

The Trust has availed of the exemption available under FRS 102, Section 7 “Statement of Cash Flows” not to prepare a cash flow statement on the basis that substantially all of the Trust’s investments are highly liquid and carried at fair value, and the Trust provides a consolidated statement of changes in net assets attributable to the unitholders.

# Notes to the Consolidated Financial Statements

## 2 Principal Accounting Policies (continued)

### Use of estimates and judgements

The preparation of consolidated financial statements in accordance with the recognition and measurement principles of FRS 102 requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the year.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed within the Fair Value of Investments accounting policy and Note 13.

### Basis of consolidation

The consolidated financial statements include the results of the Trust and its wholly-owned subsidiary HSBC Special Opportunities Investments Limited, a Guernsey registered company. The Manager does not consider the unconsolidated balance sheet of the Trust to be a material activity as the only reason for setting up the subsidiary company was for fiscal purposes. Accordingly, no unconsolidated balance sheet is presented in these consolidated financial statements.

### Functional and presentational currency

The functional and presentational currency is US Dollar ("US\$") because that is the currency of the primary economic environment in which the Fund operates.

### Determination of functional currency

Functional currency is the currency of the primary economic environment in which the Fund operates. When indicators of primary economic environment are mixed, management uses its judgement to determine the functional currency that most faithfully represents the economic effect of the underlying transactions, events and conditions. The management has determined that the functional currency of the Fund is US Dollar. Investor subscriptions and redemptions are received and paid in the currency of the relevant share class.

### Financial instruments

The Fund has chosen to adopt the Sections 11 and 12 of FRS 102 in respect of financial instruments.

#### i) Financial assets

Basic financial assets, including debtors and cash and cash equivalents, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in the consolidated statement of total return.

Other financial assets, including investments in investment funds and derivative contracts, are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried at fair value and the changes in fair value are recognised in the consolidated statement of total return.

# Notes to the Consolidated Financial Statements

## 2 Principal Accounting Policies (continued)

### Financial instruments (continued)

#### i) Financial assets (continued)

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

#### ii) Financial liabilities

Basic financial liabilities, including creditors and loan obligations are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Creditors and loan obligations are classified as debt instruments and are subsequently carried at amortised cost, using the effective interest rate method.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

#### iii) Fair value of investments

Investments in investment funds are valued at the net asset value per unit for the underlying investments that the Fund holds, as at 5pm (Guernsey time) on the consolidated balance sheet date.

Investments in underlying funds which are not quoted on a recognised stock exchange or other trading facility are valued at the net asset values provided by their fund managers or their administrators. These values may be unaudited or may themselves be estimates.

In addition, their fund managers or their administrators may not provide values at all or in a timely manner and, to the extent that values are not available, those investments will be valued by the Investment Adviser using valuation techniques appropriate to those investments. In determining fair value, the Investment Adviser takes into consideration, where applicable, the impact of suspension of redemptions, liquidation proceedings, investments in side pockets and other significant factors. The Directors of the Manager have no reason to believe that the valuations used are unreasonable.

Realised and unrealised gains and losses on investments are included in the consolidated statement of total return within net capital gain. Realised and unrealised gains and losses on sales of investments are determined using the average cost method. Purchases and sales of investments are accounted for on a trade date plus one basis.

#### iv) Forward foreign exchange contracts

The unrealised appreciation or depreciation on open forward foreign exchange contracts is calculated by reference to the difference between the contracted rate and the rate to close out the contract. Unrealised appreciation is reported as an asset and unrealised depreciation is reported as a liability in the consolidated balance sheet. All net gains or losses on forward foreign exchange contracts are recorded in the consolidated statement of total return.

### Revenue

Interest income is recognised using the effective interest rate method. Dividend income is recognised when the right to receive payment is established. All other sources of revenue are recognised on an accruals basis. Revenue is included in the consolidated statement of total return. All non-class specific income is allocated to each unit class in proportion to the total net assets of the unit class during the year. All class specific income is allocated to the unit class to which it relates.

# Notes to the Consolidated Financial Statements

## 2 Principal Accounting Policies (continued)

### Expenses

Expenses are included in the consolidated statement of total return on an accruals basis. All non-class specific expenses are allocated to each unit class in proportion to the total net assets of the unit class during the year. All class specific expenses are allocated to the unit class to which they relate.

### Interest expense

Interest expense arises from credit facilities held by the Fund. These costs are recognised in the consolidated statement of total return and are calculated using the effective interest rate method.

### Borrowing costs

Borrowing costs arise from credit facilities held by the Fund. These costs are recognised in the consolidated statement of total return on an accrual basis.

### Foreign currency transactions

Foreign currency transactions are recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to US Dollars at the foreign currency closing exchange rate ruling at the consolidated balance sheet date. The Fund reports the realised exchange gain or loss as well as the unrealised exchange appreciation or depreciation on non-US Dollar denominated investments in the consolidated statement of total return. Any realised exchange gains or losses as well as unrealised appreciation or depreciation arising from non-US Dollar denominated payables and receivables and on foreign currency transactions are reflected in the consolidated statement of total return.

### Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts, when applicable, are shown as loans payables in current liabilities.

### Units in issue

Redeemable participating units are redeemable at the option of the unitholders of the Fund and are classified as financial liabilities.

### Transaction Costs

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability measured at fair value through profit or loss. Transaction costs are recognised within the statement of total return when incurred.

### New standards and amendments

There are currently no future amendments to FRS 102 issued that would have a significant impact on the Fund.

# Notes to the Consolidated Financial Statements

## 3 Net Capital Gains

	Year Ended 30 April 2022 US\$'000	Year Ended 30 April 2021 US\$'000
Realised gains on non-derivative investments	1,650	2,584
Realised losses on non-derivative investments	-	(2)
Net unrealised gains/(losses) on non-derivative investments	(1,749)	5,913
Realised gains on derivative investments	21	65
Realised losses on derivative investments	(72)	(36)
Net unrealised gains/(losses) on derivative investments	(14)	14
<b>Total net capital gains</b>	<b>(164)</b>	<b>8,538</b>

Derivative investments held by the Fund are forward foreign exchange contracts as detailed in Note 12.

## 4 Operating Expenses

	Year Ended 30 April 2022 US\$'000	Year Ended 30 April 2021 US\$'000
Management fees	(582)	(526)
Performance fees	26	(349)
<b>Payable to the Manager and its associates</b>	<b>(556)</b>	<b>(875)</b>
Trustee fees	-	(32)
<b>Payable to the Trustee and its associates</b>	<b>-</b>	<b>(32)</b>
Audit fees	(21)	(22)
Other sundry expenses	(205)	-
<b>Other expenses</b>	<b>(226)</b>	<b>(22)</b>
<b>Total expenses</b>	<b>(782)</b>	<b>(929)</b>

## 5 Management, Trustee and Investment Adviser Agreements

The table below details the Management and Trustee fee rates as a percentage of NAV per share class charged to the Fund and the performance fee rate per share class:

Class	Management Fee	Performance Fee*
USD Dollar	1.75%	10%
Euro	1.75%	10%

\* Paid to the Investment Adviser on the new "excess" value over the relevant hurdle rate. See page 2 for details of the hurdle rate applicable to each class.

The management, trustee and performance fees expensed during the year and outstanding at year end were:

Fee	Year Ended 30 April 2022		Year Ended 30 April 2021	
	Expensed in year	Outstanding at year end	Expensed in year	Outstanding at year end
Management	US\$581,825	-	US\$526,124	-
Trustee**	-	-	US\$31,886	-
Performance	US\$(25,802)	-	US\$349,414	US\$163,445

\*\* With effect 1 May 2021 Trustee fees are paid by the Manager from the Management Fees. See Notes 11 and 19.

# Notes to the Consolidated Financial Statements

## 6 Debtors

	As at 30 April 2022 US\$'000	As at 30 April 2021 US\$'000
Receivable for investments sold	-	2
Unrealised gains on forward foreign exchange contracts (see Note 12)	-	13
Other receivables	4	-
	4	15

## 7 Cash and Cash equivalents

	As at 30 April 2022 US\$'000	As at 30 April 2021 US\$'000
Cash and bank balances	263	14

Cash balances are held by HSBC Continental Europe and HSBC Bank plc, Guernsey Branch both of which are ultimately owned by HSBC Holdings plc. The Fund's cash is maintained in segregated accounts. The credit rating of HSBC Holdings plc at 30 April 2022 was A3 (30 April 2021: A2) as rated by Moody's Ratings Agency.

## 8 Creditors: Amounts Falling due within one year

	As at 30 April 2022 US\$'000	As at 30 April 2021 US\$'000
Unrealised losses on forward foreign exchange contracts (see Note 12)	(2)	(1)
Performance fees	-	(164)
Other creditors	(74)	-
	(76)	(165)

## 9 Taxation Status

The umbrella fund, HSBC Alternative Strategy Fund, is exempt from Guernsey income tax under the Income Tax (Exempt Bodies) (Guernsey) Ordinances 1989 and is charged an annual exemption fee of GBP1,200 (30 April 2021: GBP1,200).

## 10 Redeemable Participating Units in Issue

All series of units rank equally for allocation of income and expenses and have the same rights attached to them.

The Manager may limit the number of units in the Trust 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. Any redemption of units during the first 12 calendar months from the date of subscription shall be subject to a redemption fee payable to the Fund and equal to 5% of redemption proceeds. Thereafter the redemption fee shall be 0%. A maximum initial charge of up to 3% of subscription monies may be charged on all classes at the Manager's discretion.

The table below presents the Redeemable Participating Units in issue at the beginning and end of the financial year ended 30 April 2022 and 30 April 2021.

	Redeemable Participating Units in issue as at 1 May 2021	Subscriptions	Redemptions	Redeemable Participating Units in issue as at 30 April 2022
US Dollar Class	180,313.34	1,629.55	(8,746.61)	173,196.28
Euro Hedged Class*	2,500.10	-	-	2,500.10
Total	182,813.44	1,629.55	(8,746.61)	175,696.38

\* Formerly Euro Class.

# Notes to the Consolidated Financial Statements

## 10 Redeemable Participating Units in Issue (continued)

	Redeemable Participating Units in issue as at 1 May 2020	Subscriptions	Redemptions	Redeemable Participating Units in issue as at 30 April 2021
US Dollar Class	214,537.17	-	(34,223.83)	180,313.34
Euro Class	3,285.04	-	(784.94)	2,500.10
Total	217,822.21	-	(35,008.77)	182,813.44

The table below presents the Net Assets in US\$000 for each of the last three year ends.

	30-Apr-22	30-Apr-21	30-Apr-20
<b>US Dollar Class</b>	<b>31,800</b>	33,177	31,126
<b>Euro Hedged Class*</b>	<b>403</b>	467	442
<b>Total</b>	<b>32,203</b>	33,644	31,568

\* Formerly Euro Class.

The Fund's net asset values per unit are disclosed on page 32.

## 11 Related Party Transactions

Following a review of the service provider arrangements, changes were made on 1 May 2021. The table below presents details of those related parties who provide services to the Fund. All related parties are ultimately wholly owned by HSBC Bank plc.

	Related Party
<b>Relationship</b>	
Trustee*	HSBC Custody Services (Guernsey) Limited
Custodian*	HSBC Continental Europe HSBC Bank plc Guernsey Branch
Designated Administrator*	HSBC Securities Services (Guernsey) Limited
Multi-Currency Overdraft Facility	HSBC Bank plc
Bank Accounts	HSBC Continental Europe HSBC Bank plc Guernsey Branch
Investment Adviser	HSBC Alternative Investments Limited

\*fees are paid out of Investment Manager's fees.

### Borrowings/ Loan

The Fund has an uncommitted multi-currency overdraft facility allowing it to borrow in aggregate an amount equal to the lesser of US\$3.5million and 10% of its net asset value. The Fund may use the proceeds of the facility for the purpose of short term liquidity as permitted in its offering document.

HSBC Bank plc provided credit facilities to the Fund during the year. At the year-end there was no drawdown on the credit facility (30 April 2021: US\$Nil). The interest paid on borrowings during the year was US\$718 (30 April 2021: US\$1,179). The loan is secured and repayable on demand and there were no breaches of borrowing restrictions by the Fund during the year.

There were no other related party transactions for the year other than fees paid to the Manager as outlined in Note 5.



# Notes to the Consolidated Financial Statements

## 12 Forward Foreign Exchange Contracts

Assets may be denominated in currencies other than the functional currency of each unit class and certain currency exposure will be hedged back to the relevant unit class currency. Hedging for this purpose may be by means of forward foreign exchange contracts or options on such contracts or by using such other derivative instruments as may be available and having the same or similar effect.

The Fund shall not invest in derivative instruments for speculative purposes. The Investment Adviser retains the right to vary the policy on currency hedging at its absolute discretion. All costs of such hedging will be met by the Unitholders of the relevant unit class only.

The following forward foreign exchange contracts were outstanding at 30 April 2022 in respect of the hedging of the HSBC Special Opportunities Fund - Euro Hedged Class.

Maturity	Amount Bought	Amount Sold	Counterparty	Unrealised Gain/(Loss) US\$
31-May-22	EUR383,388	US\$407,230	HSBC Bank	(2,247)
Unrealised loss on forward foreign exchange contracts				(2,247)
Net unrealised loss on forward foreign exchange contracts				(2,247)

The following forward foreign exchange contracts were outstanding at 30 April 2021 in respect of the hedging of the HSBC Special Opportunities Fund - Euro Class.

Maturity	Amount Bought	Amount Sold	Counterparty	Unrealised Gain/(Loss) US\$
04-May-21	EUR391,589	US\$461,875	State Street Bank	11,810
04-May-21	EUR4,189	US\$5,057	State Street Bank	10
28-May-21	EUR 384,495	US\$464,542	State Street Bank	782
04-May-21	USD464,316	EUR384,495	State Street Bank	(788)
04-May-21	USD13,286	EUR11,283	State Street Bank	(362)
Unrealised gain on forward foreign exchange contracts				12,602
Unrealised loss on forward foreign exchange contracts				(1,150)
Net unrealised gain on forward foreign exchange contracts				11,452

## 13 Financial Instruments

### Market Risk Oversight

The Manager takes a multi-tiered approach to risk management, with the understanding and management of risk embedded in the manager selection and portfolio management processes, together with portfolio oversight and monitoring in accordance with Fund investment restrictions, as listed in the relevant Fund section in the Prospectus.

In manager selection, due diligence revolves around understanding whether the risks a hedge fund manager takes in the pursuit of returns are appropriate and controlled. Complementing this investment focused due diligence, is a separate operational due diligence process, which evaluates the business and operational (non-investment) risks of a hedge fund and seeks to avoid hedge funds where inadequate structure or process could compromise an investment.

# Notes to the Consolidated Financial Statements

## 13 Financial Instruments (continued)

### Market Risk Oversight (continued)

In portfolio management, ensuring that portfolios are appropriately diversified is paramount. In order to assess risk and portfolio diversification, both qualitative and quantitative techniques are used, including returns and exposure-based analysis.

The Manager monitors each investee Fund's compliance on a monthly basis with the investment restrictions detailed in the Prospectus, and retains oversight of all aspects of the risk management process.

The main risks arising from the Fund's financial instruments are market risk, liquidity risk and credit risk.

### Market risk

Market risk arises mainly from uncertainty about future prices of financial instruments held. It represents the potential loss the Fund might suffer through holding market positions in the face of price movements. The Investment Adviser considers the asset allocation of the portfolio in order to minimise the risk associated with particular countries or industry sectors whilst continuing to follow the Fund's investment objective.

Market risk embodies the potential for both gains and losses and includes currency risk, interest rate risk and price risk. The profitability of the Fund's investment programme depends to a great extent on correct assessments of the future course of price movements of securities and equities and other investments. There can be no assurance that the Manager will be able to accurately predict these price movements. The securities markets have in recent years been characterised by great volatility and unpredictability. With respect to the investment strategy into which the Investment Adviser has invested the Fund's assets, there is always some, and from time to time a significant, degree of market risk.

Details of the Fund's investment portfolio at the consolidated balance sheet date are disclosed in the Portfolio of Investments included on page 31.

The Fund, generally seeks to initiate, increase, reduce or exit positions based on the use of a number of risk analysis techniques, including but not limited to sensitivity and simulation analysis and value at risk ("VaR") measurements, which use statistical analysis of historical and implied volatilities and movements to determine confidence levels of the historical maximum potential loss incurred for each position over a determined time horizon. There can be no assurance that losses will not occur and past performance is not indicative of future results.

The VaR calculation is a monte carlo simulation of each of the underlying holdings of the portfolio, which are then aggregated to produce returns for one thousand simulated portfolios. The returns are simulated as the proportional increments of constant drift, constant volatility stochastic processes, thereby approximating continuous-time geometric Brownian motion.

The data below indicates the VaR of the Fund's financial instruments, measured as the potential 1-day loss in value from adverse changes in fund prices, interest rates and foreign exchange rates using a 99% confidence level.

	30 April 2022	30 April 2021
Overall Market VaR (99%)	(5.58)%	(5.79)%

#### (a) Other price risk

Price risk is the risk that the value of the investments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or all factors affecting all investments traded in the market.

The Fund is required to comply with the standard investment and borrowing restrictions as defined in the Prospectus. The Fund's investment restrictions are monitored by both the Trustee and the Manager on a monthly basis. There are specific guidelines in place for monitoring and reporting breaches, and situations where holdings come close to restriction levels.

# Notes to the Consolidated Financial Statements

## 13 Financial Instruments (continued)

### Market risk (continued)

#### (b) Foreign currency risk

The Fund may invest in financial instruments and enter into transactions denominated in currencies other than its functional currency. Consequently, the Fund may be exposed to risks that the exchange rate of its currency relative to other foreign currencies may change in a manner that has an adverse effect on the value of that portion of the Fund's assets or liabilities denominated in currencies other than US Dollars. For the year ended 30 April 2022 exposure was US\$Nil (30 April 2021: US\$Nil).

The Funds currency risk is managed on a monthly basis by the Investment Adviser in accordance with policies and procedures in place. All currency exposure at the portfolio level is hedged into the currency of the relevant unit class on a monthly basis, using standard monthly forwards. The Fund's overall currency positions and exposures are monitored on a monthly basis by the Manager.

The Fund also offers redeemable participating units denominated in Euro exposing the unitholders to foreign currency risk. This risk is mitigated on behalf of the unitholders by the Fund entering into forward foreign exchange contracts as described further in this Note 12.

#### (c) Interest rate risk

The majority of the Fund's financial assets are investments in investment funds which neither pay interest nor have a maturity date. The underlying funds the Fund invests in are exposed to interest rate risk; however, the Fund mitigates this risk by diversifying its investments.

At the year-end there was no loan outstanding from HSBC Bank plc (30 April 2021: US\$Nil).

The Fund is exposed to variable interest rates on cash and bank balances of US\$262,849 (30 April 2021: US\$14,214).

### Liquidity risk

The main liabilities of the Fund are the redemption of any units that investors wish to redeem. The risk is that the Fund might not be able to liquidate investment positions in order to repay amounts demanded by its Unitholders.

The Fund's liquidity risk is managed on an ongoing basis by the Investment Adviser in accordance with policies and procedures in place. It is not the normal policy of the Fund to invest directly in funds, limited partnerships or other vehicles that have no liquidity. The Fund's overall liquidity risks are monitored on a monthly basis by the Manager.

The Fund's investment restrictions, as defined in the Prospectus, some of which pertain to the management of liquidity risk and concentrations thereof are monitored on a continuous basis by the Trustee of the Fund. There are specific guidelines in place for monitoring and reporting breaches, and situations where holdings come close to restriction levels.

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. 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.

All of the Funds liabilities are payable within one year.

# Notes to the Consolidated Financial Statements

## 13 Financial Instruments (continued)

### Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund.

The Fund is exposed to credit risk on parties with whom it trades and also bears the risk of settlement default.

All of the assets of the Fund are held either by HSBC Continental Europe, one of the Custodians or HSBC Private Bank (Suisse) SA (the "Sub-Custodian"). Bankruptcy or insolvency of the Custodian or Sub-Custodian may cause the Fund's rights with respect to securities held to be delayed or limited. The Manager monitors its risk by monitoring the credit quality and financial positions of the Custodian and Sub-Custodian the Fund uses, both are ultimately wholly owned by HSBC Holdings Plc. The credit rating of HSBC Holdings Plc at 30 April 2022 was A- (30 April 2021: State Street Corporation: A) as rated by S&P's Ratings Agency.

HSBC Bank plc which is ultimately owned by HSBC Holdings plc, provided credit facilities to the Fund during the year.

In addition, the Fund has indirect exposure to credit risk through the credit risk held by the underlying fund investments.

The Fund minimises concentrations of credit risk by undertaking transactions with a large number of counterparties. As at 30 April 2022, none of the financial assets of the Fund are past due or are impaired (30 April 2021: none).

### Fair value hierarchy

FRS 102 requires disclosure relating to the fair value hierarchy in which fair value measurements are categorised for assets and liabilities. The disclosures are based on a three-level fair value hierarchy for the inputs used in valuation techniques to measure fair value.

The fair value hierarchy as required under FRS 102 is based on the valuation inputs used to fair value the financial assets and liabilities and consideration of the market activity for each individual financial asset and liability. The definitions for Levels 1, 2 and 3 are set out below.

Level 1: The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.

Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

The level in the fair value hierarchy within which the fair value measurement was categorised in its entirety was determined on the basis of the lowest level input that was significant to the fair value measurement in its entirety. For this purpose, the significance of an input was assessed against the fair value measurement in its entirety.

# Notes to the Consolidated Financial Statements

## 13 Financial Instruments (continued)

### Fair value hierarchy (continued)

If a fair value measurement used observable inputs that required significant adjustment based on unobservable inputs, that measurement was a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety required judgement, considering factors specific to the asset or liability. The determination of what constituted “observable” required significant judgement by the Investment Adviser.

The Investment Adviser considered observable data to be market data that was readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

#### (a) Hierarchy analysis

The following tables provide an analysis of the fair value hierarchy of the Fund's financial assets, measured at fair value at 30 April 2022:

Assets	Level 1 US\$'000	Level 2 US\$'000	Level 3 US\$'000	Total US\$'000
<b>Financial assets at fair value through profit or loss:</b>				
Investment funds	-	32,012	-	32,012
Forward foreign exchange contracts	-	-	-	-
<b>Total Assets</b>	<b>-</b>	<b>32,012</b>	<b>-</b>	<b>32,012</b>
<b>Liabilities</b>				
<b>Financial liabilities at fair value through profit or loss:</b>				
Forward foreign exchange contracts	-	(2)	-	(2)
<b>Total Liabilities</b>	<b>-</b>	<b>(2)</b>	<b>-</b>	<b>(2)</b>

The following table provides an analysis of the fair value hierarchy of the Fund's financial assets, measured at fair value at 30 April 2021:

Assets	Level 1 US\$'000	Level 2 US\$'000	Level 3 US\$'000	Total US\$'000
<b>Financial assets at fair value through profit or loss:</b>				
Investment funds	-	33,780	-	33,780
Forward foreign exchange contracts	-	13	-	13
<b>Total Assets</b>	<b>-</b>	<b>33,793</b>	<b>-</b>	<b>33,793</b>
<b>Liabilities</b>				
<b>Financial liabilities at fair value through profit or loss:</b>				
Forward foreign exchange contracts	-	(1)	-	(1)
<b>Total Liabilities</b>	<b>-</b>	<b>(1)</b>	<b>-</b>	<b>(1)</b>

The level in the hierarchy within which the fair value measurement is categorised in its entirety is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Transfers between levels are recorded as if the transfer happened at the end of the financial year.

In relation to financial assets and liabilities not measured at fair value including cash and cash equivalents, other assets and liabilities, and net assets attributable to holders of redeemable units, their carrying amount approximate fair value because of the short nature and the high credit quality of counterparties and these assets and liabilities have been classified as Level 2 of the hierarchy in accordance with FRS 102.

# Notes to the Consolidated Financial Statements

## 13 Financial Instruments (continued)

### Fair value hierarchy (continued)

#### (b) Transfers between levels of the fair value hierarchy

There were no transfers between the Levels of the fair value hierarchy during the financial year ended 30 April 2022 or during the financial year ended 30 April 2021.

#### (c) Level 3 reconciliation

The table below shows a reconciliation of all movements in the fair value of financial instruments categorised within Level 3 between the beginning and end of the reporting period.

	Year ended 30 April 2022 Level 3 US\$'000	Year ended 30 April 2021 Level 3 US\$'000
<b>Financial assets designated at fair value through profit or loss</b>		
<b>Opening balance at the start of the year</b>	-	3
Total realised and unrealised loss for the year	-	(1)
Sales and repayments	-	(2)
<b>Closing balance at the end of the year</b>	-	-

#### (d) Significant unobservable inputs used in measuring fair value

Significant unobservable inputs used in measuring fair value represents the latest available NAV of the units/shares of the illiquid investments in funds as published by the administrator of the fund and the company's recent transactions.

#### (e) Effect of change in significant assumptions of Level 3 financial instruments

As at 30 April 2022 and 30 April 2021 the Fund had no Level 3 investments.

### Leverage

Where a fund permits leverage, the underlying volatility of the fund will be significantly greater than would otherwise have been the case without the permitted leverage. Whilst this gives a fund the ability to participate in higher returns associated with greater exposure, it also gives a fund exposure to increased losses where markets in general and a fund in particular, invest in assets where prices suffer declines.

Certain investment funds in which a fund may invest use material levels of leverage and are not limited in either their borrowing capacity nor in their level of margin commitment. The total value of positions held by these funds may exceed their net asset values. The leverage acquired offers the possibility of achieving a much greater overall return, but also increases the Fund's volatility and carries the risk of total loss of the amount invested. Please refer to Note 11 for details on borrowings of the Fund.

## 14 Capital Management

The capital of the Trust is represented by the net assets attributable to unitholders of the Fund. The Trust is subject to quarterly redemptions requests of the unitholders.

The Trust's aim with respect to management of its capital is to safeguard its ability to continue as a going concern.

The Manager monitors capital on the basis of the value of net assets attributable to unitholders of the Fund. As detailed in Note 13, the Fund's investment restrictions, as defined in the Prospectus, some of which pertain to the management of liquidity risk and concentrations thereof include restrictions in respect of investment in closed-ended funds, restrictions in respect of redemptions, restrictions in respect of the percentage holding allowable in any individual investment fund. There are specific guidelines in place for monitoring and reporting breaches, and situations where holdings come close to restriction levels.

# Notes to the Consolidated Financial Statements

## 14 Capital Management (continued)

As detailed in Note 10, the Manager may limit the number of Units 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 if the liquidity of the Fund become insufficient. Such 10% limit shall be calculated in respect of the Fund as a whole and not in respect of each individual Unit class.

The Fund also has a loan facility available to cover a cash shortfall caused by mismatched settlement dates on purchase and sale transactions and to fund redemptions; and for investment purposes, subject to a maximum of the lesser of US\$3.5million and 10% of the Fund's NAV, to facilitate additional investment in investment funds. Please refer to Note 11.

## 15 Distribution Policy

The Manager does not recommend the payment of a dividend. All income will be "rolled-up", and income will not be distributed but will be retained in the Fund and reflected in the NAV per unit.

## 16 Foreign Exchange Rate

The following foreign exchange rate was used to translate assets and liabilities into the reporting currency (US Dollars):

	As at 30 April 2022	As at 30 April 2021
Euro	0.9493	0.8267

## 17 Commitments and Contingent Liabilities

The Fund had no commitment or contingent liabilities as at 30 April 2022 and 30 April 2021.

## 18 Controlling Parties

The Manager does not consider there to be an immediate or ultimate controlling party of the Fund.

## 19 Significant Events during the year

On 1 May 2021, new service providers were appointed which were based upon a wide ranging, open tender process with leading international providers, including those outside of HSBC.

As of the date of the appointments, the Manager no longer applies separate fees in respect of each of the Management Fee and the Trustee's fee. Instead, these two fees have been combined into a single Management Fee. The single Management Fee is payable to the Manager. As presented in Note 5 the Manager pays the Trustee's fee out of the Management Fee. This administrative change was fee neutral for unitholders.

There were no other significant events during the year ended 30 April 2022 that require adjustment to, or disclosure in these consolidated financial statements.

## 20 Subsequent Events

The Manager wrote to investors on 27 September 2022 informing them that the Trust is to be closed, the final Net Asset Value will be produced as at 31 December 2022.

There were no other significant events affecting the Fund since the year end which require adjustment to, or disclosure in the consolidated financial statements.

# Notes to the Consolidated Financial Statements

## 21 Highest and Lowest NAV per unit during the year

Unit Class	Highest NAV per Unit	Lowest NAV per Unit
HSBC Special Opportunities Fund - US Dollar Class	192.49	183.56
HSBC Special Opportunities Fund - Euro Hedged Class	161.03	152.73



# Portfolio of Investments as at 30 April 2022 (Unaudited)

Security Description	Holding	Market value US\$'000	% of total net assets
<b>Investment Funds (30 April 2021: 100.41%)</b>			
BFAM Asian Opportunities Fund Limited Class A-U Series 1 Ni	17,426	2,857	8.87
CQS Abs Feeder Fund Ltd. - Class B USD Shares	381	2,701	8.39
D.E Shaw Composite International Fund - CI Collective Liquidity Restricted Series Ordinary And Reserve	998	5,631	17.49
Davidson Kempner International (BVI) Ltd. - Class C Tranche 1 Series 1 Jan 21	358	257	0.80
Davidson Kempner International (BVI) Ltd. - Class C Tranche 3 Series 1 Jan 21	13,250	3,048	9.47
My Asian Opportunities Unit Trust Class A-R Units Series 1	1,236	3,108	9.65
Palmerston Credit Feeder Fund Ltd. - Class AV Series 09/2014	21,113	3,657	11.35
Palmerston Credit Feeder Fund Ltd. - Class AV Series 03/2022	6,000	607	1.88
Sculptor Overseas Fund II Ltd. - Class L Prime Series 146	2,375	3,100	9.63
Starboard Value And Opportunity Fund Ltd. - Class A Series 1	1,031	4,114	12.77
Third Point Ultra Ltd. - Class C 1.75 - Series 1 New Issue	1,996	2,932	9.11
<b>Total Portfolio of Investments (30 April 2021: 100.41%)</b>		<b>32,012</b>	<b>99.41</b>
Net current assets (30 April 2021: Net current liabilities (0.41%))		191	0.59
<b>Total net assets</b>		<b>32,203</b>	<b>100.00</b>

# Investor Information as at 30 April 2022 (Unaudited)

<b>Net asset value per unit</b>	<b>As at 30 April 2022</b>	<b>As at 30 April 2021</b>	<b>As at 30 April 2020</b>
US Dollar Class	<b>US\$183.61</b>	US\$184.00	US\$145.09
Euro Hedged Class	<b>EUR152.73</b>	EUR154.49	EUR123.56

<b>Net asset value</b>	<b>As at 30 April 2022</b>	<b>As at 30 April 2021</b>	<b>As at 30 April 2020</b>
US Dollar Class	<b>US\$31,800,058</b>	US\$33,176,591	US\$31,126,245
Euro Class	<b>EUR381,846</b>	EUR386,228	EUR405,893

<b>Portfolio classification</b>	<b>As at 30 April 2022</b>	<b>As at 30 April 2021</b>
Unlisted securities	<b>100.00%</b>	100.00%

<b>Sector Allocation</b>	<b>As at 30 April 2022</b>	<b>As at 30 April 2021</b>
Event Driven	<b>51.40%</b>	54.10%
Multi-Strategy	<b>26.40%</b>	27.80%
Credit Long/Short	<b>21.60%</b>	18.10%
Cash and Expenses	<b>0.60%</b>	0.00%
	<b>100.00%</b>	100.00%

# Summary of Significant Portfolio Changes for the year ended 30 April 2022\* (Unaudited)

## Purchases\*\*

Description	Nominal	Cost US\$'000
Palmerston Credit Feeder Fund Limited Class AV Series 03/2022	6,000	600

## Sales\*\*\*

Description	Nominal	Proceeds US\$'000
D.E Shaw Composite International Fund - Class Collective Liquidity Restricted Series	2	1,121
Sculptor Overseas Fund II Ltd. - Class L Prime Series 146	348	490
Third Point Ultra Ltd. - Class C Series 1.75 - Series 1 New Issue	245	464
BFAM Asian Opportunities Fund Limited Class A-U Series 1 NI	943	193

\* Significant portfolio changes are defined as the value of purchases or sales of a security exceeding 1% of the net assets of the Trust at the start of the year. In any event, at a minimum, the 20 largest purchases and 20 largest sales must be shown.

\*\* Other than those listed above, there were no other purchases during the financial year ended 30 April 2022.

\*\*\* Other than those listed above, there were no other sales during the financial year ended 30 April 2022.

# Performance Information

## for the year ended 30 April 2022 (Unaudited)

### Performance Overview

Year ended	2022	2021	2020	2019	2018
HSBC Special Opportunities Fund – Euro Hedged Class	(1.14)%	25.03%	(4.56)%	3.73%	(5.97)%
Benchmark – Hedge Fund Research Fund of Funds Composite Index	(2.24)%	(0.94)%	(2.92)%	5.59%	(4.02)%
HSBC Special Opportunities Fund – US Dollar Class	(0.21)%	26.82%	(2.05)%	4.96%	(3.22)%
Benchmark – Hedge Fund Research Fund of Funds Composite Index	(2.24)%	0.92%	(2.92)%	5.59%	(4.02)%

**Past performance is not indicative of future performance. The performance data does not include commissions and costs incurred on the issue and redemption of units.**

# Information on HSBC Alternative Strategy Fund

## Information on HSBC Alternative Strategy Fund

HSBC Alternative Strategy Fund is an umbrella unit trust comprising the following sub fund and classes (as at 30 April 2022):

HSBC Special Opportunities Fund – US Dollar Class  
HSBC Special Opportunities Fund – Euro Hedged Class  
**collectively known as the HSBC Special Opportunities Funds**

**Unitholders should note that copies of the latest financial statements of the above Fund are available from the Manager free of charge on request.**