

HSBC ISLAMIC FUNDS

**Audited Annual Report for the year
ended 31 December 2019**

R.C.S. Luxembourg B 74 964
16, boulevard d'Avranches
L-1160 Luxembourg
Grand Duchy of Luxembourg



Audited Annual Report for the year ended 31 December 2019

Société d'Investissement à Capital Variable (SICAV), Luxembourg

Information concerning the distribution of shares of HSBC Islamic Funds in or from Switzerland.

Legal Representative of the Company in Switzerland: HSBC Global Asset Management (Switzerland) Ltd., Gartenstrasse 26, P.O. Box, CH-8002 Zurich. The Prospectus, Key Investor Information Documents (KIIDs), Articles and annual and semi-annual reports of the Company may be obtained free of charge upon request from the Legal Representative in Switzerland. A breakdown of all transactions carried out on behalf of each sub-fund of the Company for the period under review can be obtained, free of charge, from the Legal Representative in Switzerland.

Statement of changes in the investment portfolio

A list, specifying for each sub-fund total purchases and sales transacted during the period under review, may be obtained, upon request, at the registered office of the Company.

No subscription can be received on the basis of financial reports only. Subscriptions are only valid if made on the basis of the current relevant Key Investor Information Document and the current Prospectus accompanied by the latest annual and the most recent semi-annual report, if published thereafter.

Audited annual report for the year from 1 January 2019 to 31 December 2019

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Board of Directors

- ▶ **Anthony Jeffs**, (Chairman), Global Chief Operating Officer
(Appointed Chairman 08 January 2020)
HSBC Global Asset Management Limited,
8 Canada Square, Canary Wharf, London E14 5HQ, United Kingdom.
- ▶ **Dr. Michael Boehm**, Chief Operating Officer
HSBC Global Asset Management (Deutschland) GmbH,
Königsallee 21/23, 40212 Düsseldorf, Germany.
- ▶ **Jean de Courrèges**, Independent Director
Resident in Luxembourg.
- ▶ **Eimear Cowhey**, Independent Director
Resident in the Republic of Ireland.
- ▶ **John Li**, Independent Director
The Directors Office, 19 Rue de Bitbourg, L-1273, Luxembourg.
- ▶ **Matteo Pardi**, Chief Executive Officer
HSBC Global Asset Management (France)
Immeuble "coeur Defense" - Tour A,
110 espl. du General de Gaulle - La Defense 4,
75419 Paris Cedex 08, France.
- ▶ **George Efthimiou** (Chairman), Global Chief Operating Officer
(Resigned 08 January 2020)
HSBC Global Asset Management Limited,
8 Canada Square, Canary Wharf, London E14 5HQ, United Kingdom.
- ▶ **Peter Dew**, Independent Director
(Resigned 12 April 2019)
Resident in the United Kingdom.

HSBC Global Asset Management Shariah Committee

The Management Company has entered into a Shariah Compliance Advisory Agreement with HSBC Bank plc under which the latter agrees to appoint the members of the HSBC Global Asset Management Shariah Committee ("the Shariah Committee"). The members of the Shariah Committee are:

- ▶ Dr. Nizam Yaquby - resident in Bahrain
- ▶ Dr. Mohamed Ali Elgari - resident in Saudi Arabia

Management and Administration

Registered Office	16, boulevard d'Avranches, L-1160 Luxembourg, Grand Duchy of Luxembourg.
Management Company	HSBC Investment Funds (Luxembourg) S.A. 16, boulevard d'Avranches, L-1160 Luxembourg, Grand Duchy of Luxembourg.
Administration Agent, Depositary Bank, Central Paying Agent, Corporate Agent and Domiciliary Agent	HSBC France, Luxembourg Branch (from 1 March 2019) HSBC Bank Plc, Luxembourg Branch (until 28 February 2019) 16, boulevard d'Avranches, L-1160 Luxembourg, Grand Duchy of Luxembourg.
Registrar and Transfer Agent	HSBC France, Luxembourg Branch (from 1 March 2019) HSBC Bank Plc, Luxembourg Branch (until 28 February 2019) 16, boulevard d'Avranches, L-1160 Luxembourg, Grand Duchy of Luxembourg.
Investment Adviser	HSBC Global Asset Management (UK) Limited 8 Canada Square, London, E14 5HQ, United Kingdom.

Management and Administration (continued)

Share Distributors

Global Distributor

HSBC Investment Funds (Luxembourg) S.A.
16, boulevard d'Avranches,
L-1160 Luxembourg,
Grand Duchy of Luxembourg.

Distributor for Continental Europe

HSBC Global Asset Management (France)
Immeuble "cœur Défense" – Tour A,
110 Esplanade du Général de Gaulle - La Défense 4,
75419 Paris Cedex 08,
France.

Distributor and Representative for the United Kingdom

HSBC Global Asset Management (UK) Limited
8 Canada Square,
London E14 5HQ,
United Kingdom.

Distributor for Middle East

HSBC Global Asset Management (UK) Limited
8 Canada Square,
London E14 5HQ,
United Kingdom.

Paying Agent in Switzerland

HSBC Private Bank (Suisse) S.A.
Quai des Bergues 9-17, Case Postale 2888,
CH-1211 Geneva 1, Switzerland.

Auditor

PricewaterhouseCoopers, Société coopérative
2, rue Gerhard Mercator, B.P. 1443,
L-1014 Luxembourg,
Grand Duchy of Luxembourg.

Shareholder Information

Automatic Exchange of Information

The OECD has developed a common reporting standard ("CRS") to achieve a comprehensive and multilateral automatic exchange of information AEOI on a global basis. On 9 December 2014, Council Directive 2014/107/EU amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation (the "Euro-CRS Directive") was adopted in order to implement the CRS among the Member States.

The Euro-CRS Directive was implemented into Luxembourg law by the law of 18 December 2015 on the automatic exchange of financial account information in the field of taxation ("CRS Law").

The CRS Law requires Luxembourg financial institutions to identify financial assets holders and establish if they are tax resident in countries with which Luxembourg has a tax information sharing agreement. Accordingly, the Company may require its investors to provide information in relation to the identity and tax residence of financial account holders (including certain entities and their controlling persons) in order to ascertain their CRS status. Responding to CRS-related questions is mandatory. The personal data obtained will be used for the purpose of the CRS Law or such other purposes indicated by the Company in the data protection section of the Prospectus in compliance with Luxembourg data protection law. Information regarding a shareholder and his/her/its account will be reported to the Luxembourg tax authorities (Administration des Contributions Directes), which will thereafter automatically transfer this information to the competent foreign tax authorities on a yearly basis, if such account is deemed a CRS reportable account under the CRS Law.

Under the CRS Law, the first exchange of information was applied by 30 September 2017 for information related to the calendar year 2016. Under the Euro-CRS Directive, the first AEOI was applied by 30 September 2017 to the local tax authorities of the Member States for the data relating to the calendar year 2016.

In addition, Luxembourg signed the OECD's multilateral competent authority agreement ("Multilateral Agreement") to exchange information automatically under the CRS. The Multilateral Agreement aims to implement the CRS among non-Member States; it requires agreements on a country-by-country basis.

The Company reserves the right to refuse any application for Shares if the information provided or not provided does not satisfy the requirements under the CRS Law.

Name of the sub-fund	Tax status for redemptions	Tax status for distributions	Method used to determine the status	Period of validity of the status
HSBC Islamic Global Equity Index Fund	Out of Scope	Out of Scope	Investment Policy	1 January 2019 31 December 2019

Directors' Report

The Board of Directors presents the Audited Annual Report for HSBC Islamic Funds (the "Company") for the year ended 31 December 2019.

The Company

The Company is an investment company with variable capital, incorporated under the laws of the Grand Duchy of Luxembourg and is organized as an "umbrella" with a number of sub-funds, each of which has its own investment policy and restrictions. At present, the Company has issued shares in 1 sub-fund. During the financial year, the total net assets of the Company increased from USD 597.1 million to USD 1,064.6 million at year end.

The Company qualifies as an Undertaking for Collective Investments in Transferable Securities under the amended Directive 2009/65/EC of 13 July 2009 and may therefore be offered for sale in European Union Member States, subject to registration in countries other than the Grand Duchy of Luxembourg. In addition, applications to register the Company and its sub-funds may be made in non-European Union countries, subject to compliance with local laws and regulations. The Company and its sub-fund are currently registered for offer and distribution in the Grand Duchy of Luxembourg and in the following jurisdictions: Bahrain, France, Jersey, Qatar, Sweden, Switzerland, the United Kingdom and the United Arab Emirates.

Responsibility of the Directors

The responsibility of the Directors of the Company is governed exclusively by Luxembourg law. With respect to these financial statements, the duties of the Directors are governed by general corporate law and the law of 19 December 2002 on the register of commerce and companies and the accounting and annual accounts of undertakings and by the law of 17 December 2010 relating to undertakings for collective investments, as amended (the "2010 Law"). Since 1 July 2011, the Company is governed by Part I of the 2010 Law implementing the Directive 2009/65/EC into Luxembourg law.

Remuneration Policy

HSBC Investment Funds (Luxembourg) S.A. ("HIFL") has implemented a remuneration policy pursuant to Directive 2014/91/EU of the European Parliament and of the Council of 23 July 2014 amending Directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) as regards to depositary functions, remuneration policies and sanctions (the "UCITS V Directive"), which was transposed into Luxembourg law on 1 June 2016 by way of the Luxembourg law of 10 May 2016.

The remuneration policy, which has been approved by HIFL's board of directors, includes measures to avoid conflicts of interest and seeks to promote sound and effective risk management and that neither encourage risk taking which is inconsistent with the risk profile and articles of incorporation of the Company nor impair compliance with HIFL's duty to act in the best interest of the Company.

The remuneration policy, which describes how remuneration and benefits are determined, is available at www.global.assetmanagement.hsbc.com/about-us/governance-structure, or on request from HIFL.

Total amount of remuneration paid by HIFL to all staff and paid by the investment adviser to their identified staff* during the 12 months period ending 31 December 2019 is as follows:

Fixed remuneration	EUR 2,008,762
Variable remuneration	EUR 281,819
Number of beneficiaries	23

of which, the disclosure of the fixed and variable remuneration of senior management within HIFL and of identified staff* of the investment adviser is:

Fixed remuneration	EUR 1,066,821
Variable remuneration	EUR 188,545
Number of beneficiaries	7

The above amounts of remuneration include the staff of HIFL and the staff of HSBC Global Asset Management (UK) Limited involved in the investment management of HSBC Islamic Funds.

The annual review of the remuneration policy, including a review of the existing remuneration structure as well as implementation of the regulatory requirements and compliance with them, was completed during the period and no irregularities were identified. Furthermore, there were no material changes made to the remuneration policy in the past financial year.

* identified staff are defined as members of staff whose actions have a material impact on the risk profile of the Company

Directors' Report (continued)

Withdrawal of the UK from the EU

Following the UK Government's notification to the European Union (EU) of its intention to leave the Union (i.e. "Brexit"), on 23 January 2020, the UK Government enacted the European Union (Withdrawal Agreement) Act 2020 (WAA). The WAA implemented the withdrawal agreement into UK law. The EU also ratified the withdrawal agreement in accordance with its procedures, with the European Parliament consenting to the Withdrawal Agreement on 29 January 2020.

As part of the Withdrawal Agreement, the UK and the EU agreed a Transition Period in order to provide continuity and certainty. During this time, the UK will generally continue to apply EU law as it does now. UK domiciled UCITS will continue to be referred to as UCITS and enjoy the rights conferred by the UCITS Directive during the Transition Period. EU UCITS will continue to use their cross-border passporting rights to passport into the UK.

Currently, the Transition Period will run from 12:00 midnight CET on 31 January 2020 until 12:00 midnight CET on 31 December 2020. Under the Withdrawal Agreement, before 1 July 2020, the UK Government and the EU are able to agree to extend the Transition Period for up to one or two years. However, the UK Government's stated policy is that it will not seek an extension and so it is highly likely that the Transition Period will end on 31 December 2020.

Investors should note that during the Transition Period references to the EU in this document shall be taken to include the UK.

Once the Transition period expires, all cross-border passporting rights to the UK for EU UCITS funds will cease; however, the UK's commitment to a Temporary Permission Regime will mitigate the cliff-edge risks associated with a no-deal end of the Transition Period. The UK Government has also committed to bringing forward domestic legislation to streamline the process to allow overseas (including EU) investment funds to be sold in the UK post-Brexit.

Notwithstanding the above, the UK's future economic and political relationship with the EU (and with other non-EU countries by agreement) continues to remain uncertain. This uncertainty is likely to generate further global currency and asset price volatility. This may negatively impact the returns of a Fund and its investments resulting in greater costs if a Fund decides to employ currency hedging policies. Ongoing uncertainty could adversely impact the general economic outlook and as such, this may impact negatively on the ability of a Fund and its investments to execute their strategies effectively, and may also result in increased costs to the Company.

It is possible that there will be more divergence between UK and EU regulations post-Brexit, limiting what cross-border activities can take place. However it is unlikely to affect a Fund's ability to receive portfolio management services. At the date of this report, the Fund continues to be recognised by the FCA and can be marketed to UK investors. The nature and extent of the impact of any Brexit related changes are uncertain, but may be significant.

Impact of the Coronavirus (COVID-19)

The recent outbreak of the coronavirus disease 2019 (abbreviated as "COVID-19") continues to impact global markets in several ways, including: (i) slowing down or stopping international, national, and local travel; (ii) impeding regular business operations across many different businesses, including manufacturers and service providers; and (iii) adding uncertainty to global markets with regard to how long and how serious COVID-19 may prove over time. All of these factors and more regarding COVID-19's impact on global markets could materially adversely affect the Fund's performance, including to the extent that the Fund makes investments in certain businesses or industries suffering downturns or impediments caused or exacerbated by COVID-19.

The Board continues to monitor the situation and receives regular updates from the Management Company. As at 1st April 2020, to our knowledge, the impact of COVID-19 has not affected the Investment Manager's ability to execute the investment strategy of the fund, nor has there been any significant redemption activity or interruption to key service providers engaged by the Company.

Corporate Governance Statement

The Board of Directors confirms its adoption of the ALFI (Association of the Luxembourg Fund Industry) Code of Conduct for Luxembourg Investment Funds (the "Code") and confirms its adherence to the principles of the Code at all times during the period.

Annual General Meeting

The next Annual General Meeting of the Company will be held on 17 April 2020.

Directors' Report (continued)

Market Overview

Global equities

Monetary policy provided support to markets, with the US Federal Reserve (Fed) cutting interest rates, and the European Central Bank (ECB) restarting bond purchases. While US economic indicators remained reasonably resilient, the economic outlook was mixed across other regions. In Europe, Italy narrowly avoided recession. Meanwhile, Germany also hovered precariously above a technical recession. Asian and emerging economies were impacted by the global trade friction and the potential consequences for economic growth. During the period, the US Treasury yield curve inverted, which some investors interpreted as a sign of impending recession. The UK's economy was overshadowed by Brexit-related uncertainty, which caused a slump in sterling, and affected business and consumer confidence. The increasing prospects of a 'no deal' Brexit created volatility in the UK market and unsettled investors. However, by the end of the period, a decisive general election result – in favour of the Conservative party – removed some of the uncertainty surrounding Brexit.

US equities

US equities fared very well, with the S&P 500 index periodically establishing new all-time highs in local-currency terms. The Fed cut interest rates three times during the period, to a range of 1.50–1.75%. The Fed's tone changed, as Chairman Jerome Powell acknowledged the rising risks in the US and global economies, and effectively guided to a sustained period of loose monetary policy. The trade war between the US and China persisted, despite occasional bouts of optimism that a deal was close to being signed. The scope and range of tariffs widened over the period, creating a dampening effect on equities and volatility in the market. However, by the end of the period, a 'phase one' deal had been agreed. In economic news, GDP growth slowed. The third quarter produced annualised GDP growth of 2.1%, above the second-quarter figure of 2.0%, but still down from the first-quarter growth rate of 3.1%. Employment data was more robust, with US unemployment falling to 3.5% in November, the lowest figure for 50 years. However, there were some signs of a downturn during the period – investors were unsettled by an inversion in the yield curve, which has historically indicated that a recession is imminent. Political risk also remained high. President Trump faced impeachment proceedings as the period drew to a close.

European ex UK equities

European equities made strong gains over the period, with the market supported by increasing expectations that the ECB would re-establish its policy of quantitative easing. In September 2019, ECB president Mario Draghi, in one of his last actions before retiring, committed the central bank to another bout of bond purchasing from November and cut the deposit rate to -0.5%. Christine Lagarde, at her first meeting as the ECB's next president, made it clear that the bank's low rates would remain in place. Economic growth remained sluggish through the period: eurozone second- and third-quarter GDP grew 1.2% on an annualised basis. Meanwhile, Italy and Germany narrowly escaped a technical recession. Core inflation in the eurozone was subdued, despite improvements in employment, but had risen to 1.3% in December 2019. The European Parliament elections in late May delivered a relatively benign outcome, with fears of large gains for populist parties overplayed. With a new, pro-European coalition government in Italy having also been formed, worries about the stability of the eurozone diminished.

UK equities

The UK market (measured by the FTSE All Share index) moved higher over the period. Dovish rhetoric from the major central banks, including the Bank of England (BoE), was a key factor in equities' strength. Sterling fluctuated through the period but was boosted at the close of 2019 as fears of a no-deal Brexit subsided. Brexit was a considerable source of angst for investors, dominating the headlines. Seemingly against the odds, new Prime Minister Johnson secured a new draft deal with the European Union. However, parliament slowed its passing through the house and sought ways to amend the bill. A general election was subsequently called, which delivered a large majority for the Conservative party – this removed some of the uncertainty about the Brexit process and timeline, boosting investor sentiment. The UK economy expanded in the third quarter, with an initial figure of 0.3% growth subsequently revised upwards to 0.4%. Meanwhile, unemployment remained at generational lows of around 3.8%. Inflation stayed subdued, falling to 1.5% in October 2019, remaining at this level in November. The BoE held interest rates steady at 0.75% throughout the period.

Directors' Report (continued)

Japanese equities

Japanese equities were higher over the period. The market took its cue from the trend towards easier monetary policy overseas. However, Japanese equities were affected by the global trade dispute and relatively sluggish growth at home. Economic indicators were mixed. GDP grew 1.8% on an annualised basis in the third quarter (revised upwards from 0.2%), after 1.3% in the second quarter. The much-followed Tankan survey, a quarterly indicator of corporate Japan's outlook on the economy, deteriorated over the period. Consumption tax was raised at the beginning of October from 8% to 10%, in an effort to improve the country's strained fiscal position; the measure had previously been postponed twice, given concerns about its potential impact on an already fragile economy. Worries mounted about a Chinese slowdown, with several Japanese companies – particularly exporters of consumer electronics and automobiles – reducing their profit forecasts as a result. Moreover, the BoJ's ultra-loose monetary policy continued to weigh on the profits of the banking sector, given its effect on their net interest margins. The diplomatic dispute with South Korea, deriving from grievances over Japan's treatment of Korea during WWII, also unsettled investors and caused exports to South Korea to fall. The BoJ maintained its loose monetary policy, targeting -0.1% short-term interest rates, while stating that the long-term inflation target of 2.0% was unlikely to be met in the near future. The inflation rate was subdued for most of the period, but November's consumer price index rose 0.5% year on year.

Asia ex Japan equities

Asia Pacific stocks advanced over the period. Shares were volatile, as markets in the region were affected by the backdrop of global trade friction and its potential consequences for Asian manufacturing businesses. Sentiment towards a deal between China and the US improved then deteriorated multiple times, with a 'phase one' deal finally agreed at the end of the period. The US dollar spent much of the period in an uptrend. With growth slowing across the region, inflation trends tentative and the Fed becoming more dovish, several Asian central banks – including those of Korea and India – cut interest rates. The People's Bank of China eased policy by cutting banks' reserve requirements over the period and by keeping the money markets flooded with liquidity. China's GDP growth rate continued to slow, falling to a 6.0% annual growth rate in the third quarter of 2019 – this marked the lowest growth rate since 1992. The renminbi also softened, falling to its lowest level against the US dollar for 10 years during the period. Meanwhile, Hong Kong's economy slumped into a technical recession for the first time since the global financial crisis. The Hong Kong market has increasingly suffered from the growing protests, unrest and violence in the city. The Reserve Bank of India cut interest rates several times, as economic growth slowed, touching just 4.5% quarter-on-quarter growth in the third quarter of 2019.

Emerging market equities

Emerging markets gained in sterling terms over the review period. In Latin America, Argentinean market collapsed and the peso slumped – triggering the imposition of capital controls and the rescheduling of the country's US dollar debt – as fears grew about the results of October's presidential elections. These fears were realised as Alberto Fernandez, the opposition candidate backed by former president Cristina Fernandez de Kirchner, defeated market-friendly president Mauricio Macri. In contrast, Brazilian equities fared well. The pro-growth policies of President Jair Bolsonaro continued to be rolled out, with supportive monetary easing and pension reforms boosting investor sentiment. Third-quarter GDP growth hit an 18-month high, while unemployment was down. Mexican equities sold off when President Trump threatened to increase tariffs on Mexican imports, but they subsequently stabilised after an agreement was reached. Although economic growth was weak, investor sentiment was supported by Mexico's participation in the USMCA and interventionist rate cuts made by the country's central bank. Elsewhere, South Africa's economy also suffered during the period, with annualised GDP contracting by 0.6% in the third quarter. Severe power outages were a key driver of the economic weakness, the domestic growth outlook remains sluggish, with weak business and consumer confidence. Russian equities were particularly strong, having been boosted by rises in the oil price. The country's central bank cut interest rates five times in 2019, to support Russia's economy.

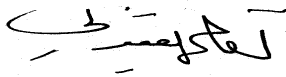
بسم الله الرحمن الرحيم

Praise be to Allah the Cherisher and Sustainer of the worlds.
Blessings and salutations be to his Prophet Mohammed, his family and all his companions.

Annual Shariah Compliance Report

Based on our review of the investments of HSBC Islamic Global Equity Index Fund and (a sub fund of the HSBC ISLAMIC FUNDS) relying on the information provided to us by the representatives of HSBC ISLAMIC FUNDS, it is our resolution that the investment and transactions of the current sub-fund during the financial year ended 31 December 2019 were in compliance with the Islamic investment guidelines as interpreted and issued by HSBC Global Asset Management Shariah Committee

While Almighty Allah knows the best we undersign.



Sheikh Nizam Yaquby



Dr. Mohamed Ali Elgari

Members of HSBC Global Asset Management Shariah Committee

11 March 2020



Audit report

To the Shareholders of
HSBC Islamic Funds

Our opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of HSBC Islamic Funds (the "Fund") as at 31 December 2019, and of the results of its operations and changes in its net assets for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the financial statements.

What we have audited

The Fund's financial statements comprise:

- the statement of net assets as at 31 December 2019;
- the portfolio of investments and other net assets as at 31 December 2019;
- the statement of operations and changes in net assets for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with the Law of 23 July 2016 on the audit profession (Law of 23 July 2016) and with International Standards on Auditing (ISAs) as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" (CSSF). Our responsibilities under the Law of 23 July 2016 and ISAs as adopted for Luxembourg by the CSSF are further described in the "Responsibilities of the "Réviseur d'entreprises agréé" for the audit of the financial statements" section of our report.

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

We are independent of the Fund in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the financial statements. We have fulfilled our other ethical responsibilities under those ethical requirements.

Other information

The Board of Directors of the Fund is responsible for the other information. The other information comprises the information stated in the annual report but does not include the financial statements and our audit report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors of the Fund for the financial statements

The Board of Directors of the Fund is responsible for the preparation and fair presentation of the financial statements in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the financial statements, and for such internal control as the Board of Directors of the Fund determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors of the Fund is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors of the Fund either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Responsibilities of the "Réviseur d'entreprises agréé" for the audit of the financial statements

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit 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's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors of the Fund;



- conclude on the appropriateness of the Board of Directors of the Fund's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the Fund to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers, Société coopérative
Represented by

Luxembourg, 6 April 2020

Christelle Crépin

Statement of Net Assets

as at 31 December 2019

	Notes	HSBC Islamic Global Equity Index Fund USD
Assets		
Portfolio at Market Value	3.b	1,058,841,861
Cash at Bank		5,544,384
Receivable from Brokers		2,654,377
Receivable from Shareholders		2,459,150
Dividend and Interest Receivable, Net		847,995
Total Assets		1,070,347,767
Liabilities		
Payable to Brokers		(2,649,696)
Payable to Shareholders		(1,083,355)
Other Liabilities	4	(2,047,988)
Total Liabilities		(5,781,039)
Total Net Assets		1,064,566,728

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

Statement of Operations and Changes in Net Assets

for the year ended 31 December 2019

	Notes	HSBC Islamic Global Equity Index Fund USD
Net Assets at the Beginning of the Year		597,083,193
INCOME		
Investment Income	3.c	13,083,197
Total Income		13,083,197
EXPENSES		
Management Fees	4	(1,100,966)
Taxe d'abonnement	5	(128,361)
Operating, Administrative and Servicing Fees		(2,039,318)
Other Fees		(6,177)
Total Expenses		(3,274,822)
Net Investment Income		9,808,375
Realised Gain on Sale on Investments	3.e	16,805,502
Loss on Foreign Currency		(4,078)
Realised Gain for the Year		26,609,799
Change in Unrealised Appreciation of Investments		197,317,819
Change in Total Net Assets as a Result of Operations		223,927,618
Proceeds on Issue of Shares		329,579,707
Payments on Redemption of Shares		(85,088,398)
Dividends Paid	6	(935,392)
Net Assets as at the End of Year		1,064,566,728

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

Changes in the Number of Shares

for the year ended 31 December 2019

HSBC Islamic Global Equity Index Fund								
	Share Class AC	Share Class AD	Share Class IC	Share Class ID	Share Class WD	Share Class YC	Share Class YD	Share Class ZC
Number of Shares in Issue at the Beginning of the Year	982,631,871	6,951,596,979	4,056,086,081	216,558,398	1,492,499,560	20,428,646,522	549,650,245	1,529,296,514
Number of Shares Subscribed	459,505,673	1,815,703,605	4,267,349,920	-	54,122,702	9,660,827,373	138,699,334	563,540,467
Number of Shares Redeemed	(406,094,533)	(833,742,376)	(464,520,909)	-	(34,350,323)	(2,156,554,065)	(49,065,861)	(676,324,172)
Number of Shares in Issue at the End of the Year	1,036,043,011	7,933,558,208	7,858,915,092	216,558,398	1,512,271,939	27,932,919,830	639,283,718	1,416,512,809

Statistics over the last three years

for the year ended 31 December 2019

Sub-Fund	Total Expense Ratio (TER) 31 Decem ber 2019	Shares Outstanding 31 Decem ber 2019	Net Asset Value per Share					
			31 Decem ber 2017		31 Decem ber 2018		31 Decem ber 2019	
HSBC Islam ic Global Equity Index Fund USD								
AC	0.91%	1,036,043.010	USD	11.96	USD	11.35	USD	14.96
AD	0.91%	7,933,558.208	USD	11.40	USD	10.75	USD	14.08
IC	0.49%	7,858,915.092	USD	11.54	USD	11.00	USD	14.56
ID	0.49%	216,558.398	USD	13.53	USD	12.77	USD	16.72
WD	0.00%	1,512,271.939	USD	12.39	USD	11.69	USD	15.31
YC	0.30%	27,932,919.830	GBP	15.95	GBP	16.19	GBP	20.85
YD	0.30%	639,283.718	-		USD	8.99	USD	11.77
ZC	0.12%	1,416,512.809	USD	13.74	USD	13.15	USD	17.47
Total Net Assets			USD	526,467,247	USD	597,083,193	USD	1,064,566,728

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

Portfolio of Investments and Other Net Assets

as at 31 December 2019

HSBC Islamic Global Equity Index Fund
Statement of investments as at 31 December 2019
(expressed in USD)

Description	Quantity	Currency	Evaluation	% net assets	Description	Quantity	Currency	Evaluation	% net assets
INVESTMENTS					KEYENCE	16,600	JPY	5,862,587	0.55
TRANSFERABLE SECURITIES ADMITTED TO AN OFFICIAL STOCK EXCHANGE LISTING					MURATA MANUFACTURING	56,900	JPY	3,522,020	0.33
SHARES					NIDEC	24,313	JPY	3,347,402	0.31
AUSTRALIA					NINTENDO	10,530	JPY	4,248,329	0.40
BHP BILLITON	260,721	AUD	7,190,738	0.68	RERUIT HOLDINGS	141,200	JPY	5,310,628	0.50
CSL	40,081	AUD	7,906,912	0.74	SHIN-ETSU CHEMICAL	33,941	JPY	3,755,824	0.35
			15,097,651	1.42	SHISEIDO	35,200	JPY	2,513,432	0.24
CHINA					TOKYO ELECTRON	14,500	JPY	3,183,122	0.30
MEITUAN DIANPING	313,700	HKD	4,129,142	0.39				54,982,822	5.16
TENCENT HOLDINGS	284,494	HKD	13,999,743	1.32	NETHERLANDS				
			18,128,885	1.71	ASML HOLDING	31,631	EUR	9,316,597	0.88
DENMARK					KONINKLIJKE PHILIPS	67,271	EUR	3,284,121	0.31
NOVO NORDISK "B"	123,182	DKK	7,142,712	0.67	UNILEVER	114,788	EUR	6,617,898	0.62
			7,142,712	0.67				19,218,616	1.81
FRANCE					SOUTH KOREA				
ESSILOR INTERNATIONAL	21,479	EUR	3,246,234	0.30	SK HYNIX	47,720	KRW	3,882,963	0.36
KERING	5,504	EUR	3,615,365	0.34				3,882,963	0.36
L'OREAL	16,264	EUR	5,385,619	0.51	SWITZERLAND				
SAFRAN	24,809	EUR	3,810,663	0.36	ABB "R"	143,392	CHF	3,457,742	0.32
SANOFI	85,193	EUR	8,566,279	0.80	CIE FINANCIERE				
SCHNEIDER ELTE	40,879	EUR	4,192,422	0.39	RICHEMONT "A"	38,790	CHF	3,044,284	0.29
			28,816,581	2.70	NESTLE "R"	155,955	CHF	16,861,131	1.58
GERMANY					NOVARTIS "R"	176,038	CHF	16,692,867	1.57
ADIDAS	13,701	EUR	4,448,407	0.42	ROCHE HOLDING	52,207	CHF	16,914,820	1.59
BASF	68,252	EUR	5,149,995	0.48	ROCHE HOLDING 'B'	1,960	CHF	622,087	0.06
SAP	80,335	EUR	10,829,202	1.02				57,592,931	5.41
			20,427,603	1.92	TAIWAN				
GREAT BRITAIN					TAIWAN SEMICON				
ASTRAZENECA	97,478	GBP	9,783,937	0.92	MANUFACTURING	1,125,345	TWD	12,533,184	1.18
BHP GROUP	156,948	GBP	3,684,478	0.34				12,533,184	1.18
COMPASS GROUP	118,380	GBP	2,957,276	0.28	UNITED STATES				
RECKITT BENCKISER	54,732	GBP	4,435,559	0.42	3M CO	41,682	USD	7,328,946	0.69
RELX	149,485	GBP	3,738,237	0.35	ABBOTT LABORATORIES	128,108	USD	11,119,774	1.04
RIO TINTO	73,977	GBP	4,372,228	0.41	ABBVIE	107,191	USD	9,488,547	0.89
UNILEVER (GB00B 10RZP78)	86,759	GBP	4,975,223	0.47	ADOBE SYSTEMS	35,088	USD	11,520,794	1.08
			33,946,939	3.19	ALPHABET 'A'	217,118	USD	29,095,822	2.73
HONG KONG					ALPHABET 'C'	21,665	USD	28,947,473	2.72
CHINA MOBILE	489,606	HKD	4,137,082	0.39	AMERICAN TOWER	32,106	USD	7,347,458	0.69
			4,137,082	0.39	AMGEN	43,069	USD	10,348,189	0.97
IRELAND					APPLE	273,821	USD	79,824,298	7.50
ACCENTURE CORP	46,032	USD	9,696,180	0.91	AUTOMATIC DATA				
LINDE	38,937	USD	8,234,786	0.77	PROCESSING	31,364	USD	5,319,021	0.50
MEDTRONIC	97,156	USD	10,971,827	1.03	BECTON DICKINSON	19,449	USD	5,261,343	0.49
			28,902,794	2.71	BOOKING HOLDINGS	3,034	USD	6,231,442	0.58
JAPAN					CHEVRON	137,058	USD	16,426,401	1.54
CANON	95,700	JPY	2,622,453	0.25	CISCO SYSTEMS	307,497	USD	14,633,782	1.37
DAIICHI SANKYO	54,000	JPY	3,581,337	0.34	COCA-COLA	279,502	USD	15,448,076	1.45
DAIKIN INDUSTRIES	25,930	JPY	3,675,905	0.34	DANAHER	46,337	USD	7,082,147	0.67
FANUC CORP	17,220	JPY	3,212,209	0.30	ELILILLY	61,243	USD	8,041,206	0.76
FAST RETAILING	5,700	JPY	3,399,550	0.32	EXXON MOBIL	306,688	USD	21,308,682	2.00
HOYA	33,500	JPY	3,212,139	0.30	FACEBOOK	174,431	USD	35,655,441	3.35
KAO	42,699	JPY	3,535,885	0.33	GILEAD SCIENCES	91,703	USD	5,954,276	0.56
					HOME DEPOT	79,068	USD	17,182,267	1.61
					HONEYWELL INTERNATIONAL	51,792	USD	9,137,145	0.86
					INTEL	315,306	USD	18,798,544	1.77
					INTUIT	18,868	USD	4,959,265	0.47

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

Portfolio of Investments and Other Net Assets (continued)

as at 31 December 2019

HSBC Islamic Global Equity Index Fund
Statement of investments as at 31 December 2019
(expressed in USD)

Description	Quantity	Currency	Evaluation	% net assets
JOHNSON & JOHNSON	190,769	USD	27,718,736	2.60
LOWES	55,557	USD	6,669,618	0.63
MASTERCARD	64,346	USD	19,157,091	1.80
MCDONALDS	54,587	USD	10,748,726	1.01
MERCK & CO	184,543	USD	15,798,949	1.58
MICROSOFT	488,737	USD	77,020,064	7.23
MONDELEZ INTERNATIONAL				
"A"	104,364	USD	5,740,020	0.54
NIKE "B"	90,317	USD	9,103,954	0.86
NVIDIA	44,360	USD	10,305,715	0.97
ORACLE	157,034	USD	8,275,692	0.78
PEPSICO	101,074	USD	13,827,934	1.30
PFIZER	401,136	USD	15,608,202	1.47
PROCTER AND GAMBLE	180,762	USD	22,499,446	2.11
QUALCOMM	82,766	USD	7,318,997	0.69
SALESFORCE.COM	64,293	USD	10,443,755	0.98
STARBUCKS	85,604	USD	7,485,214	0.70
STRYKER	23,339	USD	4,871,549	0.46
TEXAS INSTRUMENTS	67,756	USD	8,649,731	0.81
THERMO FISHER SCIENTIFIC	29,065	USD	9,447,288	0.89
TJX COMPANIES	87,202	USD	5,334,146	0.50
UNION PACIFIC	50,318	USD	9,064,788	0.85
UNITED PARCEL SERVICES	50,794	USD	5,914,453	0.56
VISA "A"	124,081	USD	23,306,134	2.19
WAL MART STORES	102,825	USD	12,277,305	1.15
			734,047,846	68.95
TOTAL SHARES			1,038,858,609	97.58
DEPOSITARY RECEIPTS				
<u>CAYMAN ISLANDS</u>				
ALIBABA GROUP HOLDING	60,517	USD	12,884,674	1.21
BAIDU	24,314	USD	3,070,615	0.29
			15,955,289	1.50
<u>INDIA</u>				
INFOSYS	330,996	USD	3,362,919	0.32
			3,362,919	0.32
<u>TAIWAN</u>				
TAIWAN SEMICONDUCTOR	11,496	USD	665,044	0.06
			665,044	0.06
TOTAL DEPOSITARY RECEIPTS			19,983,252	1.88
TOTAL TRANSFERABLE SECURITIES				
ADMITTED TO AN OFFICIAL STOCK				
EXCHANGE LISTING			1,058,841,861	99.46
TOTAL INVESTMENTS			1,058,841,861	99.46
OTHER NET ASSETS LESS LIABILITIES			5,724,867	0.54
TOTAL NET ASSETS			1,064,566,728	100.00

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

Portfolio of Investments and Other Net Assets (continued)

as at 31 December 2019

HSBC Islamic Global Equity Index Fund

Economic Division of Investment (Unaudited)

(expressed as a percentage of net assets)

	%
Technology	39.38
Healthcare	20.04
Consumer Goods	11.52
Industrials	8.75
Consumer Services	8.11
Financials	4.68
Oil & Gas	3.55
Basic Materials	3.04
Telecommunications	0.39
Other net assets less liabilities	0.54
Total Net Assets	100.00

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

Notes to the Financial Statements

for the year ended 31 December 2019

1. Basis of presentation

HSBC ISLAMIC FUNDS (the "Company") is incorporated under the laws of the Grand Duchy of Luxembourg as an investment company with variable capital (Société d'Investissement à Capital Variable). The capital comprises various Shares of different classes (the "Share Classes" or "Classes of Shares") within different compartments each relating to a separate portfolio (a "sub-fund") consisting of securities, cash and other sundry assets and liabilities.

The accompanying financial statements present the assets and liabilities of the only sub-fund of the Company which therefore represents Company as a whole. The financial statements of the Company are expressed in the currency designated in the Company's prospectus for the sub-fund and the financial statements of the Company are expressed in United States dollars (USD). The Company's financial statements have been prepared in accordance with the format prescribed by the Luxembourg law for Luxembourg investment companies.

The Company qualifies as an undertaking for collective investment in transferable securities under Part I of the Luxembourg law of 17 December 2010 on undertakings for collective investment, as amended (the "2010 Law") and is authorised by the Commission de Surveillance du Secteur Financier.

In the Company's prospectus and in the reports, the short name of the sub-fund is used. The complete name of the sub-fund is "HSBC Islamic" plus the short name of the sub-fund.

2. Share Capital

The Company currently offers the following Classes of Shares:

Class	Description
Class A	A Shares are available to all investors. The minimum initial investment amount and the minimum holding for A Shares are USD 5,000 or the equivalent in the relevant currency of denomination of the sub-fund.
Class B	B Shares are available to sub-distributors who are prohibited from accepting and retaining inducements from third parties under applicable laws and regulations or court rulings or sub-distributors who have a separate fee arrangement with their clients in relation to the provision of investment services and activities (for example, in the European Union, services and activities performed under MiFID II) and who have opted not to accept and retain inducements from third parties. The minimum initial investment amount and the minimum holding for B Shares are USD 5,000 or the equivalent in the relevant currency of denomination of the sub-fund.
Class I	I Shares are only available for investors qualifying as institutional investors within the meaning of article 174 of the 2010 Law. The minimum initial investment amount and the minimum holding for I Shares are USD 1,000,000 or the equivalent.
Class S	S Shares are available through specific distributors selected by the Global Distributor provided that the investors qualify as institutional investors within the meaning of article 174 of the 2010 Law. The minimum initial investment amount and the minimum holding for S Shares are USD 500,000 or the equivalent. No S Shares were issued as at 31 December 2019.
Class W	W Shares are available through certain distributors selected by the Global Distributor provided that the investors qualify as institutional investors within the meaning of article 174 of the 2010 Law. The minimum initial investment amount and the minimum holding for W Shares are USD 100,000 or the equivalent.
Class Y	Y Shares are available to certain distributors selected by the Global Distributor provided that the investors qualify as institutional investors within the meaning of article 174 of the 2010 Law. The minimum initial investment amount and the minimum holding for Y Shares are USD 100,000 or the equivalent.
Class Z	Z Shares are available to investors having entered into a discretionary management agreement with an HSBC Group entity and to investors subscribing via distributors selected by the Global Distributor provided that such investors qualify as institutional investors within the meaning of article 174 of the 2010 Law. The minimum initial investment amount and the minimum holding for Z Shares are USD 1,000,000 or the equivalent.

Notes to the Financial Statements

for the year ended 31 December 2019 (continued)

2. Share Capital (continued)

The Board of Directors has resolved to issue Distribution and Capital-Accumulation Shares as different classes of the sub-funds. Capital-Accumulation Shares of the Company are identifiable by a "C" following the sub-fund and Share Class names and do not pay any dividends. Distribution Shares of the Company are identifiable by a "D" following the sub-fund and Share Class names.

The Company has applied for UK reporting fund status for certain distributing Share Classes from the accounting period commencing on 1 April 2010. Prior to this, the Company had applied UK distributor status for such distributing Share Classes.

Details of which Share Classes have UK reporting fund status can be found on the HM Revenue & Customs' website at www.hmrc.gov.uk. At the date of this report the exact location of this report is <http://www.hmrc.gov.uk/collective/rep-funds.xls>

As at 31 December 2019, the following Classes were open:

HSBC Islamic Global Equity Index Fund	
Class	Launch date
AC (USD)	12/11/2009
AD (USD)	09/01/2001
IC (USD)	31/03/2017
ID (USD)	25/02/2016
WD (USD)	31/03/2004
YC (GBP)	15/09/2014
YD (USD)	25/01/2018
ZC (USD)	14/05/2014

3. Accounting Policies

The following accounting policies have been used consistently in dealing with items which are considered material in relation to the Company's financial statements.

a) Accounting convention

The financial statements have been prepared under the historical cost convention modified by the revaluation of investments.

b) Assets and portfolio securities valuation

Investments are included in the Statement of Net Assets at their market value at 31 December 2019. The market values are based on closing mid-market prices on leading markets.

c) Income and Expenses

Dividends are accounted for on an ex-dividend basis.

d) Foreign Exchange

The cost of investments, income and expenses in currencies other than the Company's relevant reporting currency have been recorded at the rate of exchange ruling at the time of the transaction. The market value of the investments and other assets and liabilities in currencies other than the relevant reporting currency has been converted at the rates of exchange ruling at 31 December 2019.

e) Realised Gain/(Loss) on Sale of Investments

Realised gain/(loss) on sale of investments is the difference between the historical average cost of the investment and the sale proceeds.

4. Charges and Expenses

The Company pays to the Management Company a management fee per annum on the basis of the net asset value of the sub-funds, calculated daily and payable monthly in arrears at the rate disclosed in the Company's prospectus. The fee covers all management, advisory and distribution services provided to the sub-fund by the Management Company, the Investment Adviser and the distributors. The Management Company is responsible for discharging, out of such fee, the fees of the Investment Adviser and the distributors and other recognised intermediaries or such other person as the Management Company may determine at its discretion.

Notes to the Financial Statements

for the year ended 31 December 2019 (continued)

4. Charges and Expenses (continued)

The management fee payable to the Management Company out of the net asset value of the relevant category of shares issued in the sub-fund is as follows:

HSBC Islamic Global Equity Index Fund	
A	0.750%
B	0.375%
I	0.375%
S	0.000%
W	0.000%
Y	0.000%
Z	0.000%

S and W Shares incur no charges. All the fees and charges allocated to such Share Classes will be paid directly by members or affiliated entities of the HSBC Group.

Y Shares incur no annual management charges. Y Shares incur operating, administrative and servicing expenses fixed at 0.30% of the net asset value per annum. This fee is paid quarterly in arrears. The excess of such expenses above such annual rate will be borne directly by the Management Company or its affiliates, and equally the Management Company or its affiliates may retain any surplus.

Z Shares incur no annual management charge.

The Company pays to HSBC Bank plc a fee for its services rendered with respect to the appointment of the Shariah Committee. The fee is payable at the end of each calendar quarter. It currently amounts to USD 2,500 and is subject to annual review. The Company also pays reasonable related out-of-pocket expenses of the Shariah Committee.

The Company pays to the Depositary Bank a fee which is payable quarterly in arrears. In addition the Depositary Bank is entitled to be reimbursed by the Company for its reasonable out-of-pocket expenses and disbursements and the fees and expenses of its correspondent banks.

The Company pays to the Administration Agent and the Registrar and Transfer Agent a fee which has been agreed between the parties based on different services and transactions provided. This fee is payable quarterly.

The Company also pays other expenses incurred in its operation including the fees of its auditors and legal advisers, the cost of printing and distributing the annual and half-yearly reports, the prospectus, the Key Investor Information Documents, the costs and expenses incurred in connection with the formation and registration of the Company in various jurisdictions, and fees and expenses involved in registering and maintaining the registration of the Shares of the Company (the "Shares"), with any governmental agency or stock exchange, the cost of publication of prices, fees of the Board of Directors and reasonable out-of-pocket expenses incurred by them and its other operating expenses such as accounting and pricing costs and other recurring or non-recurring expenses.

Notes to the Financial Statements

for the year ended 31 December 2019 (continued)

4. Charges and Expenses (continued)

Allocation of Charges and Expenses

The sub-fund or each Class of Shares is charged with all costs or expenses attributable to it. Costs and expenses not attributable to the sub-fund or Class of Shares are allocated between the Class of Shares on an equitable basis. Charges and expenses shall be charged first against investment income. The costs and expenses incurred in connection with the formation and registration of the Company as a UCITS in Luxembourg and elsewhere and the offer of Shares, including the costs incurred in obtaining a listing for the Shares on the Luxembourg Stock Exchange, all legal and printing costs and other preliminary expenses were borne by the sub-funds out of their assets on a pro rata accrual basis and amortised against capital over five years when incurred. As at 31 December 2019 all such formation expenses have been fully amortized.

Directors' Fees, Expenses and Interests

A Director may be a party to, or otherwise interested in, any transaction or arrangement with the Company or in which the Company is interested, provided that he has disclosed to the other Directors, prior to the conclusion of any such transaction or arrangement, the nature and extent of any interest of his therein. Subject to approval of the Board, a Director may vote in respect of any contract or arrangement or any proposal whatsoever in which he has an interest, having first disclosed such interest. He shall not be disqualified by his office from contracting with the Company. If a Director declares his interest in any contract which the Company is considering entering into, he may be counted in the quorum of any meeting to consider the contract and may vote on any resolution to enter into such contract.

The Company pays an annual fee to each of the Independent Directors amounting to EUR 10,000. This amount is paid by the Management Company through the operating, administrative and servicing expenses paid by the Company. The amount of Operating, Administrative and Servicing Expenses is accrued with every net asset value calculation and paid quarterly in arrears. For the year-end as at 31 December 2019, a total of EUR 32,829 has been charged as Independent Directors fees.

The Company also pays an annual fee to each of the Independent Directors who are members of the Investment Committee, a sub-committee of the Board established to monitor the investment performance and governance and risk profile of the Company's sub-funds, amounting to EUR 770. The amount of Operating, Administrative and Servicing Expenses is accrued with every net asset value calculation and paid quarterly in arrears. As at 31 December 2019, a total of EUR 988, has been charged as Committee members' fees. The Investment Committee has been demised on 4 December 2019. The monitoring of the investment performance and governance and risk profile of the Company's sub-funds has been delegated to the Management Company's Investment Oversight Committee.

5. Taxation of the Company

The Company is not subject to taxation in Luxembourg on its income, profits or gains.

The Company is not subject to net wealth tax in Luxembourg.

No stamp duty, capital duty or other tax will be payable in Luxembourg upon the issue of the Shares of the Company.

The sub-fund is, nevertheless, in principle, subject to a subscription tax (taxe d'abonnement) levied at the rate of 0.05% per annum based on their net asset value at the end of the relevant quarter, calculated and paid quarterly.

A reduced subscription tax rate of 0.01% per annum is however applicable to any sub-fund whose exclusive object is the collective investment in money market instruments, the placing of deposits with credit institutions, or both. A reduced subscription tax rate of 0.01% per annum is also applicable to any sub-fund or Share Classes provided that their shares are only held by one or more institutional investors within the meaning of article 174 of the 2010 Law (an "Institutional Investor").

Notes to the Financial Statements

for the year ended 31 December 2019 (continued)

5. Taxation of the Company (continued)

A subscription tax exemption applies to:

- The portion of any sub-fund's assets (prorata) invested in a Luxembourg investment fund or any of its sub-funds to the extent it is subject to the subscription tax;
- Any sub-fund (i) whose securities are only held by Institutional Investor(s), and (ii) whose sole object is the collective investment in money market instruments and the placing of deposits with credit institutions, and (iii) whose weighted residual portfolio maturity does not exceed 90 days, and (iv) that have obtained the highest possible rating from a recognised rating agency. If several Share Classes are in issue in the relevant sub-fund meeting (ii) to (iv) above, only those Share Classes meeting (i) above will benefit from this exemption;
- Any sub-fund, whose main objective is the investment in microfinance institutions;
- Any sub-fund, (i) whose securities are listed or traded on a stock exchange and (ii) whose exclusive object is to replicate the performance of one or more indices. If several Share Classes are in issue in the relevant sub-fund meeting (ii) above, only those Share Classes meeting (i) above will benefit from this exemption; and
- Any sub-fund only held by pension funds and assimilated vehicles.

Withholding tax

Interest and dividend income received by the Company may be subject to non-recoverable withholding tax in the source countries. The Company may further be subject to tax on the realised or unrealised capital appreciation of its assets in the countries of origin. The Company may benefit from double tax treaties entered into by Luxembourg, which may provide for exemption from withholding tax or reduction of withholding tax rate.

Distributions made by the Company as well as liquidation proceeds and capital gains derived therefrom are not subject to withholding tax in Luxembourg.

6. Dividends

At the Annual General Meeting of the Company held on 19 April 2019, the following dividends were declared, out of the profits of the Company for the year ended 31 December 2018, for the Classes of Shares listed below:

Sub-Fund	Dividend per share
HSBC Islamic Global Equity Index Fund	
-Class AD	0.077497
HSBC Islamic Global Equity Index Fund	
-Class ID	0.148853
HSBC Islamic Global Equity Index Fund	
-Class WD	0.199292
HSBC Islamic Global Equity Index Fund	
-Class YD	0.126841

7. Transactions Expenses

The transaction expenses linked to security dealing have been written off against the realised gain/(loss) on the sale of investments.

The sub-fund bears the costs and expenses of buying and selling portfolio securities and financial instruments, brokerage fees and commissions, taxes payable, and other transaction related expenses. These transaction fees are accounted for on a cash basis and are paid when incurred or invoiced from the net assets of the sub-fund to which they are attributable. Transaction fees are allocated across each sub-fund's Share Classes.

The Company bears any extraordinary expenses including, without limitation, litigation expenses and the full amount of any tax, levy, duty or similar charge and any unforeseen charges imposed on the Company or its assets.

The Company incurred transaction costs relating to purchase or sale of transferable securities, money market instruments, or other eligible assets:

HSBC Islamic Global Equity Index Fund

USD 269,754

Notes to the Financial Statements

for the year ended 31 December 2019 (continued)

8. Dividend Purification

The Shariah Committee has issued guidelines to quantify the annual amount of income of the Company that should be donated to charity, being derived from companies eligible for investment pursuant to the investment objective, policy and restrictions set out in the Prospectus for each sub-fund, but that are engaged in an activity or activities of a marginal nature which is or are proscribed by the Shariah Committee and which is not or are not screened out by the investment restrictions. Such amount will be calculated on an annual basis, based on the purification ratios, expressed as a percentage of each company's dividend. The purification ratios will be provided by the relevant index provider for each sub fund, for all companies in which the sub-funds have invested. For companies, whose purification ratios are not provided by the index provider, purification ratios will be calculated based on the financial information of these companies received from the Investment Advisers. Such income will be disbursed as a charitable donation to one or more worthy causes approved by the Shariah Committee.

9. Forward Foreign Exchange Contracts

The Company may use Shariah compliant Forward Foreign Exchange Contracts for hedging purposes. As at 31 December 2019, there were no open Forward Foreign Exchange contract entered into.

10. Commitment Approach

There are currently no derivative positions in the sub-fund, however, if approved by the Shariah Committee, the sub-funds may, to a limited extent, enter into simple positions in financial derivative instruments transactions for investment purposes other than hedging techniques and efficient portfolio management, in particular to gain exposure on financial markets when the relevant sub-fund Investment Adviser believes that it is more efficient to purchase financial derivative instruments than the corresponding physical securities. The sub-fund will use the commitment approach.

The commitment approach is generally calculated by converting the derivative contract into the equivalent position in the underlying asset embedded in that derivative, based on the market value of the underlying. Purchased and sold financial derivative instruments may be netted in accordance to the CESR's guidelines 10/788 in order to reduce global exposure. Beyond these netting rules and after application of hedging rules, it is not allowed to have a negative commitment on a financial derivative instrument to reduce overall exposure and as such, risk-exposure numbers will always be positive or zero.

11. Disclosure requirements for Index-tracking UCITS: HSBC Islamic Global Equity Index Fund

The HSBC Islamic Global Equity Index Fund is the sole index tracking sub-fund existing at the date of this report.

The annualised tracking error for the year ended 31 December 2019 is 0.09574%.

The annualised tracking errors are internally calculated by HSBC Global Asset Management (UK) Limited, based upon investment accounting performance returns using close of market prices, gross of fees, based on monthly data points. For example, 12 monthly points for 1 year, 36 monthly points for 3 years and 60 monthly points for 5 years.

The anticipated level of tracking error between the HSBC Islamic Global Equity Index Fund and the index, in normal market conditions is 0.20%. The HSBC Islamic Global Equity Index Fund is in line with anticipated tracking error.

12. Total Expense Ratio

The Total Expense Ratio ("TER") has been computed by the Administrator as required per the Swiss Funds & Asset Management Association guidelines on the calculation and disclosure of the TER of collective investment schemes. The actual expenses incurred during the period are annualised and calculated as a percentage of the average Assets Under Management of the share class for the year.

Synthetic TER is applicable for sub-fund that invests at least 10% of its net assets as a fund of funds in other collective investment schemes (target funds) which publish a TER within the meaning of the present guidelines. A composite (synthetic) TER of the fund of funds is to be calculated by the administrator, as of the closing date of the financial year or the end of the first half of the financial year.

13. Subsequent Events

The recent outbreak of the coronavirus disease 2019 (abbreviated as "COVID-19") continues to impact global markets in several ways, including: (i) slowing down or stopping international, national, and local travel; (ii) impeding regular business operations across many different businesses, including manufacturers and service providers; and (iii) adding uncertainty to global markets with regard to how long and how serious COVID-19 may prove over time. All of these factors and more regarding COVID-19's impact on global markets could materially adversely affect the Fund's performance, including to the extent that the Fund makes investments in certain businesses or industries suffering downturns or impediments caused or exacerbated by COVID-19.

The Board continues to monitor the situation and receives regular updates from the Management Company. As at 1st April 2020, to our knowledge, the impact of COVID-19 has not affected the Investment Manager's ability to execute the investment strategy of the fund, nor has there been any significant redemption activity or interruption to key service providers engaged by the Company.

Publication of performance for sub-funds distributed in Switzerland – Information concerning the Swiss Investors

Sub-fund	Share Class	Share Class Currency	Calendar Year Performance		
			2017	2018	2019
HSBC Islamic Global Equity Index Fund	AC	USD	24.44%	(5.06)%	31.80%
	AD	USD	23.30%	(5.72)%	30.74%
	IC*	USD	15.42%	(4.66)%	32.35%
	ID	USD	24.78%	(5.43)%	30.68%
	WD	USD	23.08%	(5.55)%	30.57%
	YC	GBP	14.58%	1.50%	28.78%
	YD**	USD	-	(10.09)%	32.35%
	ZC	USD	25.42%	(4.31)%	32.86%

Past performance is not an indication of current or future performance. The performance data do not take the commissions on the issue and redemption of shares into account.

* The share class is launched during 2017 and hence the performance for 2017 does not represent a full 12 month period.

** The share class is launched during 2018 and hence the performance for 2018 does not represent a full 12 month period.

Currency Conversion Table

To help shareholders in the Company calculate the performance of their individual investment in the reference currency, the following table has been produced.

The table shows the value of one US dollar against various currencies (as at the given dates).

The market value of investments as well as other assets and liabilities expressed in currencies other than the reporting currency are translated at the exchange rate prevailing as at 31 December 2019.

The consolidated figures are expressed in USD and include the total of the financial statements of the sub-fund. For the Statement of Net Assets and the Statement of Operations and Changes in Net Assets, the exchange rate prevailing at the sub-fund's valuation point in Luxembourg as at 31 December 2019 is:

	31 December 2019	31 December 2018
	USD	USD
AUD	1.4293	1.4205
CHF	0.9692	0.9858
DKK	6.6681	6.5280
EUR	0.8926	0.8748
GBP	0.7626	0.7852
HKD	7.7872	7.8294
JPY	108.9850	109.7150
KRW	1,156.4500	1,115.8000
TWD	30.0345	30.7370

Fund Holiday Calendar for 2020

HSBC ISLAMIC FUNDS

HSBC Islamic Global Equity Index Fund will have no net asset value (the “NAV”) calculated on the following days. Any requests for subscriptions or redemptions of shares received on these dates will be held over to the next Dealing Day:

► all Saturdays and Sundays

In addition, the sub-fund will have no NAV calculated on the following days:

01 January	Luxembourg, UK, US
20 January	US
17 February	US
10 April	Luxembourg, UK, US
13 April	Luxembourg, UK
01 May	Luxembourg
08 May	UK
21 May	Luxembourg
25 May	UK, US
01 June	Luxembourg
23 June	Luxembourg
03 July	US
31 August	UK
07 September	US
26 November	US
24 December	UK
25 December	Luxembourg, UK, US
28 December	UK
31 December	UK

Appendix I (Unaudited Additional Disclosures)

– Taxation of the Company (foreign countries)

The following summary is based on the Company's understanding of the law and practice currently in force in the in other jurisdictions and is subject to changes therein.

United Kingdom

It is the intention of the Board of Directors to conduct the affairs of the Company so that it does not become resident in the United Kingdom. On the basis that the Company is not resident in the United Kingdom for tax purposes it should not be subject to United Kingdom corporation tax on its income and capital gains.

The table below shows reporting income for the previous financial year ended 31 December 2018, as per Chapter 7 of the UK Offshore Funds (Tax) regulations 2009. The information should be used by UK tax payers for the purposes of completing their UK tax returns.

Sub-Fund	Share Class / Series	ISIN Code	Currency of the following amounts	Per class excess reportable income over distributions in respect of the reporting year	Fund distribution date	Does the fund remain a reporting fund at the date this report is made available?	Distribution per class in respect of the reporting year	Date of distribution*
HSBC Islamic Global Equity Index Fund	Class AD	LU0110459103	USD	0.0055	30 June 2019	Yes	0.0775	14 May 2019
HSBC Islamic Global Equity Index Fund	Class ID	LU1313573898	USD	0.0016	30 June 2019	Yes	0.1489	14 May 2019
HSBC Islamic Global Equity Index Fund	Class WD	LU0187035489	USD	0.0024	30 June 2019	Yes	0.1993	14 May 2019
HSBC Islamic Global Equity Index Fund	Class YD	LU1063824095	USD	0.0013	30 June 2019	Yes	0.1268	14 May 2019
HSBC Islamic Global Equity Index Fund	Class YC	LU1092475968	GBP	0.2232	30 June 2019	Yes	0.0000	N/A

As at the date of this report, the above-mentioned sub-fund remains reporting fund.

* The date upon which a declared dividend was scheduled to be paid.

Appendix II (Unaudited Additional Disclosures) – UK SORP Disclosure

Investment Risk

Information in relation to certain investment risks are disclosed for selected sub-fund as follows:

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as market prices, foreign exchange rates and interest rates. It comprises of three major types of risks i.e. currency risk, interest rate risk and other price risk.

As it is invested in equities, the Fund is exposed to the risk that the equity markets decline. This risk is monitored in absolute terms by the equity exposure and relative to the benchmark by the calculation of the ex-ante tracking-error.

The Sharia committee has expressly declared the use of financial derivatives instruments as inappropriate for the sub-fund, unless otherwise approved by the committee.

(i) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.

Investing in assets denominated in a currency other than that of the investor's own currency perspective exposes the value of the investment to exchange rate fluctuations. The Fund does not enter into any FX hedging transactions in order to manage its exposure to foreign exchange movements.

The table below summarises the sub-fund's exposure to currency risks.

Sub-fund	Currency	Net currency exposure in
		Sub-fund currency
HSBC Islamic Global Equity Index Fund	CHF	57,592,931
	EUR	68,760,351
	JPY	55,072,083
	Other	95,022,670

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.

HSBC Islamic Global Equity Index Fund aims to track the performance of the Dow Jones Islamic Market Titans 100 Index, through investment in a diversified portfolio of securities as defined by the relevant index. The sub-fund does not invest in fixed income securities; hence the Fund's portfolio is not exposed to interest rate risk.

(iii) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

HSBC Islamic Global Equity Index Fund aims to track the performance of a world index, i.e. Dow Jones Islamic Market Titans 100 Index, through investment in a diversified portfolio of securities as defined by the relevant index, which meets Islamic investment principles as interpreted and laid down by the Shariah Committee and provided to the Board of Directors. The Fund does not invest in fixed income securities, thus the sub-fund is not exposed to credit risk.

Credit ratings

All amounts due from brokers, cash and short-term deposits are held by parties with a credit rating of AA-/Aa or higher.

Appendix II (Unaudited Additional Disclosures) – UK SORP Disclosure (continued)

Investment Risk (continued)

Market risk (continued)

(iv) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Other price risk arises principally in relation to the sub-fund's return seeking portfolio which includes shares and depositary receipts.

The sub-fund manages this exposure to other price risk by constructing a diverse portfolio of investments across various markets.

At the year end, the sub-fund's exposure to investments subject to other price risk was:

HSBC Islamic Global Equity Index Fund

	USD
Direct	
Shares	1,038,858,609
Depositary Receipts	19,983,252

Fair Value Hierarchy

Fair value is the amount for which an asset could be exchanged, a liability settled, or an equity instrument granted could be exchanged, between knowledgeable, willing parties in an arm's length transaction.

The fair value of financial instruments has been determined using the following fair value hierarchy:

Category (a) The quoted price for an identical asset in an active market.

Category (b) When quoted prices are unavailable, the price of a recent transaction for an identical asset adjusted if necessary.

Category (c) Where a quoted price is not available and recent transactions of an identical asset on their own are not a good estimate of fair value, the fair value is determined by using a valuation technique which uses:

C (i) observable market data; or

C (ii) non-observable data.

All the investments of HSBC ISLAMIC FUNDS detailed in the "Portfolio of Investments and Other Net Assets" are classified as "Transferable Securities admitted to an official stock exchange listing", hence are classified under category (a).

HSBC Global Asset Management, the sponsor to the HSBC ISLAMIC FUNDS, is the asset management specialist of the HSBC Group and operates through HSBC Bank plc and its subsidiaries.

HSBC Global Asset Management is the trading name of HSBC Global Asset Management Limited. HSBC Global Asset Management is established at 8 Canada Square, London E14 5HQ, United Kingdom, which is its registered office.

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