January 2011

HSBC Fund Update

- HSBC Global Investment Funds - Russia Equity (“the Fund”)

Summary

- The strategy outperformed the MSCI Russia 10-40 benchmark during December, and is also ahead of this index in 2011
- The overweight in oil and gas and underweight in utilities were the key sector reasons for outperformance
- From a valuation perspective, Russian equities remain at trough levels in absolute and relative terms so any resolution of these external factors beyond what is expected, would likely be the source of significant upside for the Russian market

Market review

Emerging markets declined 1.3% in December, the worst December performance since 2002 and leading to the third year of negative return (-20.4%) in 10 years. Developed markets returned -0.2%, losing 7.6% for the year. The European debt crisis continued to weigh on investor sentiment, as well as doubts surrounding economic growth. Commodities struggled during the month, led by Copper (-3.6%), while Brent recovered from a mid-month dip to end the year on a positive at $107/bbl, more than $12/bbl higher than it started the year.

Russian equities sold off sharply in December, reflected in a fall on MSCI Russia 10-40 of -12.6% underperforming the wider GEM Index, due to a combination of continued weak outlook for the Eurozone, weaker oil prices intra-month, although for a change domestic events were the predominant influence on market direction -heightened risk aversion led to a sharp sell-off following the Russian election result and the ensuing public demonstrations demanding electoral and other reform. The political situation stabilized later in the month; however trading volumes were reduced ahead of the festive holiday, meaning that markets did not recover much lost ground by the end of the year.

Generally speaking, Russian domestic data indicated that the economy remains in pretty good health – Industrial production for November was 3.9% y/y, while retail sales printed on 8.6% y/y. The result for the full year will be close to 7%, which is the best since the 2008 crisis. Also looking positive for strong consumption, private sector wage growth was 12.3% y/y in November, which when considered alongside CPI (Consumer Price Index) data which printed at 6.1% y/y implies real wage growth in the private sector of 6%. Overall it looks as though 2011 Russian GDP will be in the range 4-5%.

Source of macroeconomic data: Bloomberg as at 30 December 2011. For illustrative purposes only and does not constitute investment recommendation to buy or sell in the above-mentioned countries, sectors or securities.

HSBC
Global Asset Management

Portfolio strategy

The strategy outperformed the MSCI Russia 10-40 benchmark during December, and is also ahead of this index in 2011.

The overweight in oil and gas and underweight in utilities were the key sector reasons for outperformance.

On a stock level Gazprom (-6.0%) outperformed the wider index (-12.6%) in USD terms based on news of their plans to increase their dividend, while TNK BP also outperformed, (+2.8% vs. -12.6%). Cherkizovo was a detractor from performance, with the stock falling 26.5% in USD.

The strategy remains overweight the attractively valued oil and gas names, and maintains exposure to the strong domestic economy through its position in Sberbank and Bank Nomos.

The strategy remains underweight Utilities.

Outlook

Russian equities in the short term may be influenced mostly by domestic political factors, as discussed above, but should these risks dissipate, it is likely that global investor sentiment will return as a key driver of the market. Events relating to the sovereign debt crisis in Europe, US fiscal issues and the outlook for Chinese growth will again be the things to watch. A worsening on any or all of these will likely cause weakness in the Russian market.

From a valuation perspective, Russian equities remain at trough levels in absolute and relative terms so any resolution of these external factors beyond what is expected, would likely be the source of significant upside for the Russian market.

Should the constructive tone on the domestic political front continue to develop, elections occur in a more fair way than in the recent parliamentary poll, and personnel and policy changes be implemented in the aftermath, this could well be a positive catalyst for a re-rating of Russian equities and that would be our base case forecast. Should global growth concerns and Russian politics deteriorate, there would be downside to these forecasts, although we would argue that much gloom is already priced into this the market.

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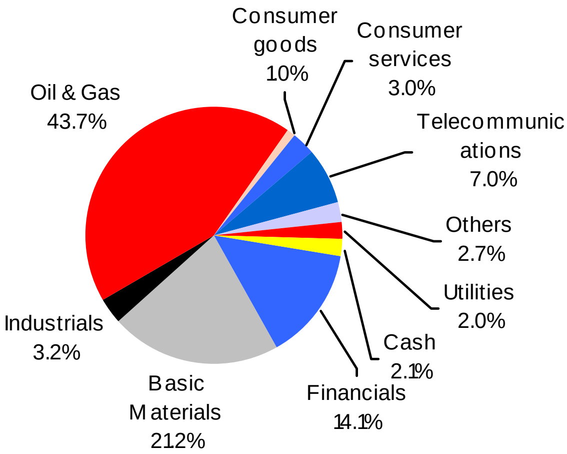
Sector allocation^



Top 10 holdings^

Name	Sector	Weight (%)
Gazprom ADR	Oil & gas producers	9.9
Lukoil	Oil & gas producers	9.9
Sberbank of Russia	Banks	8.7
Novatek	Oil & gas producers	7.1
AO Tatneft	Oil & gas producers	4.9
OAO Rosneft Oil	Oil & gas producers	4.8
Uralkali	Chemicals	4.6
Severstal	Industrial metals	4.2
Mobile Telesystems OJSC	Telecommunications	4.2
Surgutneftegaz	Oil & gas producers	3.6

Performance#

Class AD in USD terms					Annualised	
%	1 mth	3 mths	6 mths	1 yr	3 yrs	Inception (20/12/2007)
NAV	-12.0	0.8	-31.5	-27.5	30.2	-11.9
NAV*	-16.6	-4.4	-35.1	-31.3	27.9	-13.0
MSCI Russia 10/40	-12.6	4.1	-28.8	-23.4	34.0	-9.4

^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 at 30 December 2011 dividend reinvested in USD terms. *Net of sales charge. Past performance is not indicative of future returns.*

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