

HSBC SURVEY SEES FUND MANAGERS BULLISH ON CHINA EQUITIES BULLISH ON BONDS RELATIVE TO EQUITIES

Three in four or 75 per cent of fund managers polled in HSBC's quarterly global Fund Managers Survey held a positive view towards Greater China equities in the second quarter of 2009, up from 67 per cent or two-thirds in 1Q09. Views towards bonds also remained bullish in 2Q09 as seven in 10 fund managers held an overweight view compared to 57 per cent in 1Q09.

Overall, fund managers in the survey were less optimistic about equities as an investment class with fund managers going underweight rising from 22 per cent in the first quarter of the year to 40 per cent this quarter. Sectors seeing some of the biggest shifts in sentiment included European and Japanese equities. For European equities, 36 per cent of respondents took an underweight view (versus 22% in 1Q09). Fund managers also went negative towards Japanese equities with 70 per cent taking an underweight view (vs 33% in 1Q09).

Fund managers were also more positive about bonds as an asset class. More fund managers held overweight views towards all bond sectors – 56 per cent for European bonds (vs 50%); 44 per cent for US dollar bonds (vs 29%); 44 per cent for Global Emerging Markets/High Yield bonds (vs 33%) and 38 per cent for Asian bonds (vs 33%).

On cash, views shifted moderately from overweight (25% in 2Q09 vs 33% in 1Q09) to underweight (25% in 2Q09 vs 17% in 1Q09).

Charles Genocchio, Head of Global Investments at HSBC Bank Australia, said: "Despite strong equity rallies earlier this year, the global economic outlook remains uncertain and markets will continue to be volatile. Fund managers are therefore more cautious and discriminating in their equity allocations to ensure they capture value and growth opportunities while staying focused on the relatively less volatile bonds sector, for quality and stability.

"Greater China remains the most favoured equities sector as recent economic indicators point to signs that the effects of the stimulus measures are starting to filter through the local economy.

"In terms of asset classes, as bonds have sold off significantly this year they have become increasingly attractive relative to equities."

More fund managers bullish on Greater China equities in second quarter, says HSBC survey /2

The HSBC survey analysed 12 of the world's leading fund management houses¹ by 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. At the end of the first quarter of 2009, the fund houses covered in the survey reported aggregated FUM of US\$2.4 trillion, representing about 12.8 per cent of the estimated total global FUM³.

The survey shows that at the end of the first quarter of 2009, FUM decreased by US\$102 billion, a drop of 4.05 per cent from 4Q08. Equity funds, which decreased by US\$85.3 billion, contributed the most to total FUM decrease. Balanced funds and other funds saw a decrease while money market funds posted an increase in FUM.

Below are the net fund flows derived by subtracting market growth from FUM growth during the first quarter of 2009 in various asset classes:

Net flows as percentage of FUM for selected sectors

Asset class	End 1Q09	End 4Q08
Emerging markets equities	-1.6%	-9.2%
Greater China equities	+5.2%	-4.4%
Global equities	-2.7%	+3.3%
High-yield/emerging markets bonds	-5.4%	-11.9%
Europe (including UK) bonds	+9.2%	+8.7%
US bonds	+1.7%	+2.9%

Greater China equities posted inflows in the first quarter of 2009 after investors pulled out of this sector late last year, showing increased confidence in the region's recovery and growth prospects. Investors' risk appetite for emerging markets/high yield bonds recovered given early signs of stabilising economies and improving credit markets.

According to Mr Genocchio: "While investor confidence has slightly improved, investors remain cautious about continued uncertainty in the global economy. While investors are seeking selective growth opportunities in equity sectors such as in Greater China, they are still cautious as evidenced by their growing interest in more conservative instruments like high grade corporate bonds. This reflects there is still a flight to quality amongst investors with capital preservations being upper most in their investment priorities until more certain long-term growth prospects emerge in the global economy."

The HSBC Fund Flow Tracker, which represents cumulative dollar value of money flows covering the past 11 quarters, showed that within the equity funds sector, net inflows were recorded from 4Q08 to 1Q09.

More fund managers bullish on Greater China equities in second quarter, says HSBC survey /3

ends/more

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

HSBC Bank Australia

In Australia, the HSBC Group offers an extensive range of financial services through a network of 35 branches and offices. These services include personal and commercial financial services, financial planning, trade finance, treasury and financial markets, payments and cash management and securities custody. Principal HSBC Group members operating in Australia include HSBC Bank Australia Limited (ABN 48 006 434 162) and The Hongkong and Shanghai Banking Corporation (ABN 65 117 925 970). HSBC is marketed worldwide as 'the world's local bank'.

Footnotes:

1: The 12 participating fund managers in the survey are: AllianceBernstein, Allianz Global Investors, Baring Asset Management, BlackRock, Fidelity Investment Management, Franklin Templeton Investments, INVESCO Asset Management, Investec Asset Management, JP Morgan 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 1Q09.

3: According to the Investment Company Institute, total global FUM at the end of the fourth quarter 2008 was US\$18.97 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 during April and May 2009.

ends/all