

Funds of the Quarter

(November 2009 – January 2010)

Funds of the Quarter is HSBC's proprietary fund selection model emphasises both qualitative and quantitative analysis. Leveraging on the global expertise and capabilities of HSBC Multimanager, Funds of the Quarter seeks to identify the funds that have consistently performed better under various conditions. As HSBC investors, you can access a list of funds compiled through an objective fund selection model.

Here is a selection from our Funds of the Quarter list.

Asset class/ region	Fund name	Fund currency	Launch date	Cumulative performance (%)	Annualised performance (%)			3-year annualised volatility (%)
					YTD	1 year	3 years	
Equities								
Global	1 BlackRock Global Dynamic Equity Fund	USD	28-Feb-06	16.55	21.01	0.30	-	N/A
Europe	2 HSBC GIF Euroland Equity	EUR	31-Jul-98	27.56	0.66	-5.72	4.70	24.98
Asia - Single Country	3 HSBC GIF Chinese Equity	SGD^/USD	01-Nov-93	34.93	20.81	10.42	15.86	39.70
	4 HSBC GIF Indian Equity	SGD^/USD	29-Feb-96	104.92	33.49	9.21	21.65	49.78
Sector	5 Henderson Global Property Equities Fund	SGD	01-Mar-05	24.38	-12.38	-14.71	N/A	27.68
Emerging Markets	6 BlackRock Latin American Fund	USD	08-Jan-97	71.73	101.67	15.87	29.41	N/A
Asset Allocation								
Balanced	7 BlackRock Global Allocation Fund	USD	03-Jan-97	17.9	20.97	4.72	8.48	N/A
Fixed Income								
Emerging Markets / High Yield / Asia	8 HSBC Asian Bond Fund	USD	24-Jul-96	16.25	15.25	23.8	41.31	N/A

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Inclusion in this list does not suggest that a fund is suitable for investors. Investors should carefully consider whether the funds or products found in this document are appropriate for them in view of their investment experience, objectives, financial resources and relevant circumstances.

Past performance is not indicative of future performance. Value of investment and units may go down as well as up, and the investor may not get back the original sum invested. Changes in rates of currency exchange may affect significantly the value of investment.

Please refer to the prospectus before deciding whether to subscribe for or purchase units in the fund. A copy of the prospectus is available at any of our branches.

Launch date indicated refers to the date in which the primary class of the fund was launched.



Understanding the stock market's drivers

Useful insights to making better investment decisions

Expanding your investment portfolio

An equity fund aimed at aligning our product set with your needs and requirements.

Investing in currencies

An overview of an alternative asset class

2009 has been an unpredictable year for investing, with varying news creating sudden shifts in market sentiment. Understanding how various factors like liquidity and fundamentals influence the performance of the stock market can help you make sense of the market's movements. In **marketbeat**, we review some of the short and long-term drivers of the stock market.

For HSBC's latest insights on the various regions and asset classes, turn to **marketperspective**.

Volatility has not been confined to the equity markets. Foreign exchange markets have also seen large swings. Although currency investing is not without its risks, **wealthtip** gives you some reasons why you may wish to consider including this asset class in your portfolio.

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Understanding the stock market's drivers

Most equity investors are likely to be hard-pressed to predict the movements in the global stock markets this year. 2009 has so far proven to be a tumultuous year for investing, with markets starting on a subdued note, before rising sharply over the second quarter. By August, the rally had turned more choppy, even though the upward trend has so far remained intact.

The relationship between sentiment and time

One key driver of market activity has been investor sentiment. Risk appetite has fluctuated in response to news flow and recent equity performance.

Swings in sentiment can make investing appear unpredictable. In this Internet age, information about companies, economies and markets is continuously updated. It is difficult to identify what news is significant and what is just noise. As a result, investor expectations are constantly changing with the latest news. This volatility in expectations leads to volatility in markets.

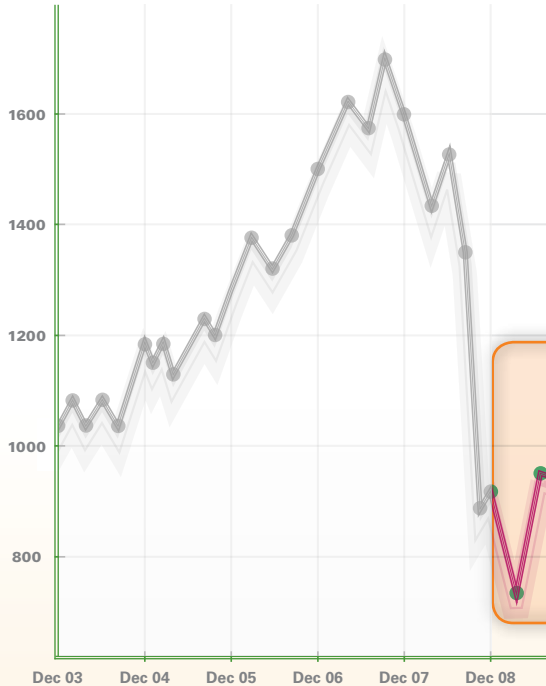
However, this perception is partly related to the time horizon over which we view the markets. When the perspective is stretched to five years, volatility is smoother and the broader market cycle becomes more evident. This provides a context in which events can be considered with more objectivity.

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* Not available for mobile phones.

Long-term view

MSCI World – Market movement over five years



Source: Bloomberg, as at 10 September 2009.

Short-term view
Market movement over nine months



The same period seems more volatile when viewed over the short-term.

In addition to investor sentiment, there are other factors you can look at to help you make better investment decisions.

Short-term market drivers

1. Liquidity

Liquidity is an indication of how many participants there are in the market. Large changes in the level of liquidity can have a significant impact on stock prices.

2. Momentum

Momentum can be a good indicator of near-term market performance. It is derived by multiplying the trading volume by the change in the level of a market index. Higher volumes have more force, making it more likely for the market to continue moving in a particular direction.



Long-term market drivers

1. Valuations

Over a longer horizon, valuation measures such as price-to-earnings (P/E) and price-to-book (P/B) ratios are important determinants of a stock market's performance. Comparing a market's current valuation to its long-term average can provide an indication of whether the market is overvalued or undervalued.

2. Fundamentals

Stock prices reflect the earnings growth of companies, which is in turn tied to the overall health of the economy. Hence, companies operating in countries with healthy GDP growth profiles are more likely to perform better than those in weaker economies.

Determining the right mix

Although investing for the short term can offer potentially higher returns, success depends on your ability to time the market. The risk with short-term investing is that you are chasing the market, leaving you vulnerable to sudden shifts in the trend. As such, this type of investing is more appropriate for traders or as a tactical portfolio strategy.

In contrast, long-term investing, which is based on sound fundamentals, is a lower risk investment style. Over time, returns are smoother, making it a good way to sustainably grow your wealth. However, investors need to be able to stay invested over a longer period.

It is important to speak to a qualified professional who can help you determine the best investment strategy. At HSBC, we have a team of trained financial planners who can help our customers devise strategy that best suits their individual risk profiles and investment horizons.

“long-term investing, which is based on sound fundamentals, is a lower risk investment style.”

If you would like to understand more about equity investment strategies, please contact our Personal Bankers or your Premier Relationship Manager.



HSBC's Global House Views

A regular column to keep you informed of our global house views on key equity and bond markets.

Overview

Global equity markets have rebounded by more than 60%⁵ since their March lows. As a result, valuations are now close to their long-term averages.

With the momentum in economic data likely to slow in 2010, investors may wish to consider defensive sectors such as telecommunications and health care. Not only do these sectors offer attractive dividend yields, they are trading at a deep discount to industrial stocks.

Global health care stocks for example, are trading at a discount of more than 31% against global industrial stocks⁶. Historically, health care stocks have been trading at a 5% premium.

HSBC remains positive on investment grade and high-yield bonds over the next six to 12 months. Given their strong performance this year, their valuations are less appealing but yields are still attractive compared to government bonds.



Equities snapshot

US

- Consensus earnings estimates for 2010 are high, even though revenues have not picked up sustainably.
- There are concerns that the US government and central bank may withdraw their economic support.
- Given the risks, defensive sectors such as global health care and telecommunication services may be more attractive than cyclical sectors such as industrials.

Europe

- Despite improvements in some economic data, high unemployment and low consumption remain key risks that may derail the recovery.
- Current equity prices may be factoring in an overly optimistic estimate of 2010 earnings growth.
- The market is susceptible to disappointing news flow over the short to medium term.

Japan

- Japan's economic outlook remains cloudy with high unemployment and low consumer spending.
- Earnings estimates for Japanese equities look overly optimistic, making them less attractive than they were at the start of 2009.

Asia (excluding Japan)

- Despite some disappointing data, Asia continues to show better economic fundamentals than developed countries and other emerging regions.
- This is however, already reflected in current price levels, with emerging Asia trading at 14.8 times the estimated earnings⁷.

Fixed income snapshot

US government bonds

- The Federal Reserve is unlikely to raise interest rates in the near term as the economy is still restrained by low consumer spending as a result of job losses and low income growth.
- In the short term, inflation is unlikely to be high, which is favourable for this asset class. Over the longer term, however, the US fiscal position remains a concern.

Eurozone government bonds

- The European Central Bank left its interest rates unchanged at its September meeting, suggesting that the recovery is likely to be bumpy.
- This asset class may be negatively affected by concerns that governments in the Eurozone may issue record amounts of government bonds to support their economies. The current price however, seems to have taken this into account.

Investment-grade corporate debt

- Due to a strong performance this year, this asset class is no longer as appealing as it was at the start of 2009, but its yield remains attractive compared to government bonds.
- Investors should, however, view it as a medium to long-term investment because there is a liquidity risk over the short term. It may be difficult to buy or sell the bonds quickly.

High-yield bonds

- Corporate debt is still benefitting from investors' search for yield, as well as pro-active government and central bank policy responses.
- After a strong performance this year, valuations are close to fair value. Even without capital appreciation, the high yield of this asset class remains attractive.
- Volatility, however, is likely to remain high and liquidity risks remain.

Complete market views on equities, bonds and currencies are available on a monthly basis. Please contact our Personal Bankers or your Premier Relationship Manager for more information on our latest house views.

⁵ Source: MSCI World index, as of 12 October 2009.

⁶ Source: HSBC's Global House Views, based on a 12-month forward price-to-earnings ratio.

⁷ Source: HSBC's Global House Views.

Russian Equity Fund

HSBC Brunei is pleased to announce the launch of the HSBC GIF Russia Equity Fund, further aligning our product set with the needs and requirements of our investing customers.

HSBC GIF Russia Equity Fund invests a majority of its non-cash assets in equity or equivalent securities of companies who have registered offices in Russia and are listed on a major Russian stock exchange or other regulated exchange.

This exposure gives the fund the ability to reap opportunities that are available within the Russian market which include an increasingly wealthy domestic population that drives consumption and growth across domestic services such as health-care and telecommunications, an industrial sector that relies on Russia's vast reserves of minerals as well as upward pressure on commodities prices.

Russia's economy is a leader in oil and gas exports, especially to Europe, and its energy companies are in a terrific position to capitalise on this captive market.

The fund currently has a 33% allocation in Oil and Gas equities, 20% in Basic materials and 14.5% allocation in Telecommunications and has shown some strong signs of recovery over the last 6 months. HSBC GIF Russia Equity Fund has the capacity to deliver significant returns, however like other emerging markets funds, it has volatility which means that there are also significant risks.



FAST FACTS about Russia

- Population of 140 million
- 7th Largest economy in the world
- GDP growth of 5.6% in 2008
- The largest natural gas exporter in the world
- 2nd largest Oil exporter in the world

Source: CIA Factbook

If you are interested in investing in the HSBC GIF Russia Equity Fund, please contact our Personal Bankers or your Premier Relationship Manager today.

Investing in currencies



Currencies are an alternative asset class that investors can consider, in addition to traditional asset classes such as equities and bonds. The currency market is the largest and most liquid financial market in the world. Investors can transact at any time as the market remains open 24 hours a day, from Monday to Friday.

Currency investing has its benefits, but like any other investment, it is not without its risks.

Why invest in currencies?

- **Low correlation to equities and bonds**
Currencies tend to move in different directions and to different extents from traditional investments. This helps to reduce the impact of a significant change in any one asset class in your overall portfolio.
- **Exposure to a country's economic growth and political conditions**
Investors of floating currencies, such as the US dollar, Euro and Yen, benefit if the currency appreciates on the back of strong economic growth and political stability.
- **Fairly accessible form of investment**
Investors can choose from a variety of financial products to suit their risk profile, objectives and time horizon.

What investors should know

- **High volatility**
The currency market can be highly volatile. In the last 12 months, currencies such as the South Korean Won and Australian dollar exhibited volatility that was above 30%⁸. This compares closely to equities at 41%, going by the CBOE Volatility index.
- **Exposure to political risks and monetary policies of a country.**
A currency may lose value if the country faces political turmoil or if the central bank intervenes to help exporters.

Currency investing with HSBC

- **Foreign currency time deposits**
HSBC offers Foreign currency savings / time deposits account in a wide range of currencies (AUD, EUR, JPY, CAD, GBP, NZD, CHF, HKD, USD) for you to earn interest.

To find out more about currency investing, please contact our Personal Bankers or your Premier Relationship Manager today.

⁸ Source: Bloomberg, as at 9 September 2009.

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The value of investments and units may go down and up, and the investor may not get back the original sum invested. Past performance is not necessarily indicative of future performance. Investors and potential investors should read the relevant prospectus, available at HSBC branches, before investing. Investors wishing to acquire the investments will need to make an application in the manner set out in the prospectus. Before you make any investment decision, you may wish to consult your experienced Personal Bankers and/or Premier Relationship Manager. In the event that you choose not to seek advice from your experienced Personal Bankers and/or Premier Relationship Manager, you should carefully consider whether the product is suitable for you. Information is correct as of 21 October 2009.