January 2012

HSBC Fund Update
- HSBC Global Investment Funds - Indian Equity ("the Fund")

Summary

- The benchmark fell in December, with the INR contributing to this fall as it weakened against the USD
- Parliament remained caught up in issues such as corruption, foreign direct investments (FDI) in retail, etc and made limited progress
- Valuations remain in attractive territory and loads of opportunities exist below a thin layer of market favoured expensive stocks
- The Fund continues to position towards domestic cyclicals and eliminate some small positions in the portfolios and tone down some of our aggressive active bet positions

Market review

The S&P IFCI fell by 6.39% (USD terms) in December, with the INR contributing to this fall as it weakened by 1.6% against the USD. Large cap indices outperformed mid cap indices which in turn outperformed small cap indices. Foreign institutional investor selling was only USD 12m which was dwarfed by USD 168m of domestic institutional investor buying.

Inflation for November came in at 9.11%, roughly in line with expectations, and down from 9.73% in October.

Industrial production came in at -5.1% for October, significantly worse than consensus expectations. This hurt market sentiment.

The November trade deficit came in at USD 13.6bn, a big improvement from USD 19.9bn in October.

Current account deficit came in slightly better than consensus at USD 16.9bn for the September quarter.

Reserve Bank of India measures help arrest the rapid fall in the INR against the USD that started from August 2011.

Parliament remained caught up in issues such as corruption, FDI in retail, etc and made limited progress in December.

HSBC
Global Asset Management

Portfolio strategy

The Fund underperformed the benchmark notwithstanding a positive start to the month.

Underweight consumer staples hurt the most as our key overweight within this sector, United Spirits, fell sharply. Information technology underweight also hurt mainly due to stock picking. The key positive was underweight energy where both sector allocation and stock picking were positive.

Jindal Steel & Power, a key holding, hurt performance as rumours of changes to power tariffs hit the stock towards the end of the month.

We continue to position towards domestic cyclicals and are targeting going overweight banks within the financial sector. We are looking to add new names within consumer discretionary and industrials.

We continue to eliminate some small positions in the portfolios and tone down some of our aggressive active bet positions.

Outlook

Inflation numbers have started to fall led by a collapse in food price inflation. We expect inflation to halve from the 2011 peak during 2012. Given the slowdown in GDP, the Government's and Central Bank's focus has turned to growth relative to inflation.

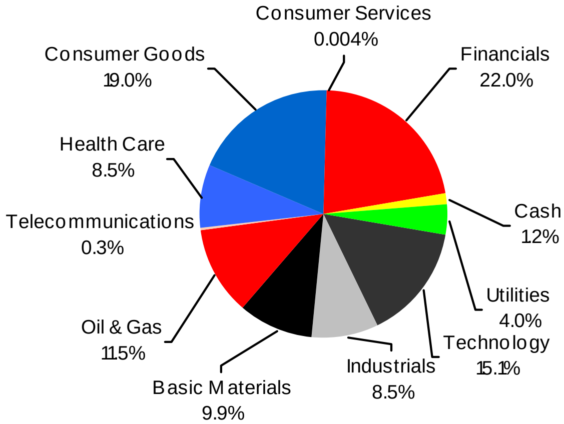
We expect monetary policy easing in the first quarter of Calendar Year (CY) 2012. Therefore, we continue to favour domestic cyclical sectors at the expense of domestic defensive sectors and global sectors.

Some key regional elections are scheduled in the first quarter of 2012 and the results of the Uttar Pradesh elections will be closely watched. If the Congress party does better than expected it could lead to changes in leadership with Rahul Gandhi taking one or more key posts, which would be taken as a positive. Post these elections we could see a pick up in Government decision making.

Also, given the corner the Government finds itself in, we do expect the Government to react and make some decisions. The beaten down industrial/infrastructure sector should be a beneficiary of such actions.

Valuations remain in attractive territory and loads of opportunities exist below a thin layer of market favoured expensive stocks. Consensus expectations are for 10-15% earnings growth in the years ending 31 March 2012 and 2013.

Sector allocation^



Top 10 holdings^

Name	Sector	Weight (%)
Cairn Energy Plc	Oil & gas producers	10.2
Maruti Suzuki India	Automobiles & parts	8.4
HCL Technologies	Software & computer services	8.3
State Bank of India	Banks	5.7
Jindal Steel & Power	Industrial metals	5.0
Aditya Birla Nuvo	Personal goods	4.1
Mahindra & Mahindra	Industrial engineering	3.8
Infosys	Software & computer services	3.2
Dr Reddy's Laboratories	Pharmaceuticals & biotechnology	3.1
United Spirits	Beverages	3.1

Performance#

Class AD in USD terms					Annualised		
%	1 mth	3 mths	6 mths	1 yr	3 yrs	5 yrs	Inception (4 Mar 1996)
NAV	-9.1	-19.4	-37.9	-45.8	12.4	-5.6	16.2
NAV*	-13.9	-23.7	-41.2	-48.7	10.4	-6.6	15.8
S&P IFCI	-6.4	-14.8	-31.2	-37.3	13.6	-0.8	8.6

^Source: HSBC Investment Funds (Hong Kong) Limited as at 30 December 2011. For illustrative purposes only and does not constitute investment recommendation to buy or sell in the above-mentioned sectors/securities.

*#Source: HSBC Global Asset Management & Morningstar as of 30 December 2011, dividend reinvested in USD terms. *Net of sales charge. Past performance is not indicative of future returns.*

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