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FUND MANAGERS FAVOUR EQUITIES IN FAST-GROWING MARKETS

***** Three in four fund managers bullish on Greater China equities*****

*****North American equities gaining support*****

*****No fund manager overweight on cash*****

Half of fund managers polled in HSBC's quarterly Fund Managers Survey are holding a positive view on equities in the first quarter of 2010, up from 33 per cent in 4Q09.

The majority of respondents (75%) are bullish on Greater China equities in 1Q10, up from 57 per cent in the previous quarter. Seventy per cent retain an overweight view on Asia-Pacific ex-Japan equities while 60 per cent are positive about emerging markets equities, up from 56 per cent in the previous quarter.

Half of the respondents are bullish on North American equities, more than double the number of respondents with an overweight view last quarter (22%).

Charles Genocchio, HSBC's Head of Global Investments for Australia, said: "We see appetite for equities returning as increased signs of economic recovery are evident in emerging markets. This trend is particularly true within Asia-Pacific where growth is forecast to be sustainable. In addition, with bonds achieving record gains in 2009, fund managers have turned cautious towards this asset class and are looking to equities for growth. There is an opportunity for investors to diversify equity holdings as North American equities are starting to offer attractive returns as a result of an improving US economic outlook."

Fund managers in the survey are less optimistic about bonds as an investment class, with over half (56%) of respondents taking a neutral view in 1Q10, from 33 per cent in 4Q09. Four in ten fund managers (44%) are bullish on bonds this quarter, down from 56 per cent last quarter. Of the bond classes, global emerging markets/high yield bonds posted the biggest change in outlook with 63 per cent of fund managers taking a neutral view (vs 14% in 4Q09) and 38 per cent taking an overweight view, down from 71 per cent last quarter.

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 fourth quarter of 2009, the fund houses covered in the survey reported aggregated FUM of US\$3.48 trillion, representing about 15.3 per cent of the estimated total global FUM³.

The survey shows that at the end of 4Q09, FUM increased by US\$47.6 billion, up 1.4 per cent from

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3Q09. Equity funds posted an increase of US\$71.3 billion in 4Q09 while bond funds rose by US\$36.5 billion in 4Q09. Balanced funds, money market funds and other funds decreased.

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

Net flows as percentage of FUM for selected sectors

| Asset class | End 4Q09 | End 3Q09 |
|--------------------------------|----------|----------|
| Emerging markets equities | +6.9% | +1.7% |
| Asia-Pacific ex-Japan equities | +3.8% | +7.9% |
| Greater China equities | +3.3% | +1.6% |
| Global equities | +3.2% | -7.9% |
| North American equities | +0.2% | +6.3% |
| Europe including UK equities | -3.9% | -5.0% |
| Global bonds | +8.0% | +4.5% |
| High yield/EM bonds | +5.6% | +19.4% |
| US bonds | -2.3% | +1.2% |
| Europe including UK bonds | -6.6% | +3.0% |

Across all asset classes, global equity funds and global bonds posted the biggest inflows at US\$9.4 billion and US\$6.7 billion respectively in 4Q09, as well as the strongest growth from previous quarter. Among equity funds, Greater China equities continued to record inflows, doubling growth from 3Q09. Both equity and bond classes in developed markets, except North American equities, showed outflows in 4Q09 reflecting continued uncertainty about growth prospects in certain Western markets.

The HSBC Fund Flow Tracker, which represents cumulative dollar value of money flows over the past three and a half years, showed that the equity funds inflow in 4Q09 rebounded by nearly eight times the amount of inflows from the previous quarter. Total equity inflows in 2009 reached US\$62.4 billion, just slightly short of the US\$66.4 billion equity inflows recorded in 2007. The biggest bond inflows for 2009 were recorded during the last quarter of the year at US\$44.3 billion. Total bond inflows for 2009 reached US\$140 billion, 2.5 times the amount of inflows in 2007.

Genocchio said: "2009 marked the return of investor confidence as wealth flows either strongly recovered from the slump in 2008, or exceeded even the highs of 2007. At the height of the financial crisis, we saw an erosion of wealth and sentiment. We also saw investors regain their ground and invest with more cautiously optimistic and selective asset allocation strategies. Investors will continue to focus on the short-term, maintaining the flexibility to change course as market conditions change. This strategy will allow them to rebalance their portfolios, take quick gains and capture new growth opportunities."

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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 4Q09.

3: According to the Investment Company Institute, total global FUM at the end of the third quarter of 2009 was US\$22.38 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 February 2010.

HSBC Bank Australia

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