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CONFIDENCE IN ASIAN EQUITIES SLIPPING, SAYS HSBC GLOBAL FUND MANAGERS SURVEY

****Asia-Pacific ex Japan equities recorded highest outflows in 2Q08****

****Majority of fund managers neutral or underweight for Asia-Pacific ex-Japan****

****View for global emerging markets and Greater China still positive****

Fund managers have become more bearish about the prospects for Asia-Pacific ex-Japan equities in the third quarter of 2008, according to the latest HSBC survey of global fund managers. The survey found fund houses are switching to overweight positions in cash and bonds.

The survey findings show during the second quarter of this year, the total estimated net fund outflow reached US\$28.5 billion, a drop of 0.67 per cent of funds under management (FUM) from the first quarter. The estimated net outflow was mainly driven by an estimated US\$50 billion net outflow from equity funds. The net outflow recorded in equity funds was partially offset by estimated net inflows of US\$15 billion and US\$11 billion into balanced funds and money funds, respectively.

Charles Genocchio, Head of Funds and Investments at HSBC Bank Australia, said: "Fund outflows in the second quarter are indicative of investors' concern about the warning signs of inflation and economic slowdown in Asia. Investors continue to take conservative positions, moving away from volatile equity markets to the safe havens of bonds and cash."

The quarterly HSBC survey analyses the FUM and the views of 12 of the world's leading fund management houses and their global money flows. The net money flow¹ estimates are derived from movements in FUM versus index movements in the equivalent class. A full copy of the survey results are attached to this release.

At the end of the second quarter, the 12 fund houses² covered in the survey reported aggregated FUM of US\$4.2 trillion, representing about 17 per cent of the estimated total global FUM³.

In terms of changes in FUM, Asia-Pacific ex Japan equities showed a 24.8 per cent decline in the second quarter of the year, compared to a 7.4 per cent decline in the first quarter. This contrasts with emerging market equities which showed 3.2 per cent growth in the second quarter.

Asia-Pacific ex Japan equities posted an estimated net outflow of equivalent to 20 per cent of sector FUM in the second quarter of the year, compared to an estimated net inflow of six per cent of FUM in the first quarter. Japanese equities recorded a net outflow of 10 per cent of FUM in the second quarter compared to a net outflow of eight per cent of FUM in the first quarter.

Survey highlights of fund managers' third-quarter views by asset class

- Fund managers in the survey went bearish on equities in the third quarter with 44 per cent of them taking an underweight stance in the quarter compared to only 10 per cent of respondents in the second quarter survey. Only 33 per cent were neutral versus 60 per cent in the second quarter and 22 per cent were overweight versus 30 per cent in the second quarter.
- In contrast, 44 per cent of respondents took an overweight stance towards bonds in the third quarter versus 20 per cent in the second quarter. No fund managers took an underweight view towards the sector, compared to 50 per cent of fund managers being underweight in the second quarter survey.

Genocchio added: “The outlook among fund managers reflects the continuing dampened sentiment and market weakness. Their views for the third quarter indicate a retreat to bonds and cash from a temporary positive take on equities in the second quarter.”

Survey highlights of fund managers' third-quarter views by geography

- Twenty-two per cent of fund managers held an underweight view on Asia-Pacific ex Japan equities for the third quarter. This compared to no fund manager in the survey holding an underweight view in the second quarter survey. In the third quarter, 44 per cent were overweight in this sector, compared to 56 per cent being overweight the sector in the second quarter.
- Fund managers' views of the prospects of the Greater China equity sector remained positive as none of the respondents were underweight this sector, as in the second quarter survey. However, sentiment did turn less bullish. The number of fund managers with an overweight view of the sector declined from 86 per cent in the second quarter to 63 per cent in the third quarter. The number of fund managers taking a neutral stance grew from 14 per cent in the second quarter to 38 per cent in the third quarter.
- Fund managers remain relatively bullish on global emerging markets equities, with the number of managers with an overweight view on the sector rising to 50 per cent in the third quarter from 44 per cent in the second quarter. Those with neutral views on the sector increased to 38 per cent from 33 per cent.

Genocchio said: “Fund managers are less optimistic about the region overall compared to the second quarter, which suggests that concerns over the impact of escalating prices and slowing economic growth will linger in the short-term. I think, however, that Asia will remain resilient in the long term, and will continue to be a region that investors closely watch for fund investment opportunities.”

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Notes to editors

Footnotes

1. Net fund flows are derived by subtracting market growth from funds under management (FUM) growth during 2Q08.
2. The 12 participating fund managers in the survey are: AllianceBernstein, Allianz Global Investors, Baring Asset Management, Deutsche Asset Management, Fidelity Investment Management, Franklin Templeton Investments, HSBC Global Asset Management, INVESCO Asset Management, Investec Asset Management, JF Asset Management, Schroders Investment Management and Société Générale.
3. According to the Investment Company Institute, total global FUM at the end of the first quarter of 2008 was US\$24.8 trillion.

HSBC Bank Australia

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