HSBC GIF Global Currency Fund (USD)

September 2009

HSBC Global Asset Management

For investment professionals only

Investment case

HSBC
Global Asset Management

The Currency Market

STRUCTURE

- Decentralised 'interbank' market
- Main participants: Central Banks, commercial and investment banks, hedge funds, corporations & private speculators

TRADING HOURS

- 24 hour market
- Sunday 5pm EST through Friday 4pm EST.

SIZE

- One of the largest financial markets in the world
- $3.2 trillion average daily turnover, equivalent to:
  - More than 10 times the average daily turnover of global equity markets*
  - More than 35 times the average daily turnover of the NYSE2**
  - Nearly $500 a day for every man, woman, and child on earth***
  - An annual turnover more than 10 times world GDP****
- The spot market accounts for just under one-third of daily turnover

* About $280 billion - World Federation of Exchanges aggregate 2006 ** About $87 billion - World Federation of Exchanges 2006 *** Based on world population of 6.6 billion - US Census Bureau
**** About $48 trillion - World Bank 2006

The Currency Market

MAJOR MARKETS

- The US & UK markets account for just over 50% of turnover
- Major markets: London, New York, Tokyo
- Trading activity is heaviest when major markets overlap*
- Nearly two-thirds of NY activity occurs in the morning hours while European markets are open**

CONCENTRATION IN THE BANKING INDUSTRY***

- 12 banks account for 75% of turnover in the U.K.
- 10 banks account for 75% of turnover in the U.S.
- 3 banks account for 75% of turnover in Switzerland
- 9 banks account for 75% of turnover in Japan

CURRENCIES

- The US dollar is involved in over 80% of all foreign exchange transactions, equivalent to over US$2.7 trillion per day

*The Foreign Exchange Market in the United States - NY Federal Reserve

**The Foreign Exchange Market in the United States - NY Federal Reserve

***Source: BIS Triennial Survey 2007

Why invest in the Currency Market

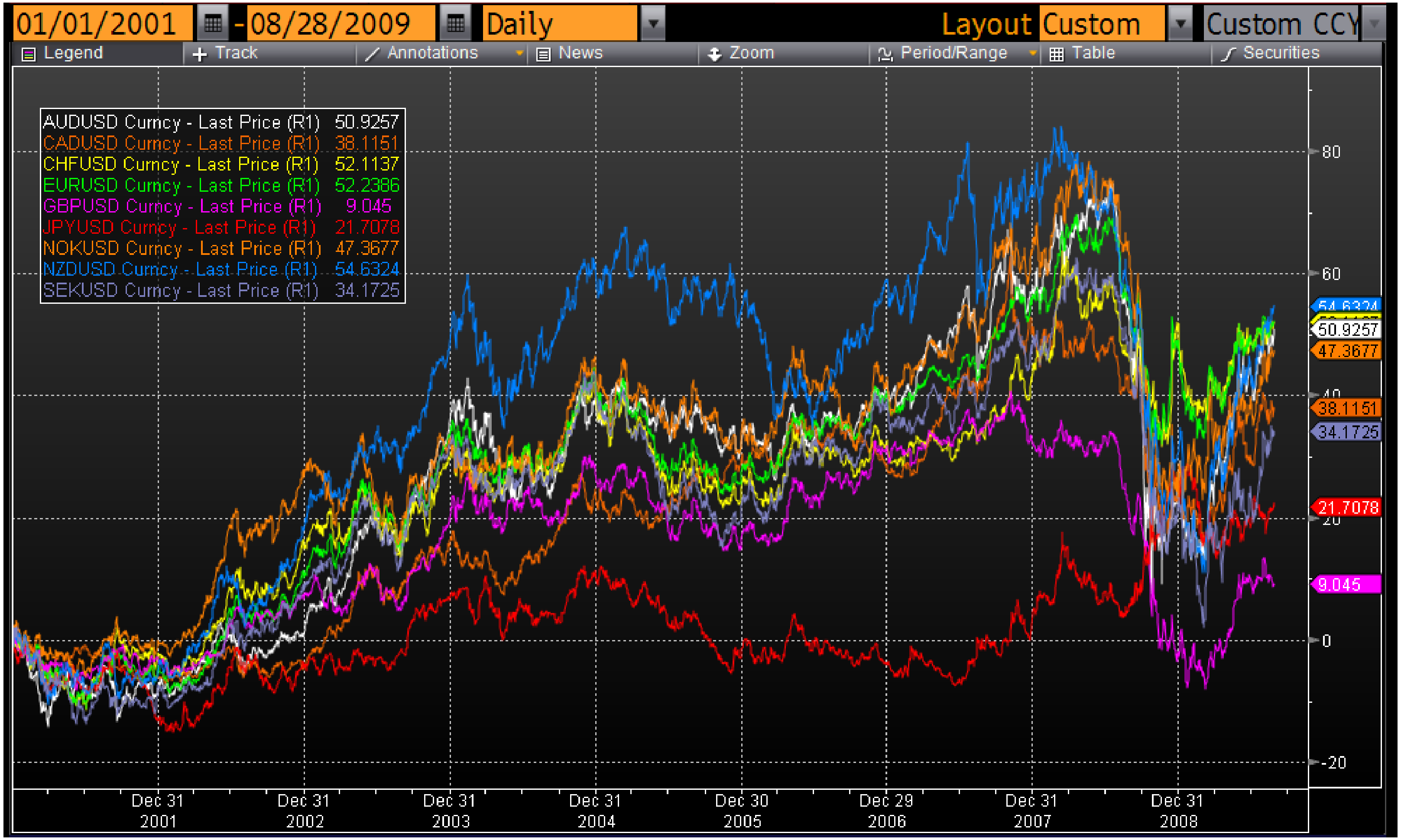
- Investors are increasingly looking beyond traditional equity markets and asset classes, and see the global currency markets as a good alternative to pick up opportunities generated by players not trading to generate profit. The players are, for example, Companies seeking foreign exchange to pay for goods or services and Central Banks which often use their substantial foreign exchange reserves to control inflation and/or interest rates.

- The general return profile for diversified currency strategies has proven to be relatively stable and independent of investments in deposits, bonds and equities. This means that investments in currencies can be a good new alternative for investors who:

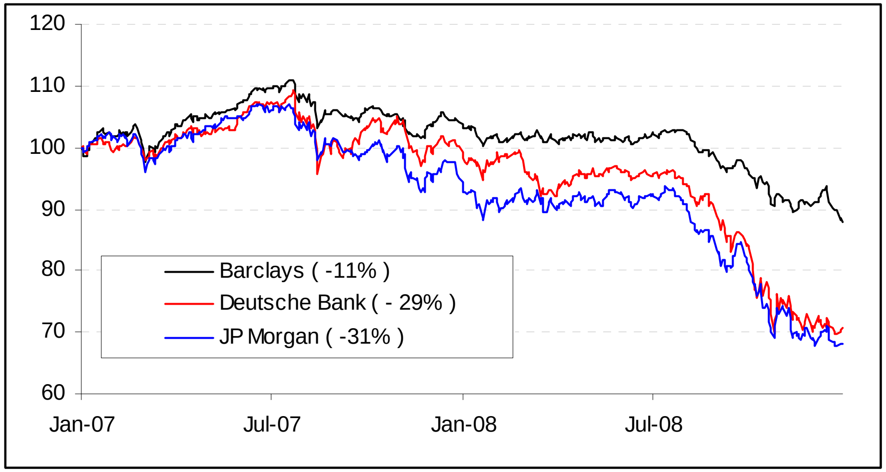
  - today hold cash in money market deposits or bonds receiving very low yields.
  - are nervous about the returns and volatility within equity markets.

Currency overview since 2001

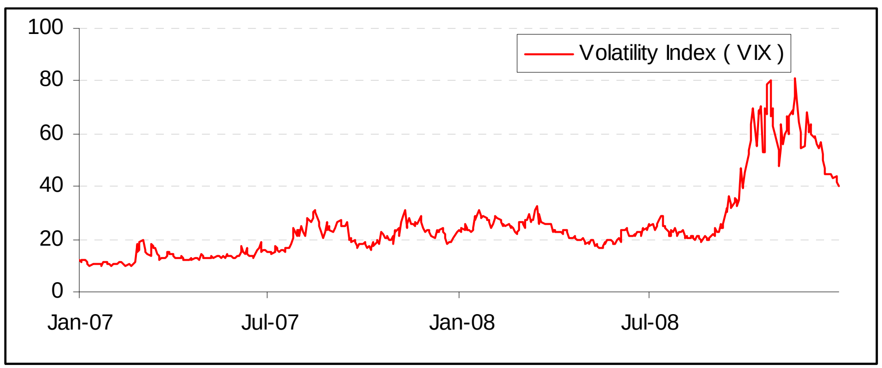
- It has been an exceptionally active year in the foreign exchange market as currency volatilities hit record highs.



Traditional FX carry strategy returns 2007 - 2008



- The most common FX strategy – the carry strategy which takes short positions in low yielding currencies and long positions in high yielding currencies – has suffered from high correlation with volatility, equities and other mainstream asset classes.

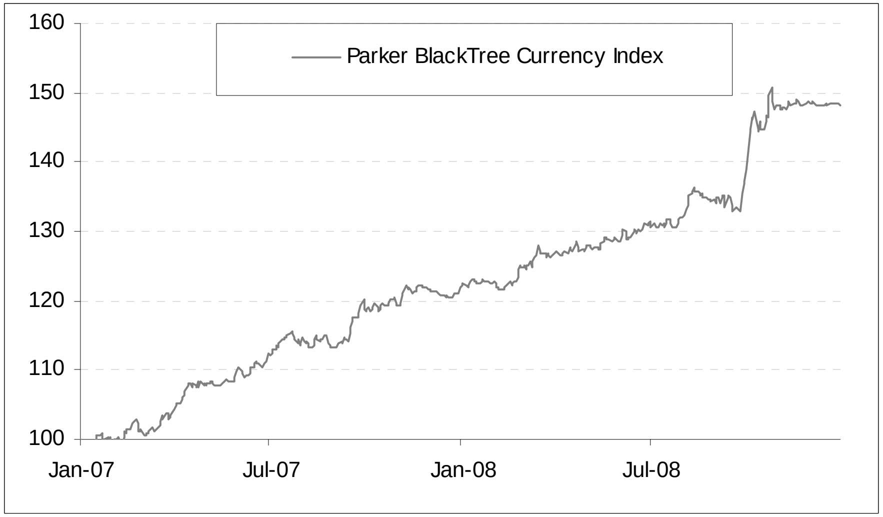


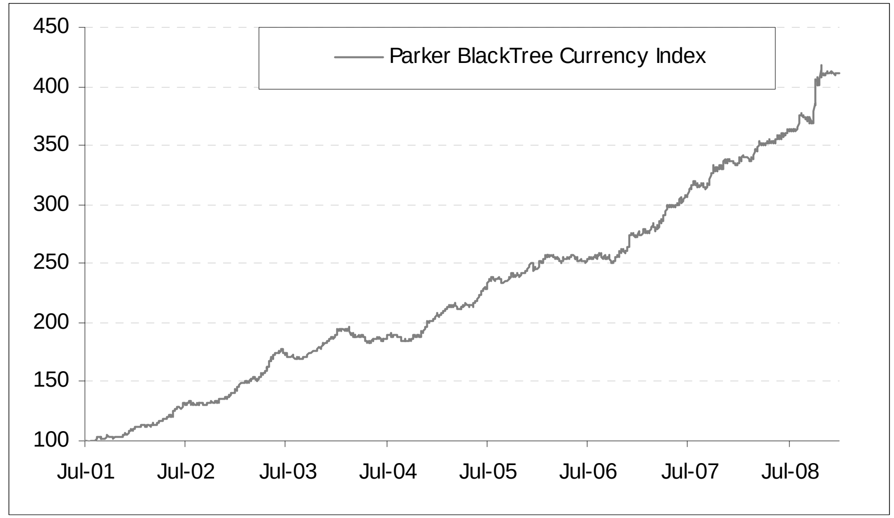
- Returns in 2007 between -5% and +5%
- Returns in 2008 between -15% and -29%
- Total Returns between -14% and -33%

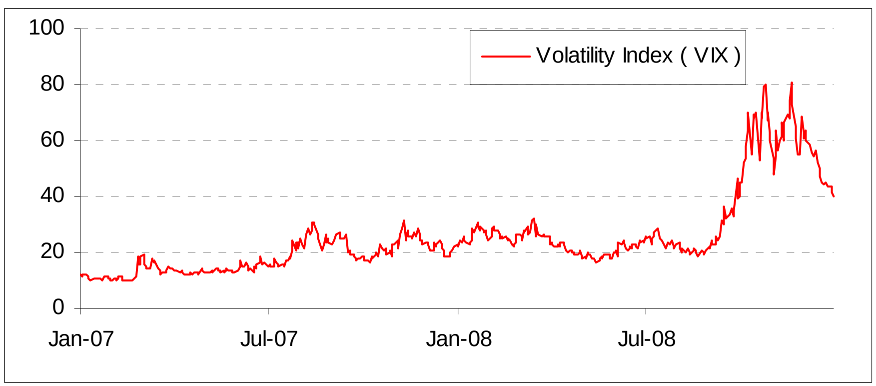
Source: Bloomberg – Barclays: Barclays Intelligent Carry Index, Deutsche – Deutche Bank G10 FX Carry Basket Index, JP Morgan – JPMorgan Income FX Index

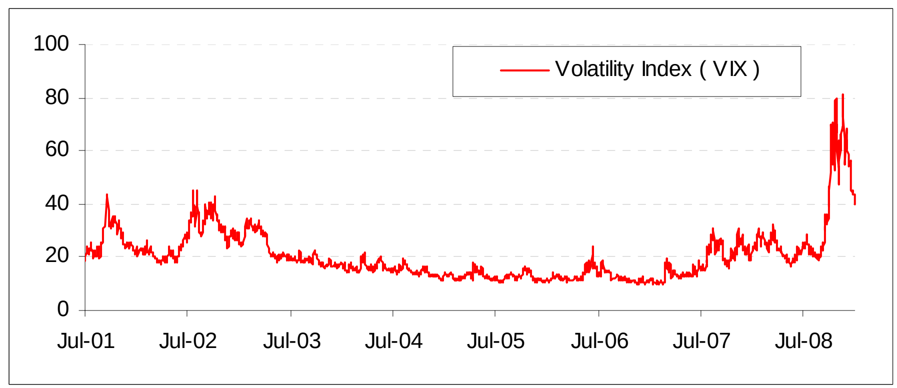
Diversified multi strategy fund returns 2001 - 2008

- Non Tradable Currency Indices reflecting a diversified portfolio of currency strategies provides consistent positive returns of approximately 22% per annum









Source: BloombergBloomberg Ticker PBCIPLUS Index <GO>

Investment process and performances

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Key characteristics

- Absolute return currency strategy with annualised volatility target 5-10% - target Libor + 5% return*
- Diversification across multiple alpha sources seek to provide a more stable return generation taking positions in primarily the G10 currencies
- Daily optimisations based a variety of systematically generated signals such as historical / spot / forward interest rate differentials, correlation, volatility and historical returns
- Daily systematic draw down management facility seeks to protect both the principal and profit by actively reducing gross exposure with negative performance
- Daily liquidity via managed accounts or UCITS III Fund vehicle
- Efficient automated execution to minimise operational risk, time to market and trading costs
- Track Record: Managed accounts since 2005 (USD 200m**), and UCITS III fund since April 2009
- Diversifies from peer group with focus on single fx strategy drivers such as trend /fundamentals /volatility
- Can be viewed as an alternative bond/equity allocation or within treasury proprietary trading FX limits

*Provided for information only and should not be taken as indicative of returns for the Global Currency Fund
** As at July 2009 for external client capital held within HSBC Global Markets

Investment process

The objective of the systematic daily portfolio construction is to hold the best combination of strategies in the Fund

- *Data collection*
  - Market data is collected and analysed for each of the strategies to which they are applied
- *Optimisation*
  - Each strategy will use the analysed data to determine the optimal portfolio of currencies
- *Risk Allocation*
  - Risk is allocated to each strategy based on the recent investment performance and at the discretion of the portfolio managers
- *Execution*
  - All orders are collected, netted and traded by the execution algorithm to reduce the total trading volume and minimise time to market

Correlation Analysis (USD)

- Simulated performance** since 2006 is shown for illustrative purposes only

- The correlation matrix below shows the correlation between the simulated data for the HSBC Global Currency Fund* and other traditional investments
- The matrix shows negative correlation to most traditional investments and low correlation to USD Interest Rates
- The correlation numbers indicate that the HSBC Global Currency Fund could be used as a good alternative to a traditional investment portfolio

	HSBC FX Fund	S&P 500 Index	JP Morgan Bond Index	Goldman FX Fund	HFR Index	1 month Libor
HSBC FX Fund	**1**	**-47%**	**-10%**	**-5%**	**-46%**	**16%**

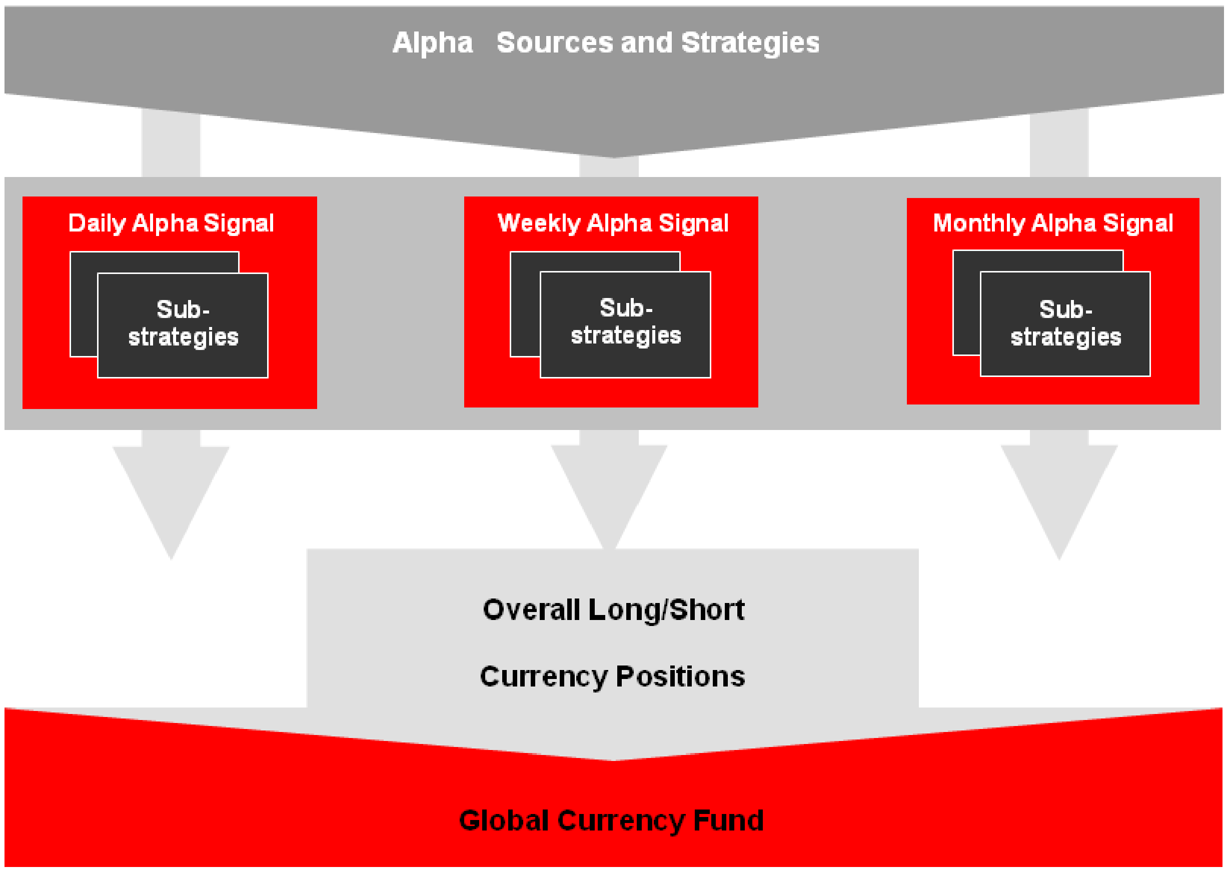
Source: HSBC Bank plc as at February 2009.
*The HSBC Global Currency Fund reflects performance, net of fees.
**Simulations is based on Back Testing assuming that the optimisation models and rules in place today is applied on historical data.
Simulated data is shown for illustrative purposes only, and should not be relied on as indication for future returns for the Global Currency Fund.

Currency Overview and Investment Instruments

- The Fund can hold positions in a global basket of liquid currencies, and currently the Fund monitors and takes positions in the G10 universe defined as:
  - US Dollar, Euro, Japanese Yen, Australian Dollar, New Zealand Dollar, Swiss Franc, British Pound Sterling, Canadian Dollar, Norwegian Krone and Swedish Krona
- The Fund typically takes positions in simple liquid FX instruments:
  - Daily: FX spot and forwards
  - Occasionally: Hedging has been done by trading FX options
- Within FX no collateral is needed, and excess cash is placed in T-Bills

Fund Structure

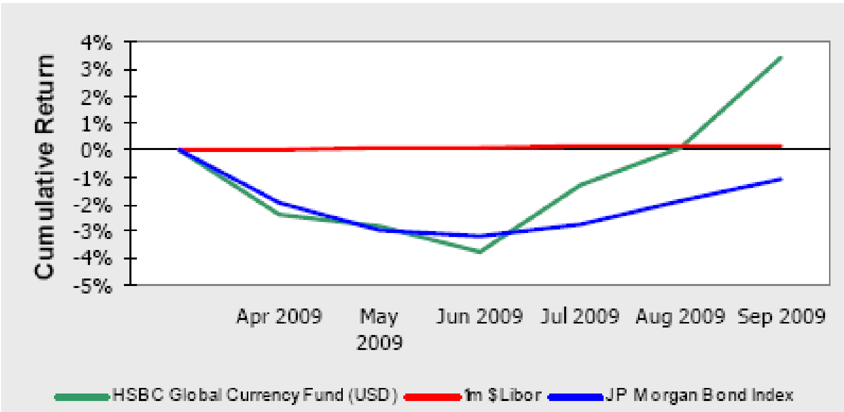
- The Fund trades daily, weekly and monthly alpha signals via separate sub-strategies . Each sub-strategy* introduces a portfolio of currencies which is held by the Fund as one overall position in each currency

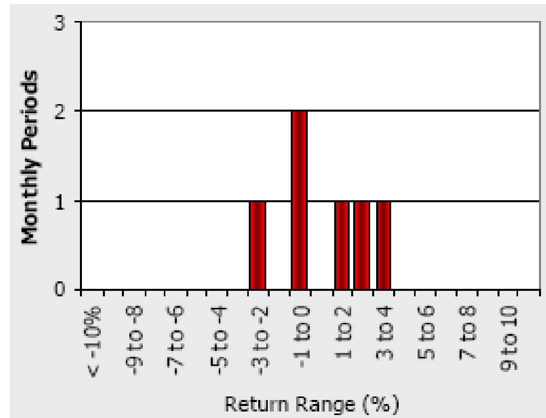


*The number of strategies in the Fund can evolve over time

Fund performance overview (USD)

- Actual performance of the HSBC GIF Global Currency Fund





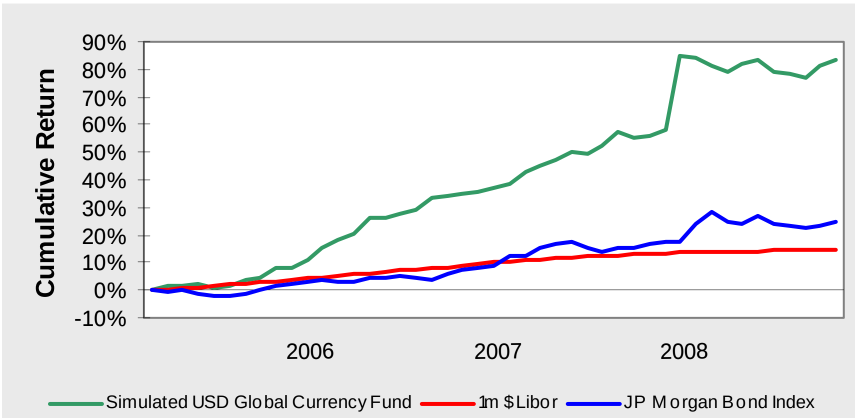
Monthly Performance (%) Net of Fees*													
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2009				(2.42%)	(0.42%)	(0.94%)	2.57%	1.36%	3.33%				3.40%

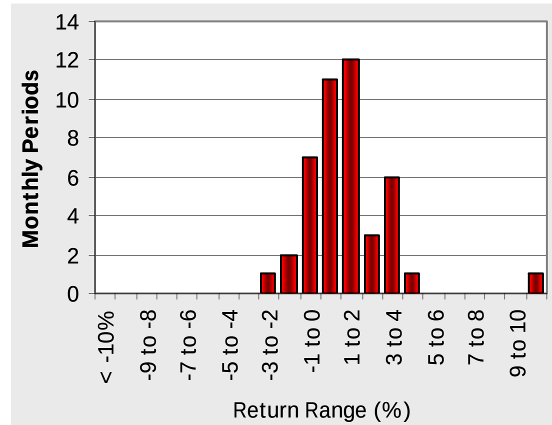
Statistical Analysis	HSBC	Libor	JPM		HSBC	Libor	JPM
Returns				**Risk**			
Compound Annualized Rate of Return (ROR)	6.92%	0.35%	(2.12%)	Standard Deviation	7.65%	0.03%	3.96%
Cumulative Return	3.40%	0.17%	(1.07%)	Sharpe Ratio (0.4%)	0.87	(1.74)	(0.60)
Average Yearly Return	6.80%	0.35%	-2.14%	Downside Deviation (0.4%)	3.77%	0.01%	3.21%
Best Month	3.33%	0.04%	0.96%	Sortino Ratio (0.4%)	1.70	8.61	(0.76)
Worst Month	(2.42%)	0.02%	(1.95%)	Max Drawdown	(3.74%)		(3.19%)
% Positive Months	50.00%	100.00%	50.00%	Months In Maximum Drawdown	3		3
Correlation R		(0.83)	0.87	Months To Recover	2		

Libor – 1 month Libor; JPM – JP Morgan Bond Index.
Source: Bloomberg and HSBC Bank plc as at 30 September 2009.
Past performance is shown for illustrative purposes only, and should not be relied on as indication for future returns for the Global Currency Fund.

Simulated fund performance (USD)

- Simulated performance** since 2006 is shown for illustrative purposes only





Monthly Performance (%) Net of Fees													
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2009	(0.97%)	1.46%	0.90%	**(2.42%)**	**(0.42%)**	**(0.94%)**	**2.57%**	**1.36%**	**3.33%**				4.83%
2008	1.46%	1.46%	1.65%	(0.35%)	1.84%	3.27%	(0.96%)	0.13%	1.62%	16.90%	(0.52%)	(1.67%)	26.37%
2007	1.98%	4.57%	0.13%	1.02%	1.22%	3.50%	0.47%	0.19%	0.99%	0.58%	1.19%	3.49%	21.01%
2006	1.38%	0.12%	0.69%	(1.06%)	0.44%	2.09%	0.73%	3.41%	(0.21%)	3.14%	3.73%	2.62%	18.37%

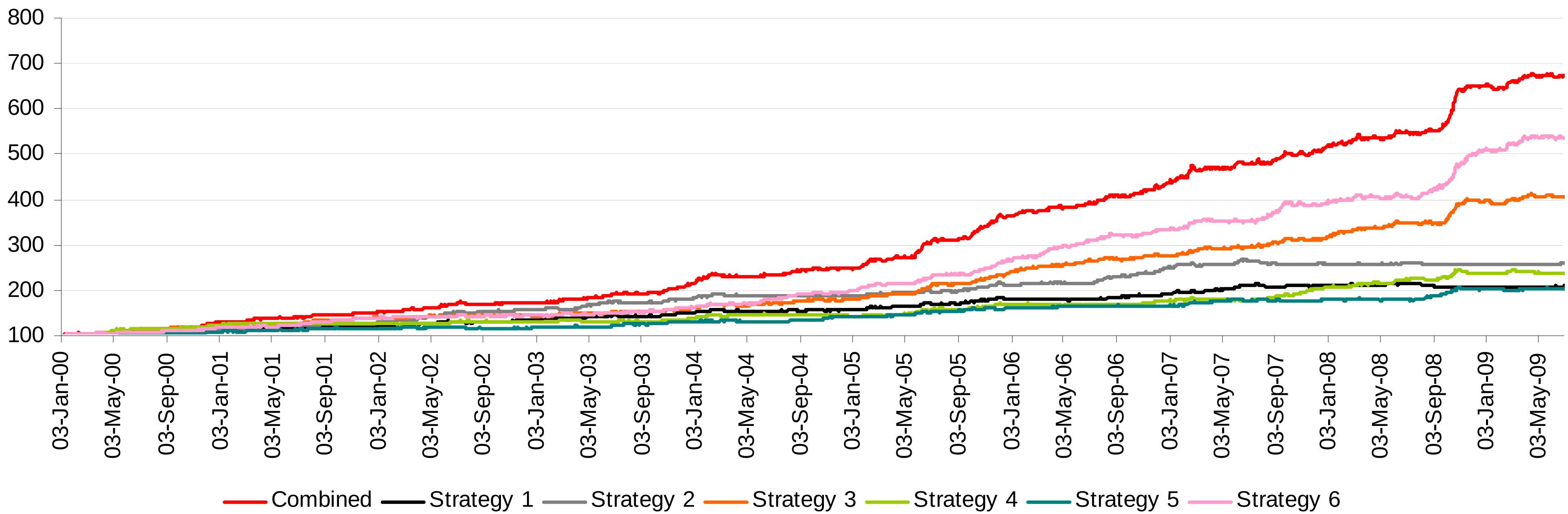
Statistical Analysis	HSBC	Libor	JPM
Returns			
Compound Annualized Rate of Return (ROR)	18.63%	3.66%	6.23%
Cumulative Return	89.76%	14.43%	25.45%
Average Yearly Return	23.94%	3.85%	6.79%
Best Month	16.90%	0.48%	5.63%
Worst Month	(2.42%)	0.02%	(3.13%)
% Positive Months	77.78%	100.00%	62.22%
Correlation R		0.19	(0.01)

	HSBC	Libor	JPM
Risk			
Standard Deviation	9.80%	0.56%	5.26%
Sharpe Ratio (3.7%)	1.43	(0.07)	0.49
Downside Deviation (3.7%)	2.31%	0.45%	2.99%
Sortino Ratio (3.7%)	5.88	(0.09)	0.81
Max Drawdown	(4.54%)		(4.58%)
Months In Maximum Drawdown	8		6
Months To Recover	3		

Libor – 1 month Libor; JPM – JP Morgan Bond Index.
Source: Bloomberg and HSBC Bank plc as at 30 September 2009.
*The HSBC Global Currency Fund reflects performance, net of fees.
**Simulations is based on Back Testing until Fund Launch in April 2009 assuming that the optimisation models and rules in place today is applied on historical data.
Simulated data is shown for illustrative purposes only, and should not be relied on as indication for future returns for the Global Currency Fund.

Multiple Alpha sources – Strategy allocation

- Most market participants use one key driver and typically trade a single strategy
- The HSBC GIF Global Currency Fund trades multiple Alpha sources and multiple strategies seeking to take advantage of diversification to enhance the return profile as shown in the graph below



Source: Bloomberg and HSBC

HSBC GIF Global Currency Fund

HSBC Global Asset Management

HSBC Global Currency Fund

Fund type and domicile	UCITS III Luxembourg SICAV part of the HGIF range
Launch Date	6th April 2009
Base Currency:	USD
– Hedged share classes in	EUR, GBP, CHF, JPY, SEK
Liquidity	Daily
Minimum Investment	
– Institutional Share Class	USD 1,000,000
– Retail Share Class	USD 5,000
Fee Structure	
– Institutional Share Class	1% Fixed, 20% Performance over LIBOR, admin 0.20%
– Retail Share Class	1.5% Fixed, 20% Performance Fee over LIBOR admin 0.30%

Institutional Share Classes on Bloomberg:
USD L1C Share Class: HSBGCL1 LX Equity <GO>
EUR L1C Share Class: HSBGCLH LX Equity <GO>

Why the HSBC Global Currency Fund

- HSBC is a market leader in currency trading. The Fund gives investors the opportunity to generate absolute return performance, building upon the successful track record that HSBC has already established in currency management.
- The Fund is actively traded and currency positions are optimised daily to ensure allocations are directed to strategies providing positive returns. The Fund allocates to multiple internally managed currency strategies with different investment styles to secure diversification.
- A systematic draw down management facility seeks to protect both the principal and profit by actively de-levering with negative performance.
- The Fund is operated within the HSBC framework with daily risk monitoring by the HSBC internal risk team.
- HSBC believes the Fund can meet market demands from investors switching from single strategy funds to a vehicle that can switch between strategies with different investment styles.
- The Fund has a target annual return of Libor plus 5% and annualised volatility of 5%-10%.
- The Fund offers daily liquidity and hedged share classes are offered in US Dollar, British Pound Sterling, Euro, Swiss Franc and Japanese Yen.
- The strategy currently holds positions in US Dollar, Euro, Japanese Yen, Australian Dollar, New Zealand Dollar, Swiss Franc, British Pound Sterling, Canadian Dollar, Norwegian Krone and Swedish Krona.

Appendix

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Biographies

Michael Kunkler, Fund Manager

Michael Kunkler has been working in the industry since 1995. Prior to joining HSBC, Michael worked on a statistical arbitrage desk at Dresdner Kleinwort. He holds a Masters Degree in Statistics from The University of Melbourne (Australia) and has sole-authored publications in the journal ‘Insurance Mathematics and Economics’.

Adam Olive, Fund Manager

Adam Olive has been working in the industry since 1990. Prior to joining HSBC, Adam worked as an investment manager at a hedge fund, ran a research team at Bank of America, and held senior research positions at Bankers Trust and Deutsche Bank. He holds a PhD in Theoretical Physics from Cambridge University (UK) and an MBA from UCLA (USA).

Søren Beck-Petersen, Product specialist

Søren Beck-Petersen is a Director and Product Specialist for the HSBC Global Asset Management in London. Part of the Halbis Alternatives team, he is responsible for marketing the Global Currency Fund. Prior to joining HSBC in 2004, he was with Orange Denmark. Soren holds a graduate diploma from Copenhagen Business School, a Master of Science in Engineering from the Technical University of Denmark and an undergraduate degree in maths and physics from Lyngby Statskole. He served in the Royal Danish Army for seven years where he attained the rank of captain.

Contacts

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