

ANNUAL REPORT
-HSBC Global Emerging Markets Equity Fund-
2016

**FUND REPORTS ARE AVAILABLE UPON REQUEST FREE OF CHARGE*



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A. Management Information

1. Fund Name HSBC Global Emerging Markets Equity Fund

2. Fund Manager

Name HSBC Saudi Arabia
Address 7267 Olaya, AlMurooj
Riyadh 12283-2255
Kingdom of Saudi Arabia
Phone: +1 920022688
Fax: +96612992385
Website: www.hsbcSaudi.com

3. Fund Sub-Manager (if any)

Name HSBC Global Asset Management (France) Ltd
Address Immeuble Coeur Défense
110, esplanade du Général Charles de Gaulle
92400 Courbevoie - La Défense 4
Phone: +33 1 41 02 51 00
Fax: +33 1 41 02 47 12

4. Custodian

Name HSBC Global Custody
Address 8 Canada Square,
London E14 5HQ, United Kingdom
Phone: +44-20-79924880
Website: www.hsbc.com

Duties and Responsibilities

- To preserve the assets of the Fund.
- To keep all the necessary documents that support the performance of his contractual obligations to the Fund.
- To deposit cash amounts owned by the Fund in the Fund's account.
- To manage cash transactions for the Fund, including the deduction of investment credit and expenses of the Fund in accordance with the Terms and Conditions of the Fund and the Information Memorandum.
- The Custodian is responsible for holding and protecting the Fund's assets for the Fund's unit holders.

5. Auditor

Name	KPMG Al Fozan & Al Sadhan
Address	KPMG Tower Salahudeen Al Ayoubi Road P O Box 92876 Riyadh 11663 Kingdom of Saudi Arabia
	Phone: +96612914350

B. Fund Information

1. Investment Objectives, Policies and Polices

The Fund is an open-ended investment fund with the aim to achieve medium to long term capital growth by investing in a diversified portfolio of Shariah compliant equities that are listed on a major stock exchange or on any other regulated market of an emerging market country, as well as in Shariah compliant equities of companies listed on stock exchanges or regulated markets of non-emerging market countries, but carry out a substantial part of their economic activities in any emerging market country. Furthermore, a customized index that includes Dow Jones BRIC 50 Index and Dow Jones Emerging Markets Index will be used as benchmark to evaluate the Fund's performance.

2. Distribution of Income and Gain Policy

The Fund does not distribute any income but rather reinvest it in the Fund itself, which will be reflected on the price and value of the units.

C. Fund Performance

1. Fund Performance During the Last 3 Years (US Dollars)

Criteria/Year	2014	2015	2016
End of year NAV	21,966,142	18,301,619	18,005,416
End of year NAV/unit	7.83	6.89	7.30
Highest NAV/unit	9.03	8.40	8.03
Lowest NAV/unit	7.47	6.67	6.14
No. of units in issue	2,805,789	2,657,363	2,467,584
Dividends/unit	-	-	-
Expense Ratio	2.76%	2.48%	2.37%

2. Fund Returns

Year	1Yr	3Yrs	5Yrs
Return	5.95%	-11.56%	-7.10%

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Return	N/A	N/A	-53.70%	81.92%	16.02%	-19.62%	11.64%	-5.91%	-5.11%	-12.03%	5.95%

3. Fund Fees (US Dollars)

Type of Fee or Expense	Amount (USD)	Percentage of AUM
Subscription Fee	1,024.12	Up to 2% of subscription amount
Management Fee	429,570	2.30%
Custodian Fee	-	-
Auditor Fee	-	-
Independent Board of Directors' Remuneration	-	-
Regulatory Fees	-	-
Index Cost	-	-
Debt Cost	-	-
Dividend Purification (Only if Shariah Compliant)	12,234	0.066%
Trading Commission	21,050.39	0.113%

4. Material Changes on the Fund during the Year

No material changes occurred on the Fund during the year 2016.

5. Detailed Fundamental, Material, Notifiable, or Significant Changes Made on the Fund's Terms and Conditions During the Year

- Changes that were made on 29/3/2016 (Attached are the details of the 1st Changes)

- Changes that were made on 28/11/2016 (Attached are the details of the 2nd Changes)

6. Valuation or Pricing Errors during the Year

Valuation Day	Reason and Brief Description of the Error	Percentage Impact on NAV	Impact	Corrective Action
28-Jul-16	Valuation Error	0.04%	Valuation was corrected. No impact on the fund or any investor	NAV was rectified immediately the following day

D. Fund Manager

1. Investment Activities of the Period

During the year, the Fund invested across all the major Emerging Markets which are part of the Dow Jones Islamic Emerging Markets index.

2. Investment Limitation Breaches

One passive breach resulting from the removal of one of the stocks from the Shariah Compliant List.

- Breach started on 3/1/2016.
- Last breach date was on 21/4/ 2016.

3. Commentary on Investment Fund's Performance During the Period

2016 was a year of strong performance for the Emerging Markets. After 3 years of significant underperformance compared to the developed markets, Emerging Market stocks outperformed, buoyed by dovish comments from US Federal Reserve and generally upbeat global data releases all over the year. Chinese macro releases surprised to the upside as Fiscal and Monetary policy support fed through the economy. Chinese real GDP showed resilience with real GDP growth finally stabilizing at 6.7% for 2016, meeting the 6.5-7% Chinese Government target.

The bounce back of Oil (+52%) along with Industrials Metals (Zinc, Tin and Copper) fuelled the recovery of Commodities led economies like Brazil and Russia. In 2016, the Indian Economy was in the midst of a reform drive led by Indian PM. During the year, the Indian Parliament passed the GST and Bankruptcy law. In addition, on 8th November, 2016 Indian Govt., abolished the 500 and 1000 Rupee notes, to be replaced with new notes for 500 and 2000 Rupee notes. In term of geographic area returns, overall Asian countries lagged (Indian demonetization, weakness in Chinese corporates profits) while Latin American countries, especially Brazil rebounded sharply. In 2016, there was clear cyclical rebound in Energy and Materials sectors. The IT sector's strong return was supported by Taiwanese semiconductor and Chinese internet companies' strong performances. Health care sector globally suffered sell-off, with Indian health care companies underperforming due to US FDA related pressure. During the year the Fund returned 5.95%; whereas, the Benchmark returned 7.68%, resulting in the underperformance of 1.73% during the year.

4. Any Additional Information that Might Enable Unit Holders to Make Informed Decisions that are Based on Sufficient Information about the Fund During the Year

There is no additional information to be disclosed; however, investors need to read and understand the Fund's Terms and Conditions and all related documents and/or obtain advice from their own legal, regulatory, tax, and/or investment advisors.

5. Distribution of Management Fees (only if the fund is substantially investing in other funds)

Not Applicable.

6. Special Commission Received by Fund Manager (if any, including what they are and the manner in which they were utilized)

None.

7. Fund Manager or Affiliates' Investment in the Fund

HSBC Saudi Arabia or affiliates do not have any investments in the Fund.

8. Annual Voting Practices Used by the Board

Not Applicable.

9. Cases of Conflict of Interest Approved by the Board

None.

10. Board of Directors Report (must include subjects that were discussed and voting results, as well as fund performance and goals)

SUBJECT	APPROVAL DETAILS	MEETING DATE
FUND BOARD CAPACITY EVALUATION	As required by the Regulation, the Fund Board capacity was evaluated and it was approved by the Fund Board that the current Fund Boards have sufficient capacity to supervise the Funds under their respective Fund Board	22 December 2016
SUB-FUND MANAGER AGREEMENT	The Fund Board approved the Service Level Agreement for the Sub-Fund Manager for HSBC Global Emerging Markets Equity Fund and HSBC China and India Freestyle Fund	27 October 2016
APPROVAL OF AUDITOR	The Fund Board approved the appointment of KPMG as the Financial Auditor for HSBC SA Mutual Funds	27 October 2016

E. Custodian Statement

A statement based on its opinion whether the fund manager has:

- issued, transferred and redeemed the units in accordance with the provisions of the Investment Funds Regulations and the fund's Terms and Conditions;
- Valued and calculated the price of units in accordance with the provisions of the Investment Funds Regulations , the fund's Terms and Conditions and the information memorandum;
- Breached any of the investment restrictions, limitations and borrowing powers applicable to the Investment fund Regulations.

Not applicable, Fund custodian responsibility does not include providing his opinion on these points.

F. Auditor Statement

A statement whether, in the auditor's opinion:

- The financial statements have been prepared and audited in accordance with SOCPA standards, the Investment Funds Regulations ,the fund's terms and conditions and the information memorandum;
Auditor's opinion available in Annex1 page 2.
- The financial statements give a true and fair view of the net income and the net gains or losses of the investment fund's assets in that accounting period;
Auditor's responsibility does not include providing his option on this point.
- The financial statements give a true and fair view of the financial position of the investment fund at the end of the period.
Auditor's opinion available in Annex1 page 2.

HSBC GLOBAL EMERGING MARKETS EQUITY FUND
Managed by HSBC Saudi Arabia Limited
FINANCIAL STATEMENTS
For the year ended 31 December 2016
together with the
INDEPENDENT AUDITORS' REPORT
TO THE UNITHOLDERS



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License No. 46/11/323 issued 11/3/1992

INDEPENDENT AUDITORS' REPORT

To: **The Unitholders**
HSBC Global Emerging Markets Equity Fund
Riyadh, Kingdom of Saudi Arabia

We have audited the accompanying financial statements of **HSBC Global Emerging Markets Equity Fund** (the "Fund") managed by **HSBC Saudi Arabia Limited** (the "Fund Manager") which comprises the balance sheet as at 31 December 2016, and the related statements of income, cash flows and changes in net assets attributable to unitholders for the year then ended and the attached notes from (1) to (13) which form an integral part of the financial statements.

Fund Manager's responsibility for the financial statements

The Fund Manager is responsible for the preparation and fair presentation of these financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. Management has provided us with all the information and explanations that we require relating to our audit of these financial statements.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund Manager's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management of the Fund Manager, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Opinion

In our opinion, the financial statements taken as a whole present fairly, in all material respects, the financial position of the HSBC Global Emerging Markets Equity Fund as at 31 December 2016 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia.

**For KPMG Al Fozan & Partners
Certified Public Accountants**

Abdullah Hamad Al Fozan
License No. 348

Date: 7 Rajab 1438H
Corresponding to: 4 April 2017



HSBC GLOBAL EMERGING MARKETS EQUITY FUND

Managed by HSBC Saudi Arabia Limited

BALANCE SHEET

As at 31 December 2016

(Amounts in US Dollars)

<u>ASSETS</u>	<u>Note</u>	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	9	407,220	653,311
Held for trading investments	7	17,597,185	17,622,423
Other receivables		48,007	56,623
TOTAL ASSETS		18,052,412	18,332,357
<u>LIABILITIES</u>			
Other liabilities		46,996	30,783
		<u>46,996</u>	<u>30,783</u>
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS		18,005,416	18,301,574
Units in issue (<i>numbers</i>)		2,467,584	2,657,363
Net assets attributable to each unit		7.30	6.89

The accompanying notes 1 through 13 form an integral part of these financial statements.

HSBC GLOBAL EMERGING MARKETS EQUITY FUND

Managed by HSBC Saudi Arabia Limited

STATEMENT OF INCOME

For the year ended 31 December 2016

(Amounts in US Dollars)

	<u>Note</u>	<u>2016</u>	<u>2015</u>
INCOME			
Trading gain / (loss), net	8	1,043,955	(2,559,404)
Dividend income		410,140	579,873
Exchange gain / (loss), net		6,326	(45,368)
Other income		20,136	38,003
		<u>1,480,557</u>	<u>(1,986,896)</u>
EXPENSES			
Fund management fees	9	429,570	473,345
Other expenses	9	12,234	42,606
		<u>441,804</u>	<u>515,951</u>
NET INCOME / (LOSS) FOR THE YEAR		<u>1,038,753</u>	<u>(2,502,847)</u>

The accompanying notes 1 through 13 form an integral part of these financial statements.

HSBC GLOBAL EMERGING MARKETS EQUITY FUND
 Managed by HSBC Saudi Arabia Limited
STATEMENT OF CASH FLOWS
 For the year ended 31 December 2016
 (Amounts in US Dollars)

	<u>Note</u>	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income / (loss) for the year		1,038,753	(2,502,847)
Adjustment for:			
Unrealized (gain) / loss on held for trading investments	8	<u>(2,376,790)</u>	<u>1,251,519</u>
		(1,338,037)	(1,251,328)
Changes in operating assets and liabilities			
Held for trading investments, net		2,402,028	2,266,277
Other receivables		8,616	48,599
Other liabilities		<u>16,213</u>	<u>(23,833)</u>
Net cash generated from operating activities		<u>1,088,820</u>	<u>1,039,715</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of units		53,089	699,867
Payments against redemption of units		<u>(1,388,000)</u>	<u>(1,861,588)</u>
Net cash used in financing activities		<u>(1,334,911)</u>	<u>(1,161,721)</u>
Net decrease in cash and cash equivalents		(246,091)	(122,006)
Cash and cash equivalents at beginning of the year		<u>653,311</u>	<u>775,317</u>
Cash and cash equivalents at end of the year		<u>407,220</u>	<u>653,311</u>

The accompanying notes 1 through 13 form an integral part of these financial statements.

HSBC GLOBAL EMERGING MARKETS EQUITY FUND
 Managed by HSBC Saudi Arabia Limited
STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS
 For the year ended 31 December 2016
 (Amounts in US Dollars)

	<u>2016</u>	<u>2015</u>
Net assets attributable to unit holders at beginning of the year	18,301,574	21,966,142
Net income / (loss) for the year	1,038,753	(2,502,847)
Changes from unit transactions		
Proceeds from issuance of units	53,089	699,867
Payments against redemption of units	(1,388,000)	(1,861,588)
Net change from unit transactions	(1,334,911)	(1,161,721)
Net assets attributable to the unit holders at end of the year	18,005,416	18,301,574

UNIT TRANSACTIONS:

(In numbers)

Units at beginning of the year	2,657,363	2,805,789
Units issued	6,965	89,567
Units redeemed	(196,744)	(237,993)
Net change in units	(189,779)	(148,426)
Units at end of the year	2,467,584	2,657,363

The accompanying notes 1 through 13 form an integral part of these financial statements.

HSBC GLOBAL EMERGING MARKETS EQUITY FUND

Managed by HSBC Saudi Arabia Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

(Amounts in US Dollar)

1. THE FUND AND ITS ACTIVITIES

HSBC Global Emerging Markets Equity Fund (“the Fund”) is an open-ended mutual investment fund created through an agreement between HSBC Saudi Arabia Limited (“the Fund Manager”) and investors (the Unitholders). The objective of the Fund is to provide capital growth by investing in a diversified portfolio of Shariah compliant equities with an official listing on a major stock exchange or other regulated markets of emerging market countries, as well as in equities of companies listed on other stock exchanges and regulated markets which carry out a substantial part of their economic activities in an emerging market country.

The Fund is managed by the Fund Manager who also acts as the custodian and the administrator of the Fund. The Fund Manager has appointed HSBC Global Asset Management (France) Limited as the sub-investment advisor of the Fund in accordance with the terms and conditions of the Fund. HSBC Institutional Fund Services-Europe (IFS) acts as the global custodian of the Fund. All income is reinvested in the Fund and is reflected in the unit price.

The Fund updated its terms and conditions which were approved by the Capital Market Authority (CMA) on 03 Safar 1438H (corresponding to 03 November 2016).

2. REGULATING AUTHORITY

The Fund is governed by the Investment Fund Regulations (“the Regulations”) published by Capital Market Authority (CMA) on 3 Dhul Hijja 1427H (corresponding to 24 December 2006) and amended in 16 Shaban 1437H (corresponding to 23 May 2016) detailing requirements for all funds within the Kingdom of Saudi Arabia.

3. SUBSCRIPTION/ REDEMPTION (DEALING DAY AND VALUATION DAY)

The Fund is open for subscriptions/ redemptions of units twice weekly on Monday and Wednesday (each being a “Dealing Day”). The value of the Fund’s portfolio is determined twice weekly on Tuesday and Thursday (each being a “Valuation Day”). The net asset value of the Fund for the purpose of purchase or sale of units is determined by dividing the net value of assets (fair value of fund assets *minus* fund liabilities) by the total number of outstanding fund units on the relevant valuation day.

4. BASIS OF PREPARATION

4.1 Statement of Compliance

These financial statements have been presented in accordance with the requirements of accounting standards on financial reporting issued by the Saudi Organization of Certified Public Accountants (“the SOCPA”).

These financial statements were approved by the Fund’s Board of Directors on 7th Rajab 1438H (Corresponding to 4th April, 2017)

4.2 Basis of Measurement

These financial statements have been prepared under the historical cost convention, except for the measurement of held for trading investments which are stated at fair value, using the accrual basis of accounting and the going concern concept.

HSBC GLOBAL EMERGING MARKETS EQUITY FUND

Managed by HSBC Saudi Arabia Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

(Amounts in US Dollars)

4. BASIS OF PREPARATION *(Continued)*

4.3 Functional and presentation currency

These financial statements are presented in US Dollars (USD) which is the functional currency of the Fund. All financial information presented has been rounded to the nearest USD.

4.4 Use of estimates and judgments

In the ordinary course of business, the preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected.

5. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these financial statements are consistent with those used and disclosed in the previous year and are set out below:

5.1 *Held for trading investments*

Investments which are purchased for trading purposes are initially recorded at cost on the trade date and then re-measured and stated in the balance sheet at market value. Unrealized gains/ losses on the revaluation of held for trading investments are recognized in the statement of income.

5.2 *Revenue recognition*

Realized gains/ losses on disposal of held for trading investments are determined by comparing the sales proceeds and the average cost of investments. Trading gain/ loss includes gains and losses from changes in fair value of held for trading investments.

Dividend income is recognized when the right to receive the dividend is established. Dividend income is presented net of withholding taxes.

5.3 *Trade date accounting*

All regular-way purchases and sales of financial assets are recognized and derecognized on the trade date, i.e. the date that the Fund commits to purchase or sell the assets. Regular-way purchases or sales of financial assets require delivery of those assets within the timeframe generally established by regulation or convention in the market place.

5.4 *Fund management fee, custodian and fund administration fees and other expenses*

Fund management fee, custodian and fund administration fees and other expenses are charged at rates agreed with the Fund Manager. These charges are calculated on each Valuation Day at an annual percentage of the Fund's net assets value. These expenses are charged to the statement of income.

5.5 *Zakat/ Income tax*

Zakat/ Income tax is the obligation of the Unitholders and is not provided for in these financial statements.

5.6 *Cash and cash equivalents*

Cash and cash equivalents for the purpose of the statement of cash flows represent a bank balance.

HSBC GLOBAL EMERGING MARKETS EQUITY FUND

Managed by HSBC Saudi Arabia Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

(Amounts in US Dollars)

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.7 *Subscription and redemption of units*

Units subscribed and redeemed are recorded at the closing net asset value per unit on the Valuation Day for which the subscription request and redemption applications are received.

5.8 *Financial instruments*

Financial assets and liabilities are recognized at the time when the Fund becomes a party to the contractual provisions of the instrument. Any gain or loss on de-recognition of financial assets and financial liabilities is taken directly to the statement of income.

5.9 *Foreign currency translation*

Transactions in foreign currencies are translated into US Dollar at the rates of exchange prevailing at the date of the transactions. Assets and liabilities in foreign currencies are translated at the rates of exchange prevalent on the balance sheet date. Resulting exchange gains and losses are taken to the statement of income.

6. MANAGEMENT FEE, CUSTODIAN AND FUND ADMINISTRATION FEES AND SUNDRY EXPENSES

The Fund Manager charges to the Fund on each Valuation Day, a management fee at a rate of 2.3% per annum (2015: 2.3% per annum) of the Fund's net assets value. All Fees and expenses related to the management of the Fund including but not limited to custody, administration, audit, regulatory fee, index fee, etc., are included in the management fee.

Subscription fee up to 2% is not considered in the financial statement of the fund, as investments to the fund are always net of subscription fees.

7. HELD FOR TRADING INVESTMENTS

Held for trading investments comprise the following as at 31 December:

	<u>2016</u>	<u>2015</u>
Equity investments	17,597,185	17,622,423
Total equity investments	<u>17,597,185</u>	<u>17,622,423</u>

HSBC GLOBAL EMERGING MARKETS EQUITY FUND

Managed by HSBC Saudi Arabia Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

(Amounts in US Dollars)

7. HELD FOR TRADING INVESTMENTS *(Continued)*

7.1 HSBC Global Emerging Market Equity Fund has a diversified portfolio of equities listed worldwide. The ten largest holdings of the Fund are set out below:

<i>Description</i>	<u>% of value</u> <u>2016</u>	<u>% of value</u> <u>2015</u>
<i>Top Largest Holdings</i>		
Tencent Holdings	8	7
Alibaba Group Holdings	6	5
Taiwan Semicon Manufacturing ADR	6	5
China Mobile (Hongkong) Ltd	4	4
Yandex NPV	3	2
Infosys Limited ADR	3	4
Novatek OAO Spons GDR	3	--
Baidu Com ADR(V0.1 Ord)	2	3
Ultrapar Participacoes NPV	2	--
Wipro ADR(V1 Ord)	2	3
Telekomunikasi Indonesia Persero Ser B Shs IDR	2	--
Infosys Ltd INR	2	--
CNOOC Ltd	--	2
JSC MMC Norilsk Nickel ADR	--	4
	<u>43</u>	<u>39</u>
Other equity holdings	57	61
Total	<u>100</u>	<u>100</u>

As At 31 December 2016, the cost of the above held for trading investments amounted to USD 16.06 million (31 December 2015: USD 18.46 million).

8. TRADING GAIN / (LOSS), NET

	<u>2016</u>	<u>2015</u>
Realised loss on held for trading investments	(1,332,835)	(1,307,885)
Unrealised gain / (loss) on held for trading investments	2,376,790	(1,251,519)
	<u>1,043,955</u>	<u>(2,559,404)</u>

9. TRANSACTIONS WITH RELATED PARTIES

Related parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

HSBC GLOBAL EMERGING MARKETS EQUITY FUND

Managed by HSBC Saudi Arabia Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

(Amounts in US Dollars)

9. TRANSACTIONS WITH RELATED PARTIES *(Continued)*

Related parties of the Fund comprise HSBC Saudi Arabia Limited (being the Fund Manager, Fund Board, custodian and administrator of the Fund and The Saudi British Bank (“SABB”) (being a significant shareholder of the Fund Manager).

In the ordinary course of its activities, the Fund transacts business with related parties. Related party transactions are governed by limits set by the regulations issued by CMA. All the related party transactions are undertaken at mutually agreed prices and approved by the Fund Manager.

Related party transactions for the year ended 31 December 2016 and balances arising therefrom are as follows:

Related party	Nature of transactions	Amount of transactions during the period		Closing balance Receivable / (Payable)	
		2016	2015	2016	2015
HSBC Saudi Arabia Limited <i>(Fund Manager)</i>	Cash and cash equivalents	--	--	325,662	599,107
	Fund management fee	429,570	473,345	(32,053)	(6,353)
	Custodian and fund administration fees	--	3,049	--	--
	Purification Expenses	12,234	10,965	(12,234)	(10,965)
SABB <i>(Shareholder)</i> and HSBC Saudi Arabia Limited <i>(Custodian)</i>	Cash and cash equivalents	--	--	81,558	54,204
Fund Board	Board members remuneration	--	26	--	--

Custodian and fund administration fees at a rate of 0.3% per annum of the Fund's net assets value is payable to the Fund Manager up until 17 January 2015 in accordance with the terms and conditions applicable at that time. Subsequent to 17 January 2015, the custody and administration fee is reduced to nil as per the updated terms and conditions.

Board member compensation during the year has been borne and paid by HSBC Saudi Arabia Limited (*“the Fund Manager”*).

HSBC Multi-Assets Defensive Fund, HSBC Multi-Assets Balanced Fund & HSBC Multi-Assets Growth Fund managed by the Fund Manager has subscribed 342,271 units (31 December 2015: 441,018 units), 827,925 units (31 December 2015: 827,925 units) & 277,587 units (31 December 2015: 277,587 units) respectively of the fund.

Cash and cash equivalents amounting to USD 81,558 (31 December 2015: USD 54,204) is deposited in a current account maintained with SABB under the name of the Fund Manager and USD 325,662 (31 December 2015: USD 599,107) is held with HSBC Saudi Arabia (Custodian) under a securities cash account. No interest is receivable on these balances.

The arrangement with the Fund Manger for Subscription fee is disclosed in Note 6.

10. COMPARATIVE FIGURES

Where applicable, certain figures for 2015 have been reclassified to confirm the presentation in the current year

HSBC GLOBAL EMERGING MARKETS EQUITY FUND

Managed by HSBC Saudi Arabia Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

(Amounts in US Dollars)

11. FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. Financial instruments comprise financial assets and financial liabilities. The Fund's financial assets consist of cash and a bank balance, held for trading investments and other receivables whilst its financial liabilities consist of other liabilities.

Held for trading investments are carried at fair value. Fair value is derived from the observable market prices listed on Tadawul. The fair values of other financial instruments are not materially different from their carrying values.

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Fund manages its investment portfolio and other assets by monitoring the return on net assets and makes adjustments to its investment policy in the light of changes in market conditions. The Fund maintains position in financial instrument as dictated by its investment policy. All investments are "held for trading" investments. The Fund is exposed to the following risk:

Special commission rate risk

Special commission rate risk arises from the possibility that changes in market commission rates may affect either the fair value or the future cash flows of the financial instruments. The Fund is not exposed to special commission rate risk.

Credit risk

Credit risk is a risk that one party to a financial instrument may fail to discharge an obligation and cause the other party to incur a financial loss. The Fund is exposed to the credit risk on cash and cash equivalents and other receivables mainly which are maintained with related parties (note 9). The Fund Manager believes that credit risk is minimal as underlying balances are held with related parties with a good credit rating.

Equity price risk

Equity price risk is the risk that the fair value of equity investments decreases as a result of changes in the levels of equity indices and the value of individual stocks. The Fund is exposed to equity price risk arising from its investments in shares. The Fund is exposed to equity price risk arising from its investments in HSBC Global Emerging Market Index as the underlying investments comprise equity shares. The Fund Manager has established risk guidelines to minimize the risk through diversification of its investment portfolio in terms of industrial concentration.

Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in releasing funds to meet commitments associated with financial liabilities. The Fund's terms and conditions provide for the redemptions of units twice weekly and it is, therefore, exposed to the liquidity risk of meeting Unitholders' redemptions. The Fund's investments are considered to be readily realizable as they all are listed on HSBC Global Emerging Market Index.

The Fund Manager has established certain maturity and liquidity guidelines for the Fund to ensure sufficient funds are available to meet any commitments as they arise. There are no funds drawn by the fund under the credit line with the bank as at balance sheet date.

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12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(Continued)*

Currency risk

Currency risk is the risk that the value of a financial instrument may fluctuate due to a change in foreign exchange rates.

The Fund is not subject to a significant currency risk as the majority of the Fund's cash and bank balance and investments are denominated in its functional currency, i.e. US Dollars. However, the Fund is subject to currency risk on investments denominated in various currencies. The currencies giving rise to this risk are mainly Indonesian Rupiah (IDR), Hong Kong Dollar (HKD), Mexican Peso (MXN), Malaysian Ringgit (MYR), Polish Zloty (PLN), Thai Baht (THB), Taiwan Dollar (TWD). The risk is managed by close monitoring of open positions in such currencies, assessing and limiting exposures to highly volatile currencies based on past trends, political and economic factors and expected fluctuations in near future.

The investment risks of the fund are included in the terms and conditions detailed on the website of the Fund Manager at www.hsbcSaudi.com. The terms and conditions do not form part of these financial statements.

13. LAST VALUATION DAY

The last valuation day of the year was 31 December 2016 (2015: 31 December 2015).