

HSBC 100+ Series BRIC Investment

June 2010 report

Overview of the HSBC 100+ Series BRIC Investment Performance

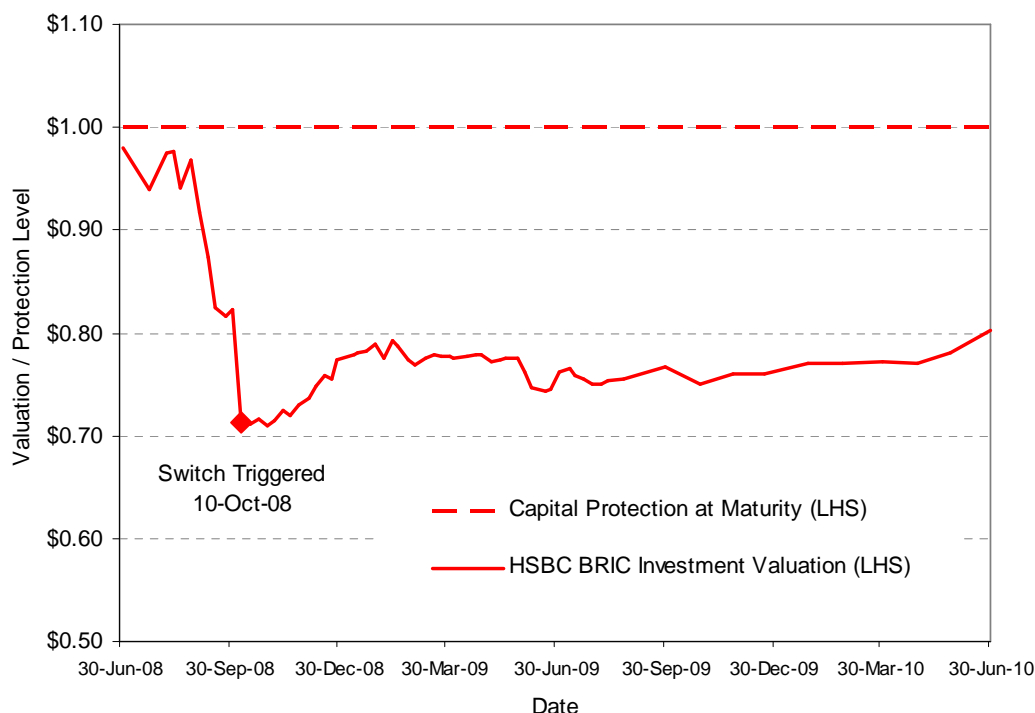
In October 2008 the BRIC Investment experienced a switch event. The switch event ensured that your investment remains 100% capital protected at maturity, while continuing to provide you with potential to gain exposure to the HSBC BRIC Markets Fund. The value of the Investment is now a sum of two components: the value of the capital protection and the value of the average option.

Between December 2009 and June 2010 the value of the HSBC BRIC Investment has increased slightly.

The current value of the capital protection depends on the prevailing AUD interest rates to the maturity date and the time to maturity. As four and five year interest rates have fallen this has been the primary cause of the BRIC investment value increasing.

The other component of the BRIC Investment is the value of the average option. The average option will have a positive value at maturity if the average of HSBC BRIC Markets Fund over the entire investment term is more than double the average value of the fund until the switch event in Oct 2008. The average option payout will improve as the HSBC BRIC Markets Fund increases in value and if the volatility increases. Over the past six months the HSBC BRIC Markets Fund has decreased marginally and the volatility has decreased which meant that the average option value has fallen.

The value of the HSBC BRIC Investment over time



Overall the value of the HSBC BRIC Investment has changed from 0.760121 at December 2009 to 0.801882 at June 2010.

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Underlying HSBC BRIC Markets Fund AUD Y Class

Fund performance



What is the outlook for the BRIC countries?

We retain a positive view on the BRIC economies and emerging markets going forward, as we continue to see strong growth prospects, attractive demographics and supportive economic and earnings data.

Brazil We retain a positive view on Brazilian equities into the medium term, however, in the short term, the market may be range bound, given inflation/interest rate concerns as well as global risk aversion from Europe. Concerns over overheating in the labour market also exist. Downside is limited given the attractive valuations against its main emerging market peers. Once interest rate hikes and the Presidential election are out of the way, valuations should return to a premium versus history, given Brazil's attractive risk/return profile.

Russia The long term investment case for Russia remains intact, however we believe that, in the near term, the market will continue to be heavily influenced by external factors. The outlook is largely dependent on the twin engines for global growth – continued strong Chinese demand and recovery in US consumption – and also the navigation of debt crises, such as in the Eurozone. The Russian market has scope to outperform given the valuation differential that remains between Russian and emerging market equities. Russia currently trades at a forward price to earnings ratio of 5.8 times, a 45% discount to the average Global Emerging Market ratio.

India The Indian equity market is currently trading at a forward price to earnings ratio of 16.2 times, which is slightly above its 5 year average and well above its 10 year average. While valuations are not necessarily expensive, they are not cheap either. As such, if the sovereign debt crisis lasts for a longer period of time, valuations could be one of the causes for the market to come off over the shorter term. We expect a preference for the domestic sector over global sectors will continue to drive portfolio strategy going forward given the relatively higher visibility for the Indian economy.

China We remain positive on the China market in the medium term but expect the continuation of tightening policies and wage rises to weigh on the market in the short term. An improving export sector and growth in domestic consumption and private investment will drive GDP growth. We expect monetary tightening to persist throughout 2010 as the government seeks to cool the economy and alleviate inflation and asset bubble worries.

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