

# **HSBC SPECIAL OPPORTUNITIES FUND**

## **Unaudited Interim Report and Consolidated Financial Statements**

**For the Six Months Ended 31 October 2019**



**HSBC**  
Global Asset  
Management

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# General Information

**Manager, Administrator and Registrar:**

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

**Trustee and Custodian:**

HSBC Private Bank (C.I.) 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

**Swiss Representative:**

ACOLIN Fund Services AG (until 30 September 2019)  
Leutschenbachstrasse 50  
CH-8050 Zürich  
Switzerland

HSBC Global Asset Management (Switzerland) AG  
(from 1 October 2019)  
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

**Independent Auditor:**

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

**Transfer Agent:**

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

**Global Sub-Custodian:**

State Street Custodial Services (Ireland) Limited  
78 Sir John Rogerson's Quay  
Dublin 2  
Ireland

**Sub-Administrator:**

State Street Fund Services (Ireland) Limited  
78 Sir John Rogerson's Quay  
Dublin 2  
Ireland

**Legal Adviser as to Guernsey Law:**

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

A copy of the full Audited Report and Financial Statements for the year ended 30 April 2019 is available from the Manager or Trustee free of charge on request.

## 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, 1987 as amended and is subject to the provisions of The Authorised Collective Investment (Class B) Rules, 2013 (the "Rules").

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

The Company owns the investments listed in the Portfolio of Investments. The purpose of the Company is to ensure that any withholding tax on distributions from such investments may be reclaimed. 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 Private Bank (C.I.) Limited (the "Trustee") may, from time to time, establish one or more sub-funds. A copy of the latest version of the HSBC Alternative Strategy Fund Prospectus is available from the Manager or the Trustee on request.

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.

Units Classes/ Benchmark: HSBC Special Opportunities Fund – US Dollar Class,  
*US Dollar 3 month LIBOR plus 5% per annum.*

HSBC Special Opportunities Fund – Euro Class,  
*Euro 3 month LIBOR plus 5% per annum.*

These consolidated interim financial statements for the six months ended 31 October 2019 have been prepared on a basis consistent with accounting standards applied in the annual financial statements and the Statement of Recommended Practice for Authorised Fund (the "SORP") issued by the Investment Management Association in May 2014 and amended in June 2017. However the Manager has opted not to apply FRS 104 Interim Financial Reporting in the preparation of these interim financial statements. The unaudited interim financial statements do not contain all of the information and disclosures required in the full annual audited financial statements and should be read in conjunction with the annual audited financial statements of the Fund for the year ended 30 April 2019.

**A copy of the full Audited Report and Financial Statements for the year ended 30 April 2019 is available from the Manager or Trustee free of charge on request.**

# Additional Disclosure Required for Swiss Registered Funds

The state of the origin of the Fund is Guernsey. In Switzerland, from 1 October 2019, the representative is HSBC Global Asset Management (Switzerland) AG, Gartenstrasse 26, P.O. Box, CH-8002 Zurich, whilst the paying agent is HSBC Private Bank (Suisse) SA, Quai des Bergues 9-17, PO Box 2888, CH-1211 Geneva. 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.

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# Investment Adviser's Report

To the Unitholders of HSBC Special Opportunities Fund (the "Fund").

## Market Commentary

From all-time highs, global markets performed poorly in May in response to the announcement of tariff increases on US imports from China. Towards the end of the month and into June, the anticipation of significant rate cuts by the Federal Reserve stabilised markets by mid-year.

Through the third quarter of 2019, emerging and developed markets diverged against the backdrop of broader geopolitical upheaval. Amid concerns over global growth, the Federal Reserve and the ECB engaged in supportive monetary activity through rate cuts and quantitative easing measures. Consequently, US equities and Eurozone equities saw modest gains. Emerging markets, on the other hand, felt the impact of ongoing US-China trade tensions more acutely, while broader economic pessimism manifested in lower government bond yields throughout the period.

Towards the end of the period, global equities rose as tensions eased around the trade conflict. However, soft US economic data caused treasury yields to fall, while a new Brexit deal supported European and UK markets and government bond yields.

## Portfolio Review

The HSBC Special Opportunities Fund ("the Fund") USD share class returned 2.21% during the period 1 May 2019 – 31 October 2019 ("the period"), whilst the Dow Jones Credit Suisse Event Driven Multi-Strategy Hedge Fund Index returned -0.28% over the period.

Following a difficult May, the Fund went on to post strong returns through the remaining five months, particularly in June and August, returning 1.19% and 1.02% respectively.

Over the last six months, all strategies contributed positively to performance. Event Driven funds (the largest sector allocation) provided the largest contribution to the Fund's positive performance. York Asian Opportunities (an Event Driven fund) and D.E. Shaw Composite International Fund LP (a Multi-Strategy fund) were among the strongest contributors to performance over the period.

**HSBC Alternative Investments Limited**  
**December 2019**

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# Unaudited Consolidated Statement of Total Return

	Period ended 31 October 2019		Period ended 31 October 2018	
	US\$'000	US\$'000	US\$'000	US\$'000
<b>Income:</b>				
Net capital gains		1,215		294
Revenue	1		2	
Interest expense	(1)		(11)	
Operating expenses	(461)		(491)	
<b>Net expenses</b>		(461)		(500)
<b>Change in net assets attributable to the unitholders of the Fund from investment activities</b>		754		(206)

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 period.

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

	Period ended 31 October 2019		Period ended 31 October 2018	
	US\$'000	US\$'000	US\$'000	US\$'000
<b>Net assets attributable to the unitholders of the Fund at the start of the period</b>		34,721		38,661
Movement due to issue and redemption of redeemable participating units:				
Amounts received/receivable on issues	-		-	
Less: Amounts paid/payable on redemptions	(1,741)		(2,072)	
		(1,741)		(2,072)
<b>Change in net assets attributable to the unitholders of the Fund from investment activities</b>		754		(206)
<b>Net assets attributable to the unitholders of the Fund at the end of the period</b>		33,734		36,383

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# Unaudited Consolidated Balance Sheet

<b>Assets:</b>	<b>As at</b>		<b>As at</b>	
	<b>31 October 2019</b>		<b>30 April 2019</b>	
	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>
Current Assets				
Portfolio of investments		<b>32,697</b>		<b>32,425</b>
Debtors	<b>1,005</b>		<b>1,003</b>	
Cash and cash equivalents	<b>564</b>		<b>1,331</b>	
		<b>1,569</b>		<b>2,334</b>
<b>Total assets</b>		<b>34,266</b>		<b>34,759</b>
<b>Liabilities:</b>				
Creditors: amounts falling due within one year	<b>(532)</b>		<b>(38)</b>	
<b>Total Liabilities</b>		<b>(532)</b>		<b>(38)</b>
<b>Net assets attributable to the unitholders of the Fund</b>		<b>33,734</b>		<b>34,721</b>

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# Unaudited Portfolio of Investments as at 31 October 2019

Security Description	Holding	Market value US\$'000	% of total net assets
<b>Investment Funds (30 April 2019: 93.39%)</b>			
AG Super Fund International Ltd. - Class XXXX Series 1 - Special Investment	1	2	0.01
AG Super Fund International Ltd. - Class XXXX Series 2 - Special Investment	1	1	0.00
Beach Point Total Return Offshore Fund II - IS Series V 01 Nov 2007 GSY	526	902	2.67
BFAM Asian Opportunities Fund Ltd. Class A-U Series 51 GSY	7,500	753	2.23
BFAM Asian Opportunities Fund Ltd. Class A-U Series 1 NI GSY	12,104	2,285	6.77
CQS Abs Fedder Fund Ltd. - Class B USD Shares	246	1,762	5.22
CQS Abs Fedder Fund Ltd. - Class B USD Shares Equalization	1	9	0.03
D.E. Shaw Composite International Fund - April 1 <sup>st</sup> Subscription	1	6,116	18.14
Davidson Kempner International (BVI) Ltd. - Class C Tranche 1 Series 1 Jan 19 - GSY	358	222	0.66
Davidson Kempner International (BVI) Ltd. - Class C Tranche 3 Series 1 Jan 19 - GSY	13,250	2,654	7.87
Davidson Kempner International (BVI) Ltd. - Class C Tranche 4 Series 1 Jan 17 - GSY	16,417	2,443	7.24
Palmerston Credit Feeder Fund Ltd. - Class A Series 09/2014	29,110	3,881	11.50
Sculptor Overseas Fund II Ltd. - Class L Prime	3,198	3,476	10.30
Starboard Value and Opportunity Fund Ltd. - Class A Series 1	1,140	3,404	10.09
Third Point Ultra Red. Ptg - Shares C 1.75 Series 12 New Issue	556	778	2.31
Third Point Ultra Red. Ptg - Shares C 1.75 Series 8 New Issue	243	1,535	4.55
York Asian Opportunities Unit Trust - Class A USD A-R Series 06/2019	696	1,386	4.11
York Asian Opportunities Fund L.P. - Class A USD A-R Series 08/2019	544	1,088	3.23
<b>Total Portfolio of Investments (30 April 2019: 93.39%)</b>		32,697	96.93
Net current assets (30 April 2019: 6.61%)		1,037	3.07
<b>Total net assets</b>		<b>33,734</b>	<b>100.00</b>

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# Unaudited Investor Information

## as at 31 October 2019

	As at 31 October 2019	As at 30 April 2019	As at 30 April 2018
<b>Redeemable participating units in issue</b>			
US Dollar Class	<b>219,650.25</b>	231,175.69	257,093.75
Euro Class	<b>3,285.04</b>	3,285.04	9,474.00

	As at 31 October 2019	As at 30 April 2019	As at 30 April 2018
<b>Net asset value per unit</b>			
US Dollar Class	<b>US\$151.41</b>	US\$148.13	US\$144.57
Euro Class	<b>EUR130.38</b>	EUR129.45	EUR130.38

	As at 31 October 2019	As at 30 April 2019
<b>Portfolio classification</b>		
Unlisted securities	<b>100.00%</b>	100.00%

	As at 31 October 2019	As at 30 April 2019
<b>Sector Allocation</b>		
Event Driven	<b>50.30%</b>	41.40%
Multi-Strategy	<b>27.10%</b>	30.00%
Credit Long/Short	<b>19.40%</b>	21.80%
Cash and Expenses	<b>3.20%</b>	6.80%
	<b>100.00%</b>	100.00%

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# Unaudited Summary of Significant Portfolio Changes for the six months ended 31 October 2019

	Nominal	Cost US\$'000
Total Purchases	12,853	7,302
	Nominal	Proceeds US\$'000
Total Sales	10,812	9,159

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