

# HSBC Amanah Aqar Income Fund

Quarter Ending December 31, 2008  
Quarterly Investor Report

## Quarterly Highlights

- As of December 31, 2008, the Fund's Net Asset Value is US\$10.00.
- The Fund created a US\$63.75m equity property portfolio and is currently comprised of 6 properties
- The Fund accomplishes multi-tier diversification strategy objectives:
  - Geographic: 100% invested within North America.
  - Multiple Asset Managers: 44% Falcon and 56% NGP.
  - Property Type: 56% Government and 44% Corporate tenants.
  - Tenant Credit: 88% rated, 12% unrated tenants.
- Proceeds from the two properties sold (AJ Ohio and M Tonka) will be distributed to investors during 2Q09.

## Profile

The HSBC Amanah Aqar Income Fund is a Shariah-compliant real estate investment fund sponsored by HSBC Securities (USA) Inc. and the Al Jomaih Group. The Fund is designed to provide stable recurrent income and capital appreciation through Shariah-compliant investments in commercial property primarily in the United States.

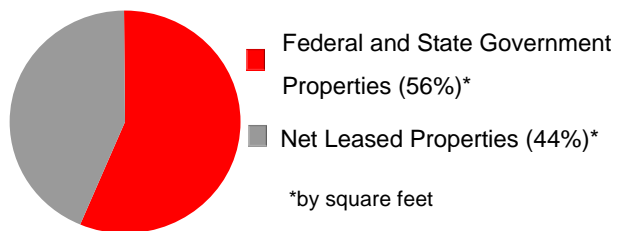
## Portfolio Summary

	Per Hissa US\$	Total US\$
Net Asset Value	10.00	63.75m

### Returns

2008 Q2 Return	7.00%
2008 Q3 Return	5.45%
2008 Q4 Return	4.75%

## Diversification by Property Type



## Featured Property



**AJ Morris**  
Morris Township, New Jersey, US

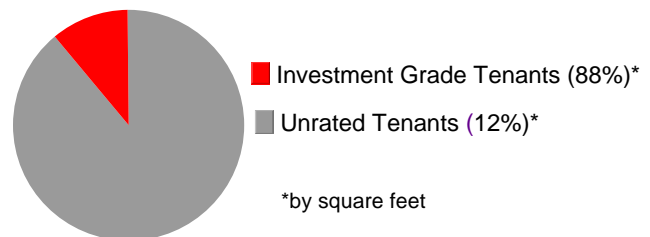
### Summary

- The property is fully leased to AT&T.
- 387,000 square foot modern three-story office building situated on a 40-acre parcel, constructed in 1985.

### Description

AT&T provides international voice services to virtually every country and territory in the world. Headquartered in San Antonio, Texas, AT&T employs 303,530 people globally and is the largest communications holding company in the US. It is a global leader in wireless, local, long distance, internet and transaction based voice and data services. It ranks 10<sup>th</sup> among the 2008 Fortune 500, with 2008 reported consolidated revenue of more than US\$124bn.

## Diversification by Industry Sector



## Contact Information

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\* The target range of return is not a guarantee of the future performance of the Fund, and should not be constituted as a sales inducement or offer to purchase. The performance return of the Fund may fluctuate. Investments in the Fund are neither insured nor guaranteed by HSBC.

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### US Q4 Economic Overview

- The National Bureau of Economic Research has confirmed the US entered into a recession in December 2007. The effects of the early 2008 government stimulus package are dissipating, home prices are falling, the stock market is touching levels seen a decade ago, inflation is elevating and unemployment is rising. The job losses continue to grow – early estimates show 533,000 job losses (0.4% of the nation's employment base) in November alone. The sole reprieve for consumers is the significant drop in gas prices in recent months.
- GDP is expected to end 2008 at an annualized contraction of 1% and is likely to remain in the red through mid-year 2009. As for commercial real estate, fundamentals are suffering, and with the capital markets frozen, buyers and sellers at an impasse and overall sale activity so low, ascertaining property values is difficult.

### Real estate market overview

- The HSBC Amanah Aqar Income Fund has assets in 4 separate metropolitan areas in the United States as mentioned below:
 





<b>Orange County, CA</b> – AJ Irvine	<b>Seattle, WA</b> – AJ Kirkland
<b>Minneapolis and St. Paul, MN</b> – NGP Lafayette	<b>Northern New Jersey, NJ</b> – AJ Morris
- **General US Office Market Overview:** Fundamentals are weakening. We project vacancies will hit a new record high in 2010 of around 19.1%. Overall vacancies are now at 16.2% and are expected to expand, but will be well below the 800bp increase during the last recession in 2001/2002. Due to the defunct financing sector, developers are not getting capital needed for new projects, which will slow construction from about 106m sq. ft in 2008 to 46m sq. ft by 2010. As a result of the pullback in building, the recovery in office demand in 2010 and 2011 is forecast to have significant positive effects on occupancy rates.
- **Orange County, CA:** From the perspective of job losses, Orange County is about halfway through this economic downturn. Since employment peaked for this cycle in late 2006, OC's employment base has been reduced by about 45,000 jobs (2.9%). The Orange County office market is likely to be in trouble for several quarters. As the epicenter of the subprime mortgage fallout, office-using employment has collapsed and tens of thousands of jobs have been lost. When all is said and done, vacancies are expected to hit 20% for the first time since the early 1990s. A strong recovery and limited supply over the next 5 years will allow fundamentals to recover.
- **Seattle, WA:** Peak to trough, job losses this cycle will amount to less than 1% of the total employment base. An anticipated near term demand rebound will cause vacancies to plummet, bottoming out below 10% — a level not seen since 2001. Despite near-term value losses, total returns will outperform. Excellent appreciation over the past three years has attracted investors and compressed cap rates. The market has become expensive, but near-term value losses will correct pricing and push cap rates into the high 6's. Yields will not rise to pre-2005 levels and a bounce-back in capital appreciation should help boost total returns.
- **Minneapolis and St. Paul, MN:** Over the twelve months to October, employment in the metro declined by 0.6% to a net loss of almost 11,000 jobs, compared to the 0.5% decline nationally. The trend of rising vacancies in the Minneapolis office market will now be prolonged as demand slows in light of the global financial meltdown. At 17.3% in the third quarter, vacancies have risen by 160 bps over the past year and will rise another 150bps in the near term before making a strong recovery in 2010. Mild NOI losses during the recession and an above-average bounce-back in capital values should allow for positive overall returns in the Minneapolis office market.
- **Northern New Jersey, NJ:** In the past 12 months (through October), the metrowide job base shrank by 0.4%, or over 8,000 jobs. Vacancies have topped 20% and will climb higher over the next year. However, the issue of oversupply (which has plagued the market in recent years) is disappearing, and this market's bounce back may favor an opportunistic strategy.

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Property	Comment	Description
<p><b>AJ Irvine</b></p> 	<p>DraftFCB is a global advertising agency with a network of 159 offices in 97 countries. It is a subsidiary of the Interpublic Group, connecting it to the third largest network of advertising and marketing solutions in the world. Interpublic had annual revenues of approximately US\$6.6bn for Fiscal 2007.</p>	<p>Tenant: <b>DraftFCB</b>            Industry: Advertising            Location: Irvine, California, US            Property type: Office            Size: 98,925 sq. ft.            Credit: Unrated            Year constructed: 1977 (extensive remodeling-2001)</p>
<p><b>NGP Lafayette</b></p> 	<p>The NGP Lafayette Portfolio is occupied by the Department of Labor and Industry, the Department of Natural Resources and the Pollution Control Agency of the State of Minnesota. Minnesota is one of nine states in the U.S. with a AAA credit rating and a stable outlook from Standard and Poor's.</p>	<p>Tenant: <b>State of Minnesota</b>            Industry: Government            Location: St. Paul, Minnesota, US            Property type: Three Office Buildings            Size: 677,059 sq. ft.            Credit: AAA            Year constructed: 1912-1919 (renovated-1980s)</p>
<p><b>AJ Kirkland</b></p> 	<p>Digeo Broadband develops and produces media center products such as state-of-the-art entertainment systems. Digeo's innovative Moxi Media Center product line has been sponsored by Vulcan Inc., Cisco Systems, America Online and Echostar. The product line is renowned for its easy-to-use award winning interface.</p>	<p>Tenant: <b>Digeo Broadband</b>            Industry: Digital Technology            Location: Kirkland, Washington, US            Property type: Company Office Headquarters            Size: 50,954 sq. ft.            Credit: Unrated            Year constructed: 2001</p>
<p><b>AJ Morris</b></p> 	<p>AT&amp;T provides international voice services to virtually every country and territory in the world. Headquartered in San Antonio, Texas, AT&amp;T employs 303,530 people globally, and is the largest communications holding company in the world by revenue. It ranks 10th among the 2008 Fortune 500, with 2008 reported consolidated revenue of more than US\$124bn.</p>	<p>Tenant: <b>AT&amp;T</b>            Industry: Communication Technology            Location: Morris Township, New Jersey, US            Property type: Office            Size: 387,000 sq. ft.            Credit: A            Year constructed: 1985</p>

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