

HSBC 100+ Series BRIC Investment

June 2009 report

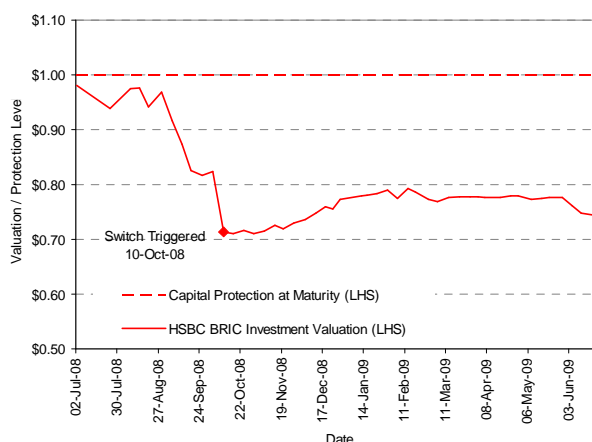
Overview of the HSBC 100+ Series BRIC Investment Performance

Since December 2008 the value of the HSBC BRIC Investment has moved only marginally. After the switch event, the BRIC Investment value is now a sum of two components: the value of the capital protection and the value of the average option. The switch event ensured that your investment remains 100% capital protected at maturity, while it will also continue to provide you with some exposure to the HSBC BRIC Markets Fund.

The values of the capital protection and the average option are in turn dependent respectively on the prevailing AUD interest rates to the maturity date and the value of the average option. The value of the BRIC Investment moves in the opposite direction to the AUD interest rates, but in the same direction as the value of the average option (which is in turn positively related to the value of the underlying HSBC BRIC Markets Fund AUD share class).

The market has experienced some recovery since December 2008, and saw an increase in both the underlying HSBC BRIC Markets Fund AUD share class value and the AUD interest rate. The underlying HSBC BRIC Markets Fund has increased approximately 31% from 19.50 on 29 December 2008 to 25.59 on 26 June 2009ⁱ. The 5Y AUD mid swap rate has increased from 4.34% to 5.50% over the same periodⁱⁱ.

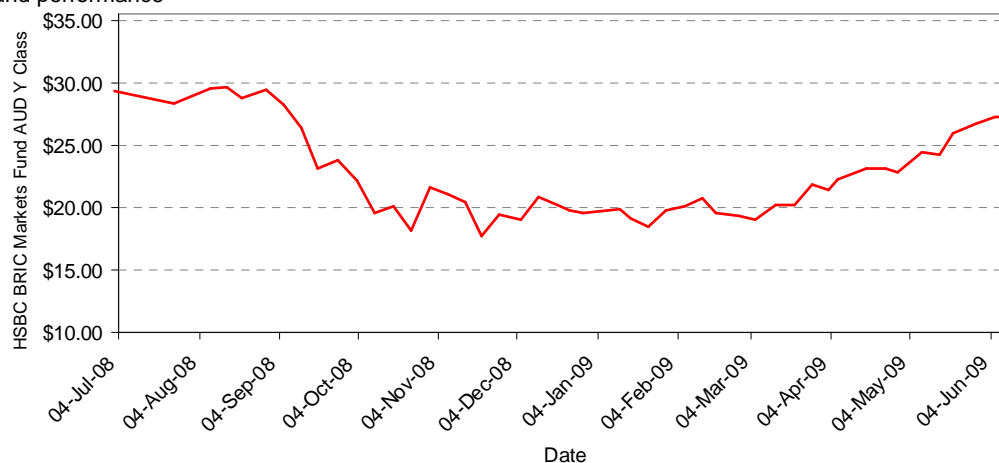
The increase in interest rate has caused a drop in the value of the capital protection. The increase in the underlying BRIC Markets Fund increased the value of the average option. As the average option value makes up only a small proportion of the BRIC Investment value, the drop in the value of the capital protection outweighed any gain as a result of the growth in the average option, thereby leading to an overall fall in the value of the HSBC BRIC Investment.



The chart above shows the valuation of the HSBC 100+ Series BRIC Investment over the past yearⁱ.

Underlying HSBC BRIC Markets Fund AUD Y Class

Fund performanceⁱⁱⁱ



ⁱ Source: HSBC
ⁱⁱ Source: Bloomberg
ⁱⁱⁱ As at 26 June 2009

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Top ten company holdings^{iv}

Stock	Weight	Industry Sector
Gazprom	4.27%	Oil & Gas Producers
Petroleo Brasileiro SA	3.58%	Oil & Gas Producers
Reliance Industries Ltd	3.48%	Chemicals
China Mobile (HK) Ltd	3.33%	Mobile Telecommunications
Petroleo Brasileiro SA	3.19%	Oil & Gas Producers
Lukoil Oil Co	2.69%	Oil & Gas Producers
Infosys Technologies Ltd	2.27%	Software & Computer Services
Vale SA	2.21%	Industrial Metals
Sberbank of Russia	2.21%	Banks
Itau Unibanco Holdings SA	2.04%	Banks
	29.27%	

What is the outlook for the BRIC countries?

BRIC equities have been trading in a defined range for some months, and have outperformed their developed peers since the start of 2009, reflecting the fact that much of the concern in global markets was focused on the Western banking system. The recovery has been led by Chinese equities, but the Russian market has also stabilised after very sharp falls.

Over the next few months, the markets may well be pulled by two opposing forces. On one side, economic data may continue to deteriorate and further downgrades to company earnings are likely. On the other side, valuations are low and may tempt further buying, particularly if volatility and risk aversion continue to fall. The result of this may well be a range bound market for some time.

The growth outlook for BRIC markets, still driven by higher levels of demand (consumer and infrastructure) and investment, is stronger than in the developed world, and enhanced by better demographics and a growing middle class.

Brazil. Brazil is well positioned to benefit from global rebound due to good economic fundamentals. These include fewer structural constraints, a less traumatic de-leveraging and better structured and monitored financial systems. The impact of monetary easing is likely to have a positive effect on the Brazilian economy in the long run.

Russia. The Russian equity market has been the strongest performer recently, compared to its BRIC counterparts. This is despite the fact that the Russian economy, when compared to the other three, is perhaps the least strong, although its decline has stabilised of late. External factors are at play here, including stabilising commodity prices, lower volatility and an overall risk aversion amongst foreign institutional investors.

India. Domestic demand in India is showing signs of recovery. For example, motorcycle and car sales have seen recent pick up in volumes and the cement and real estate sectors have shown signs of recovery. Markets are still trading on attractive valuations, despite the recent rebound on Indian equity markets. The outlook for India remains unclear, however, but with one of the strongest GDP growth rates, India is well positioned to experience strong growth when the markets recover.

China. At the end of 2008 the Chinese Government pledged over USD 580bn of infrastructure plans and stimulus packages and there have been further packages and policy implementation since. Projects in the infrastructure sector are about to pick up as the government stimulus package kicks in. On the corporate side the demand outlook remains positive as corporate capital expenditure plans have not been reduced significantly. China's stimulus-led push to drive up demand will likely put it in an excellent position to be the first out of the credit crisis.

Disclaimer

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^{iv} As at 30 June 2009