

FUND MANAGERS POSITIVE ON EQUITIES, REVEALS HSBC SURVEY

****Emerging markets equities recorded highest outflows in two years in 3Q08****

****Half of fund managers overweight for equities in 4Q08****

****View on Asia-Pacific ex-Japan and emerging markets equities improving, but neutral for Greater China****

Fund managers see a potential upside to equities but hold mixed views on bonds and cash in the fourth quarter of 2008, according to the latest HSBC survey of global fund managers.

Charles Genocchio, Head of Funds and Investments at HSBC Bank Australia, said: “Fund managers remain bearish overall towards developed markets due to recessionary concerns, but the increasingly attractive valuations in most equity markets, including the US, Asia-Pacific and other emerging markets, are driving their long-term view on equities.”

The quarterly HSBC survey analyses 13 of the world’s leading fund management houses¹, their funds under management (FUM), their asset allocation views and their global money flows. The net money flow² estimates are derived from movements in FUM versus index movements in the equivalent class. (A full copy of the survey results is attached to this release.)

At the end of the third quarter, the fund houses covered in the survey reported aggregated FUM of US\$3.84 trillion, representing about 17.45 per cent of the estimated total global FUM³.

The survey shows that in the third quarter of this year, the total estimated net fund outflow reached US\$462 billion, a drop of 10.74 per cent of FUM from the second quarter. The outflow was driven by an estimated US\$302 billion net outflow from equity funds. A third of the net outflows was recorded in bond funds (US\$79.6 billion) and balanced funds (US\$59.7 billion). Money market funds and other funds posted net outflows of US\$600 million and US\$20 billion respectively.

Genocchio said: “Fears of a global recession dampened both equity and bond market performances over the third quarter. For emerging markets equities in particular, which recorded the highest outflows, investors were concerned that a recession in developed markets could place emerging markets at risk. US bonds posted the highest inflows as investors sought a safe haven in US treasuries.”

Net flows as percentage of sector FUM

Asset class	End 3Q08	End 2Q08
Emerging markets equities	-11.1%	+ 4.1%
Asia-Pacific ex-Japan equities	- 5.5%	-20.1%
Greater China equities	- 4.6%	+ 2.0%
US bonds	+ 9.4%	- 0.2%

Survey highlights of fund managers' 4Q08 views by asset class

- On equities, 50 per cent of fund managers held an overweight view, up from 22 per cent in the third quarter. Thirty per cent were underweight, down from 44 per cent.
- On bonds, 50 per cent of fund managers held an overweight view, up from 44 per cent in the last quarter. Twenty per cent were underweight, up from zero per cent.
- On cash, 25 percent of fund managers held an overweight view, down from 38 per cent in the third quarter. Thirteen percent were underweight, up from zero per cent.

Genocchio added: "These views represent fund managers' long-term outlook as short-term market volatility continues. Their improving sentiment towards equities is value-driven and their mixed views on bonds and cash demonstrate a continued cautious stance."

Survey highlights of fund managers' 4Q08 views by geography

- On Asia-Pacific ex-Japan equities, 56 per cent of fund managers held an overweight view, up from 44 per cent in the third quarter. Twenty-two per cent were neutral in the fourth quarter, down from 33 per cent.
- On emerging markets equities, 56 per cent of fund managers were overweight, just up from 50 per cent in the last quarter. Thirty-three per cent were underweight, up from 13 per cent.
- On US equities, 30 per cent held an overweight view, up from 22 per cent in the last quarter. Fifty per cent were underweight, up from 44 per cent.
- On Greater China equities, 25 per cent held an overweight view, down from 63 per cent in the last quarter. Thirteen per cent were underweight, up from zero per cent.
- On US bonds, 11 per cent of fund managers shifted their views to overweight (vs. 0% in 3Q08). Over half of fund managers (56%) held an underweight view on US bonds, up from 44 per cent.
- On European bonds, 56 per cent of fund managers were overweight, up from 22 per cent in the last quarter. Thirty-three per cent were neutral, down from 67 per cent.

Genocchio said: "The long-term positive view held by fund managers this quarter towards Asia-Pacific and other emerging markets equities shows that they remain confident about the long-term growth opportunities of these regions. Slowing growth in mainland China, however, is a big concern and has impacted their views towards Greater China. European bonds appear attractive due to a continued easing bias of the central bank to help prop liquidity, market sentiment and growth.

"There appears to be a window for long-term retail investors to start re-entering the market gradually given the attractive valuations in certain geographies. However, there remains a high level of uncertainty brought about by threats of slowing economic growth around the world. Market volatility will continue to be a reality. Investors will tend to remain cautious and keep most of their portfolio in cash and fixed income investments while slowly redeploying capital into selective equity investments. Diversification by asset class, sector and geographical coverage, and the use of a regular investing plan to benefit from dollar cost averaging will remain key strategies and enable investors to capture long-term investment opportunities."

Fund managers revisit opportunities in equities, says HSBC Global Fund Managers Survey /3

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Media enquiries to:

Kate Epworth on +61 2 9006 5682 /

+61 418 700 172 /

kateepworth@hsbc.com.au

Daniel Pigott on +61 2 9006 5396 /

+61 422 908 994 /

danielpigott@hsbc.com.au

Notes to editors

Footnotes:

1: The 13 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, Prudential Asset Management, Schroders Investment Management and Société Générale.

2: Net fund flows are derived by subtracting market growth from funds under management (FUM) growth during 3Q08.

3: According to the Investment Company Institute, total global FUM at the end of the second quarter of 2008 was US\$24.6 trillion.

More details of the survey

Please see the attached report *HSBC Fund Managers Survey: Tracking Global Money Flows* for more information. The survey was conducted in October 2008.

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