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FUND MANAGERS TURN CAUTIOUS TOWARDS EQUITIES AND SHIFT TO BONDS

****No overweight view towards cash****

Over half of fund managers polled (56%) in HSBC's quarterly Fund Managers Survey are holding a positive view on bonds in the fourth quarter of 2009, up from 30 per cent in 3Q09.

Seven in 10 respondents (71%) are bullish on global emerging markets and high yield bonds in 4Q09, up from 43 per cent in the previous quarter. Over half (57%) of fund managers surveyed hold an overweight view on European bonds for 4Q09 (vs 38%).

Fund managers in the survey are less optimistic about equities as an investment class, with a third of respondents (33%) overweight in the fourth quarter of the year from 50 per cent in 3Q09. While over half of fund managers (57%) surveyed remain bullish on Greater China equities, this is down from 75 per cent in 3Q09. Twenty-two per cent of respondents are positive about North American equities in 4Q09 compared to 18 per cent in 3Q09.

Charles Genocchio, Head of Global Investments for HSBC in Australia, said: "The low interest rate environment has diminished appetite for cash this quarter as investors seek stable growth in still volatile market conditions. While equities will continue to provide growth opportunities, investors are less likely to expect the returns they enjoyed from the sharp rebound in global markets in mid-year. Bonds have performed strongly this year with the high-yield sector leading the way. However, with continued economic uncertainty, investors may consider taking positions in the high grade corporate sector with short to medium tenors to reduce interest rate risk."

The quarterly HSBC survey analysed 13 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 third quarter of 2009, the fund houses covered in the survey reported aggregated FUM of US\$3.72 trillion, representing about 16.5 per cent of the estimated total global FUM³.

The survey shows that at the end of the third quarter of 2009, FUM increased by US\$356 billion, up 10.6 per cent from 2Q09. Equity funds posted an increase of US\$208 billion in 3Q09, contributing over half (58.5%) of overall FUM growth in 3Q09. All other funds saw an increase in 3Q09.

Fund managers turn cautious towards equities and shift to bonds/2

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

Net flows as percentage of FUM for selected sectors

Asset class	End 3Q09	End 2Q09
Asia-Pacific ex-Japan equities	+7.9%	+11.2%
North America equities	+6.3%	-4.3%
Emerging market equities	+1.7%	+15.5%
Greater China equities	+1.6%	+7%
Global equities	-7.9%	-2.5%
High yield/EM bonds	+19.4%	+8.5%
Global bonds	+4.5%	+9.8%
Europe including UK bonds	+3.0%	+0.9%
US bonds	+1.2%	-1.8%

Across all asset classes, high yield and emerging market bonds posted the biggest net inflows as both asset classes performed strongly. Among equity funds, Asia-Pacific ex-Japan equities and North America equities posted the biggest net inflows in 3Q09 showing signs that economic recovery is broadening. Emerging markets equities and Greater China equities continued to record inflows albeit at a slower pace.

Mr Genocchio said: "In 3Q09, investors sought yield from bonds in a near zero interest environment, while selectively pursuing growth in equities in markets like Asia which is emerging from the financial crisis faster. We will continue to see investors watching the markets closely: investing for the short-term, ready to rebalance and adjusting their portfolios to gain maximum yield.

The HSBC Fund Flow Tracker, which represents cumulative dollar value of money flows covering the past 13 quarters, showed that the pace of equity funds inflow has slowed down in 3Q09. The 3Q09 net inflow volume for bond funds returned to the highs of 1Q07 and 2Q07.

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Fund managers turn cautious towards equities and shift to bonds/3

Notes to editors

Footnotes

1: The 13 participating fund managers in the survey are: AllianceBernstein, Allianz Global Investors, Baring Asset Management, BlackRock, Fidelity Investment Management, Franklin Templeton Investments, HSBC Global Asset Management, Invesco Asset Management, Investec Asset Management, J.P. 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 3Q09.

3: According to the Investment Company Institute, total global FUM at the end of the second quarter of 2009 was US\$20.34 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 November 2009.

HSBC Bank Australia

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