

17 March 2010

## **FUND MANAGERS FAVOUR EQUITIES IN FAST-GROWING MARKETS**

*\*\*\* Three in four fund managers bullish on Greater China equities\*\*\*  
\*\*\*North American equities gaining support\*\*\**

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%). On the other hand, half of fund managers remain bearish (vs 60% in 4Q09) toward Japanese equities and 40 per cent are also bearish (vs 33% in 4Q09) toward Europe including UK equities.

Godfrey Swain, Managing Director and Head of Personal Financial Services in Japan, 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.

*more*

## **Fund managers favour equities from fast-growing markets/2**

The quarterly HSBC survey analysed 13 of the world's leading fund management houses<sup>1</sup> by their funds under management (FUM), their asset allocation views and their global money flows. The net money flow<sup>2</sup> 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 FUM<sup>3</sup>.

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

<b>Asset class</b>	<b>End 4Q09</b>	<b>End 3Q09</b>
Asia-Pacific ex-Japan equities	+3.8%	+7.9%
Emerging markets equities	+6.9%	+1.7%
Greater China equities	+3.3%	+1.6%
Japan equities	-2.6%	-0.3%
Global equities	+3.2%	-7.9%
Europe including UK equities	-3.9%	-5.0%
North American equities	+0.2%	+6.3%
High yield/EM bonds	+5.6%	+19.4%
Global bonds	+8.0%	+4.5%
Europe including UK bonds	-6.6%	+3.0%
US bonds	-2.3%	+1.2%

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.

*more*

### **Fund managers favour equities from fast-growing markets/3**

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.

Mr Swain 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.”

*ends/more*

## **Fund managers favour equities from fast-growing markets/4**

### **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.

### **Notes to editors:**

#### **1. HSBC Holdings plc**

HSBC Holdings plc, the parent company of the HSBC Group, is headquartered in London. The Group serves customers worldwide from around 8,000 offices in 88 countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa. With assets of US\$2,364 billion at 31 December 2009, HSBC is one of the world's largest banking and financial services organisations. HSBC is marketed worldwide as 'the world's local bank'.

#### **2. The Hongkong and Shanghai Banking Corporation Limited in Japan**

The Hongkong and Shanghai Banking Corporation Limited is the founding member of the HSBC Group. It established its first branch in Japan in Yokohama in 1866, making it the oldest bank operating in Japan today. It has branch offices in Tokyo and Osaka, providing commercial banking, private banking and personal wealth management services.

#### **3. HSBC Premier**

Launched in 2000 and with international services starting in May 2007, HSBC Premier is the first truly global personal wealth management service offering individually tailored financial solutions for the growing number of mass affluent individuals. Globally, HSBC Premier serves over 3.3 million customers through 300 international Premier Centres in 43 countries and territories. In Japan, HSBC Premier launched in January 2008 targeting individuals with liquid financial assets exceeding JPY10 million. HSBC Premier operates seven branches in the Tokyo Metropolitan (Akasaka, Ginza, Hiroo, Ikebukuro, Marunouchi, Yokohama) and Kansai (Kobe) areas.

*ends/all*

# HSBC Fund Managers Survey: Tracking Global Money Flows

17 March 2010

HSBC   
The world's local bank

# Survey objectives

- To identify global liquidity flows.
- To understand the dynamics of asset allocation mix globally.
- To obtain fund managers' views on the market.
- To obtain first-hand information instead of relying on time-lagged, third-party fund flow data.
- To help customers understand the current investment environment from a global perspective.

## Survey methodology

- **HSBC's partner fund managers, accounting for about 15.3 per cent of global funds under management (FUM)<sup>1</sup>, participated in this quarterly survey: 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.**
- **The survey analysed participating fund firms' FUM breakdowns at the end of 3Q09 and 4Q09<sup>2</sup>.**
- **The survey also collected fund managers' views for 1Q10, covering a number of asset classes and markets.**

1. Total global FUM at the end of 3Q09 was US\$22.38 trillion (Investment Company Institute).

2. 4Q09 data are as of 31 December 2009.

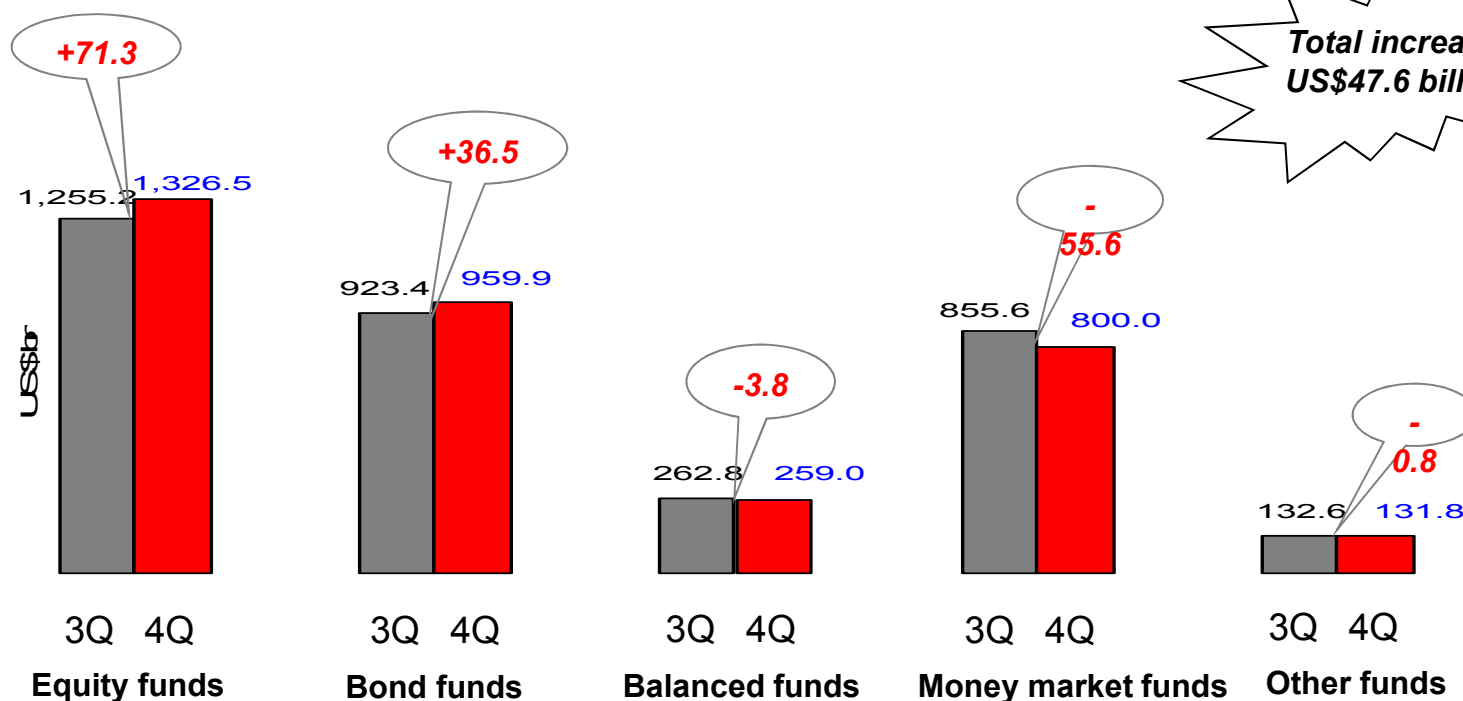


The world's local bank

# Funds under management (FUM) in 4Q09

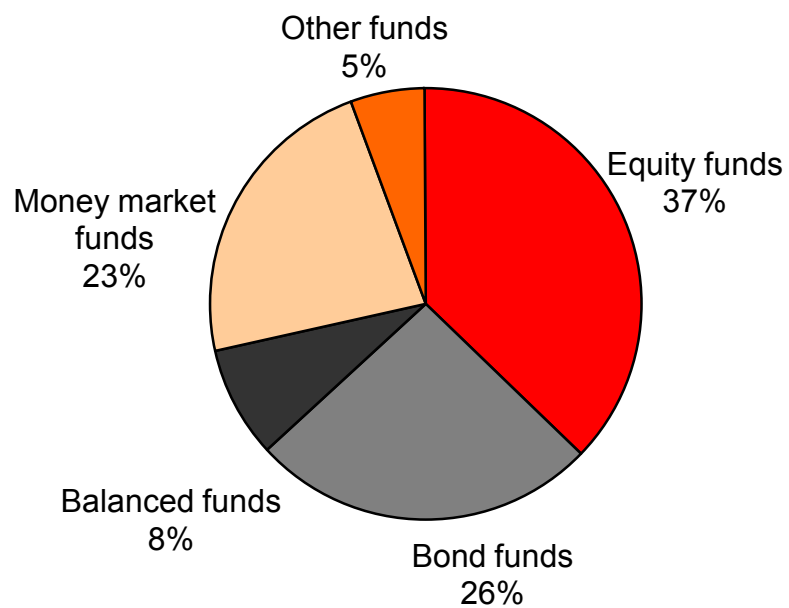
- Aggregated FUM of managers in the survey reached US\$3.48 trillion at the end of 4Q09. Survey estimates FUM recorded an increase of US\$47.6 billion between 3Q09 and 4Q09, up 1.4 per cent.

FUM (US\$bn), end of 3Q09 and 4Q09

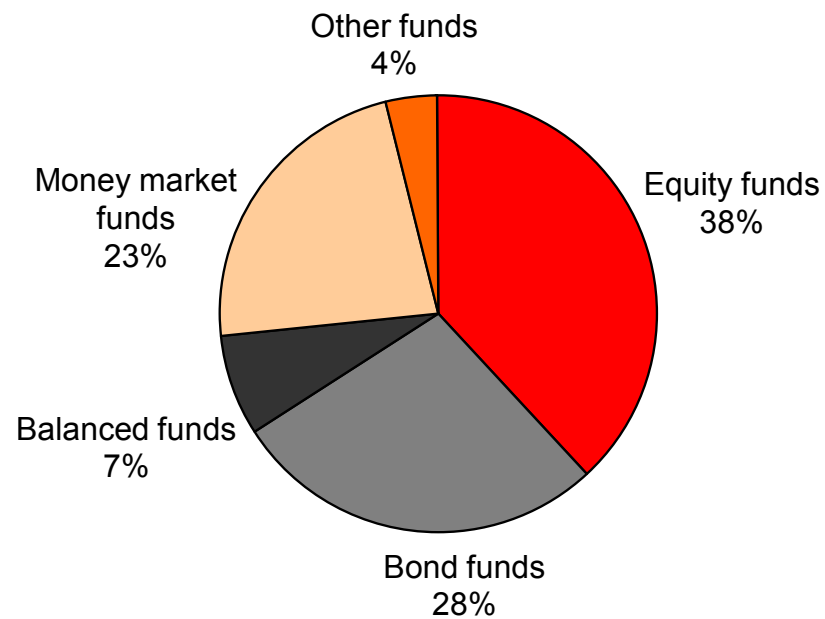


# Breakdown of FUM

FUM breakdown by asset type in 3Q09



FUM breakdown by asset type in 4Q09

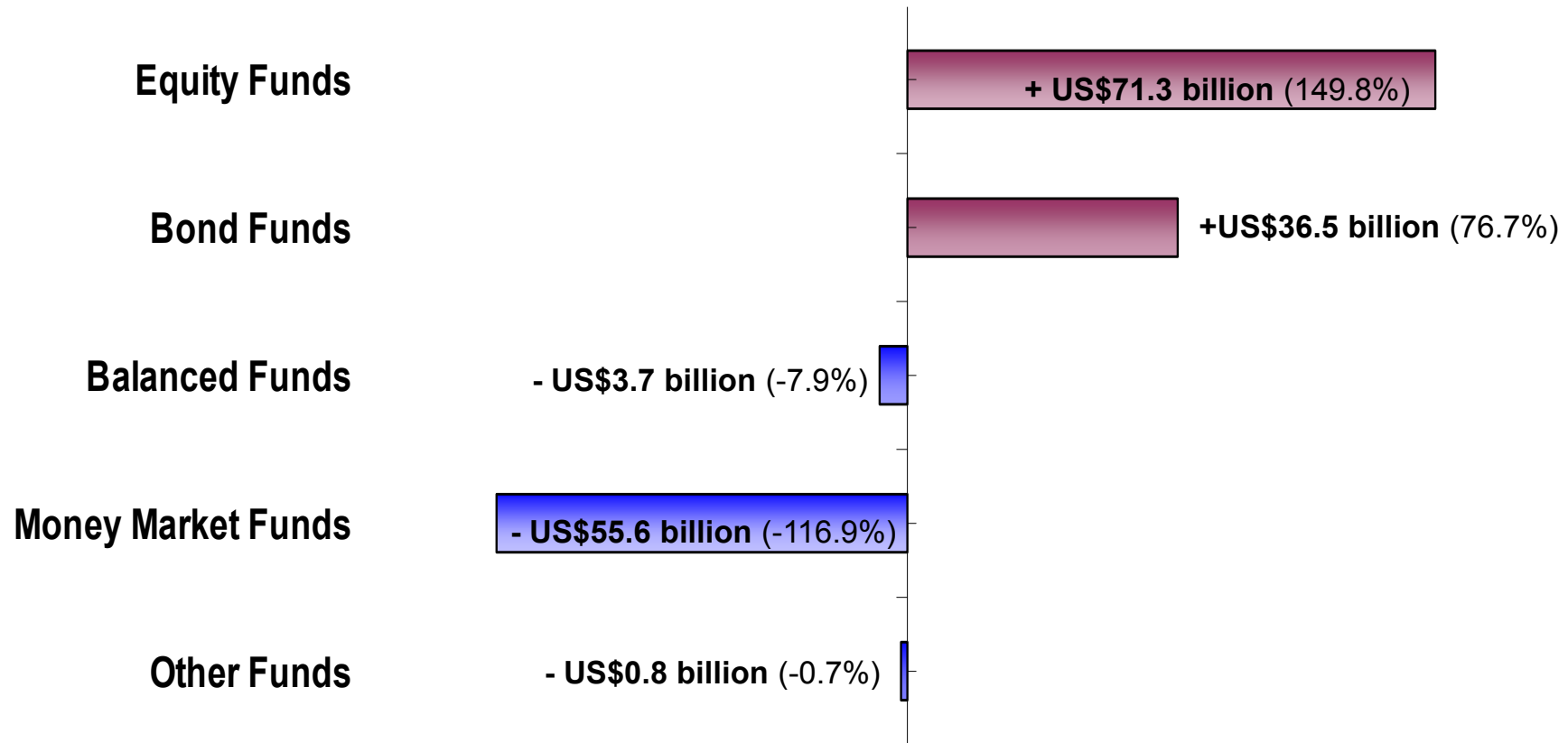


Note: Figures may not add up to exactly 100 per cent due to rounding.



# Estimate of contribution to FUM change by asset class

- Equity funds contributed the most to the FUM increase during 4Q09.

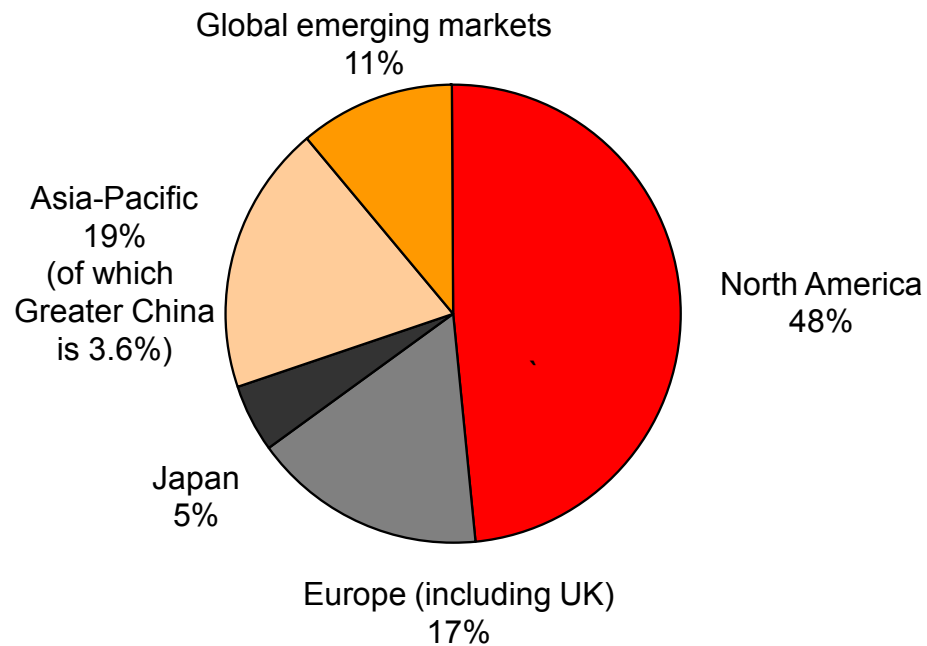


*Note: Figures may not add up to exactly 100 per cent due to rounding.*

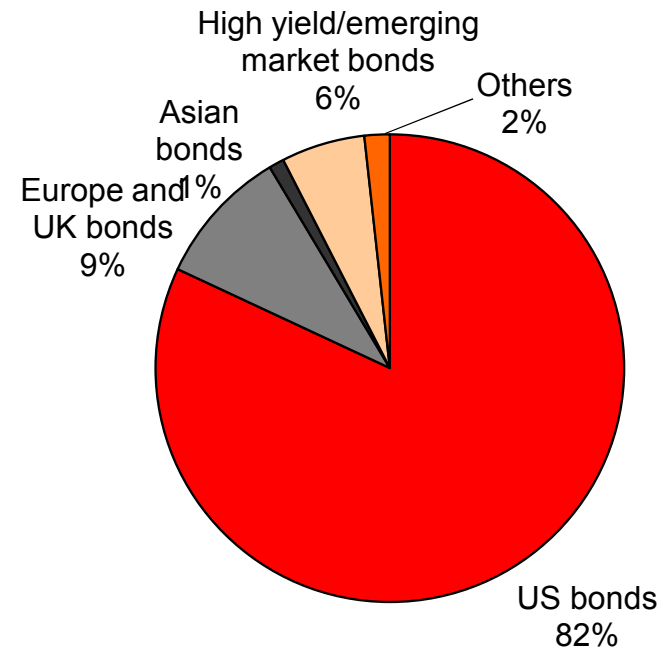
# Breakdown of funds by geography

- US was still the dominating region in equity/bond investments in 4Q09.
- On equity funds, Asia-Pacific overtook Europe as the second largest region.

### Regional equity funds



### Regional bond funds

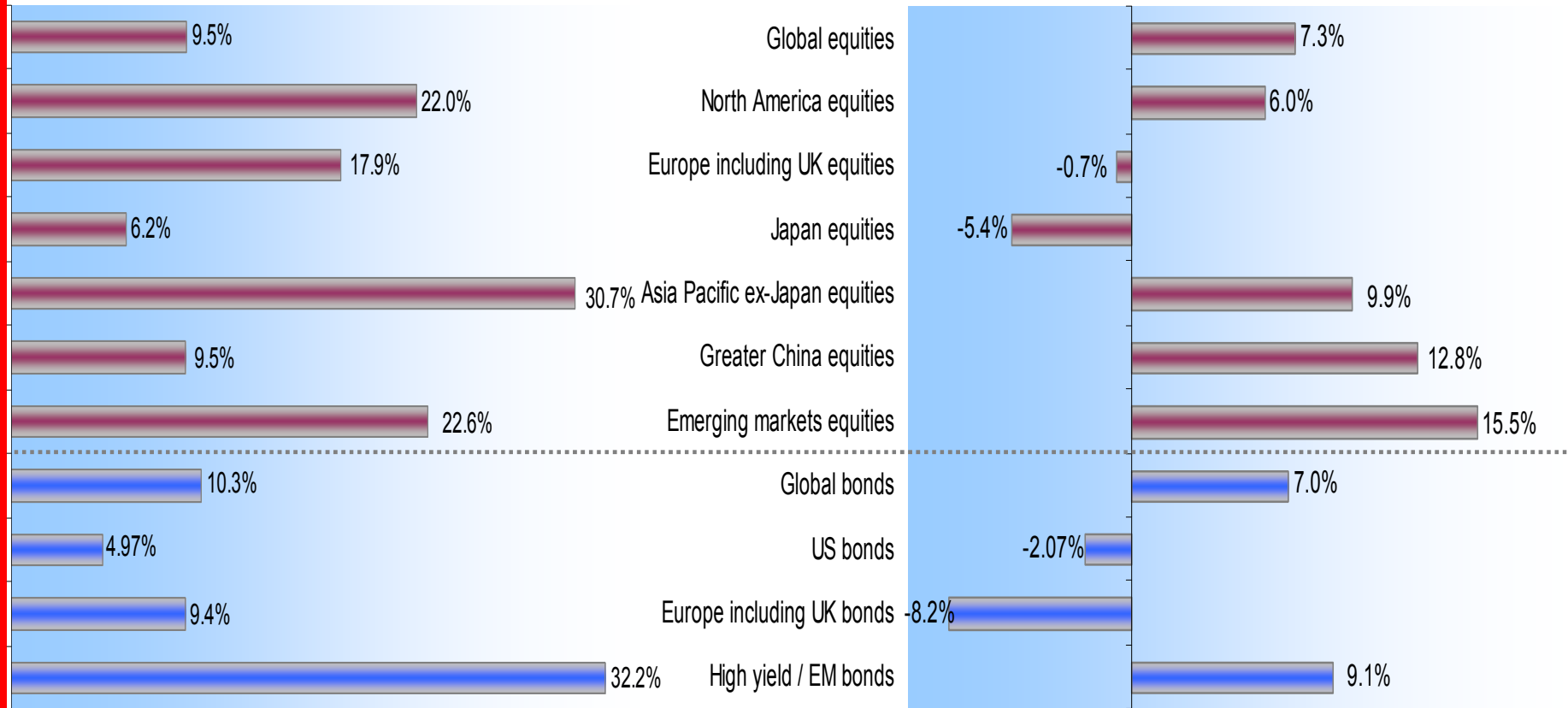




Note: Figures may not add up to exactly 100 per cent due to rounding.

# Change in FUM in 3Q09 vs 4Q09

FUM growth/decline 3Q09

FUM growth/decline 4Q09

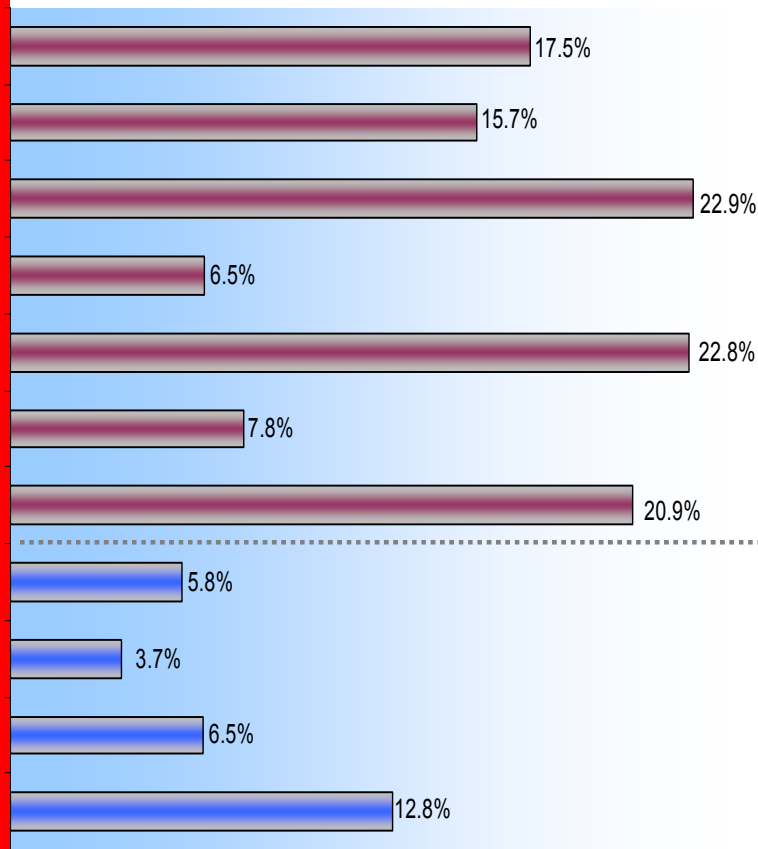


 Equity funds  
 Bond funds

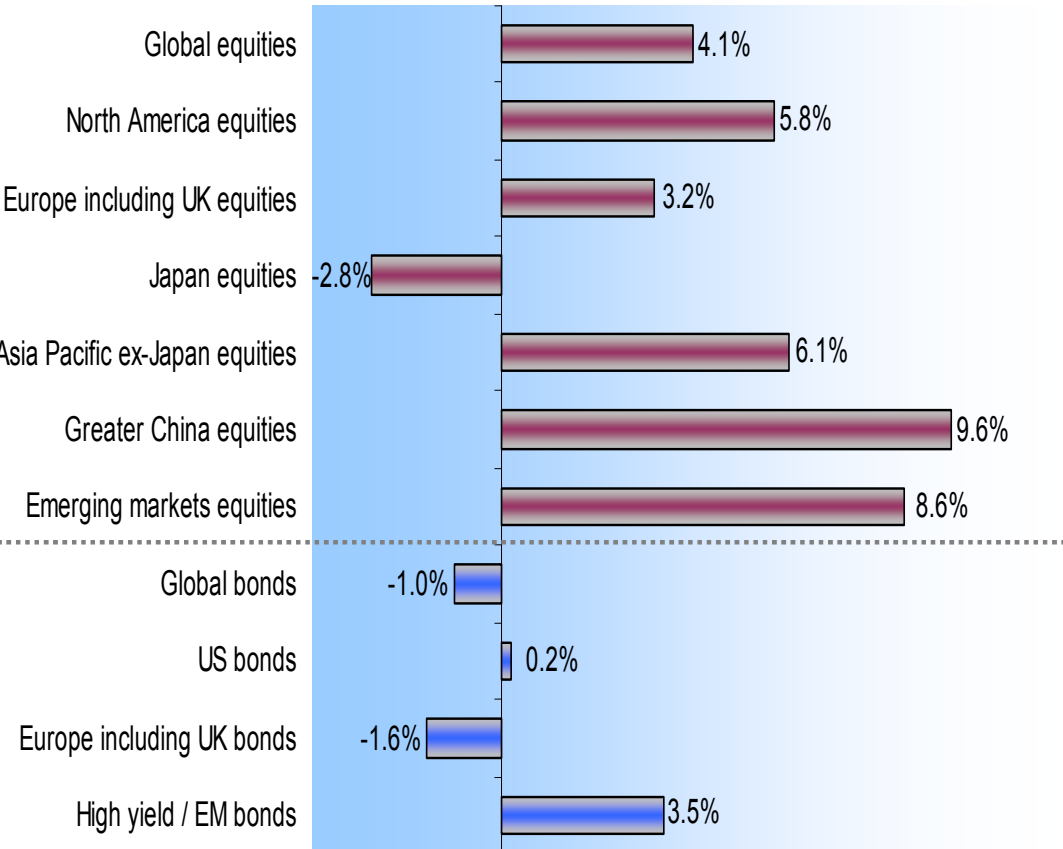
**HSBC**   
 The world's local bank



# Market performance in 3Q09 vs 4Q09

Market performance in 3Q09



Market performance in 4Q09



 Equity funds  
 Bond funds

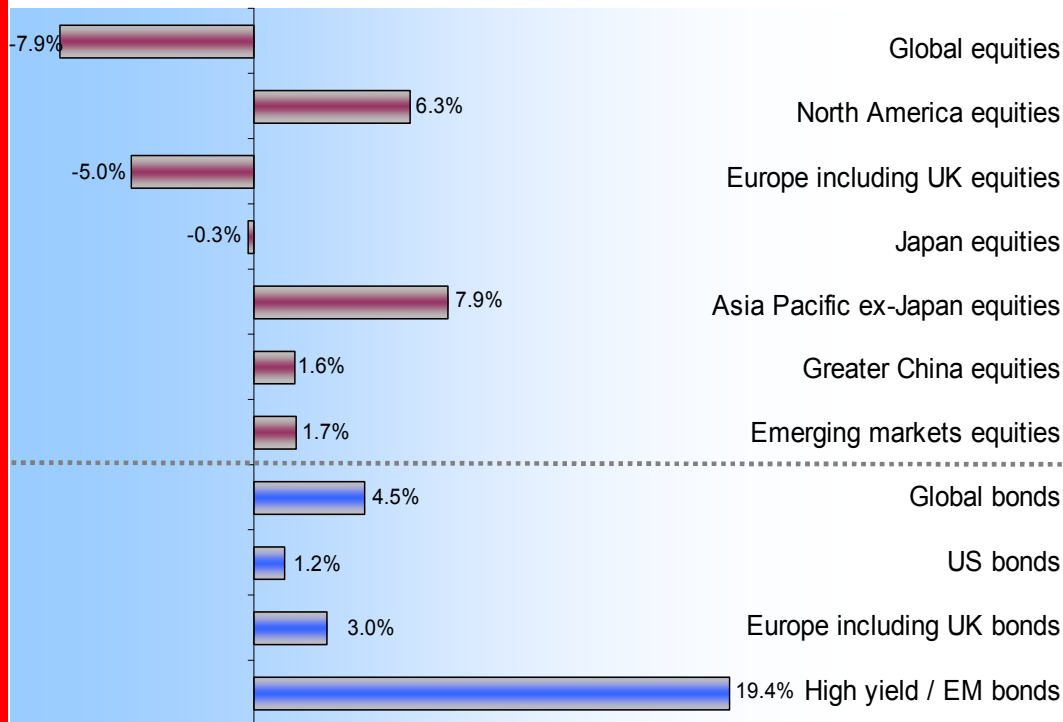
Source: Bloomberg and Morningstar.

**HSBC**   
 The world's local bank

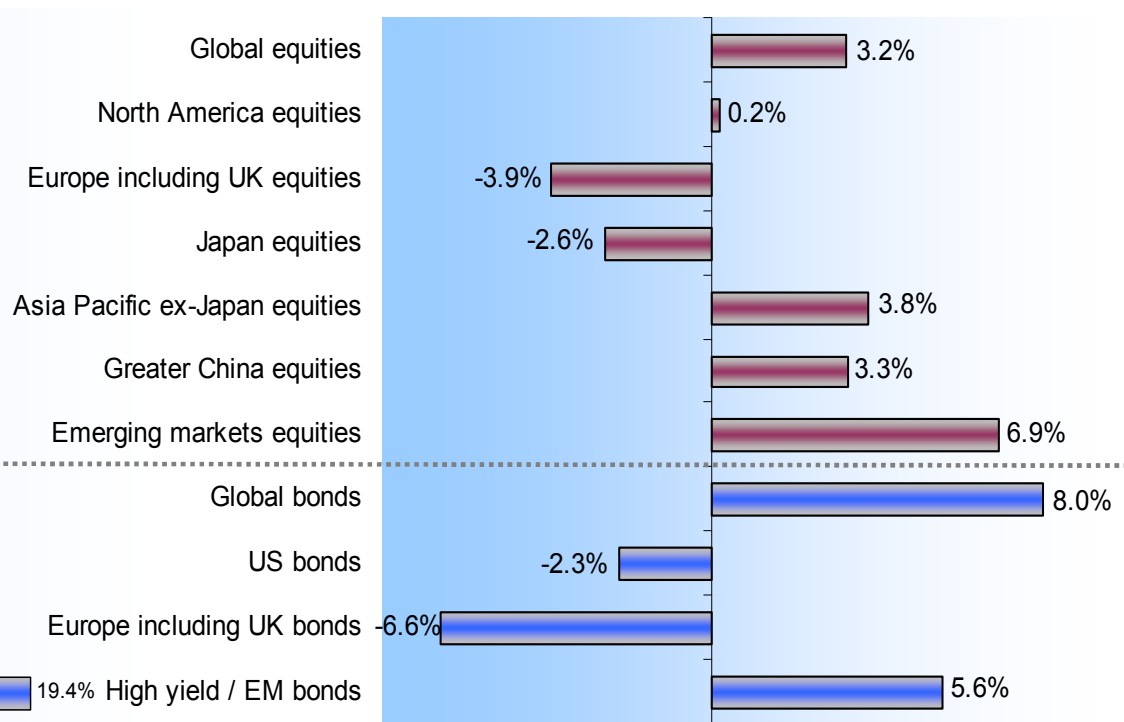
# Where did the money go?



- Bond funds saw the highest inflows in 4Q09.
- Equity funds in fast-growing markets ie emerging markets equities, Greater China equities, Asia-Pacific ex-Japan equities continued to attract inflows.
- Only North America equity funds posted inflows among the developed markets.

Estimate of net fund flow in 3Q09



Estimate of net fund flow in 4Q09



 Equity funds  
 Bond funds

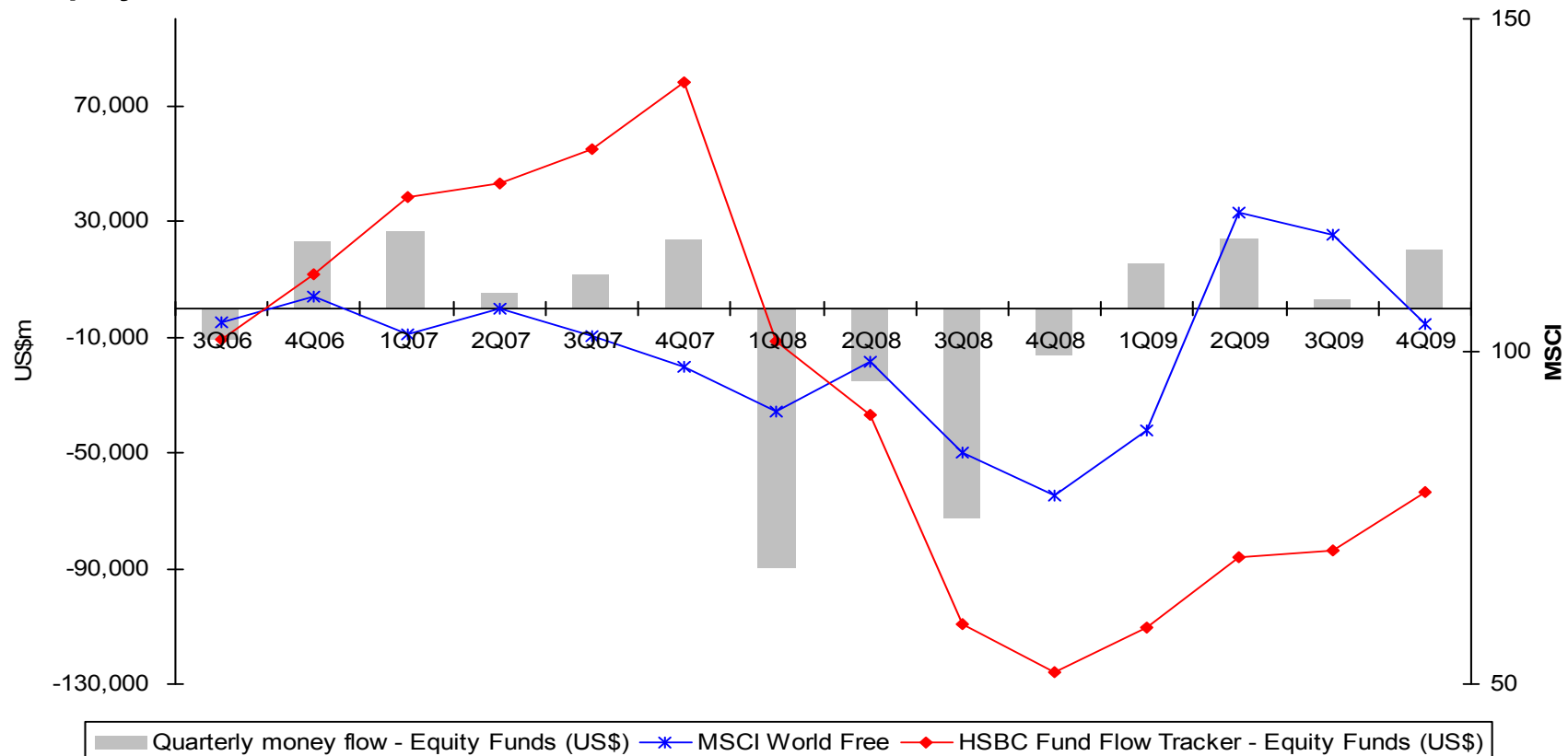


The world's local bank

Source: HSBC Survey. Net fund flow is derived by subtracting market change from FUM change during the period.

# HSBC Fund Flow Tracker: Equity funds

- Equity funds inflows in 4Q09 rebounded by nearly eight times the amount of inflows from 3Q09.
- Total equity inflows in 2009 reached US\$62.4 billion, just slightly short of the US\$66.4 billion equity inflows recorded in 2007.



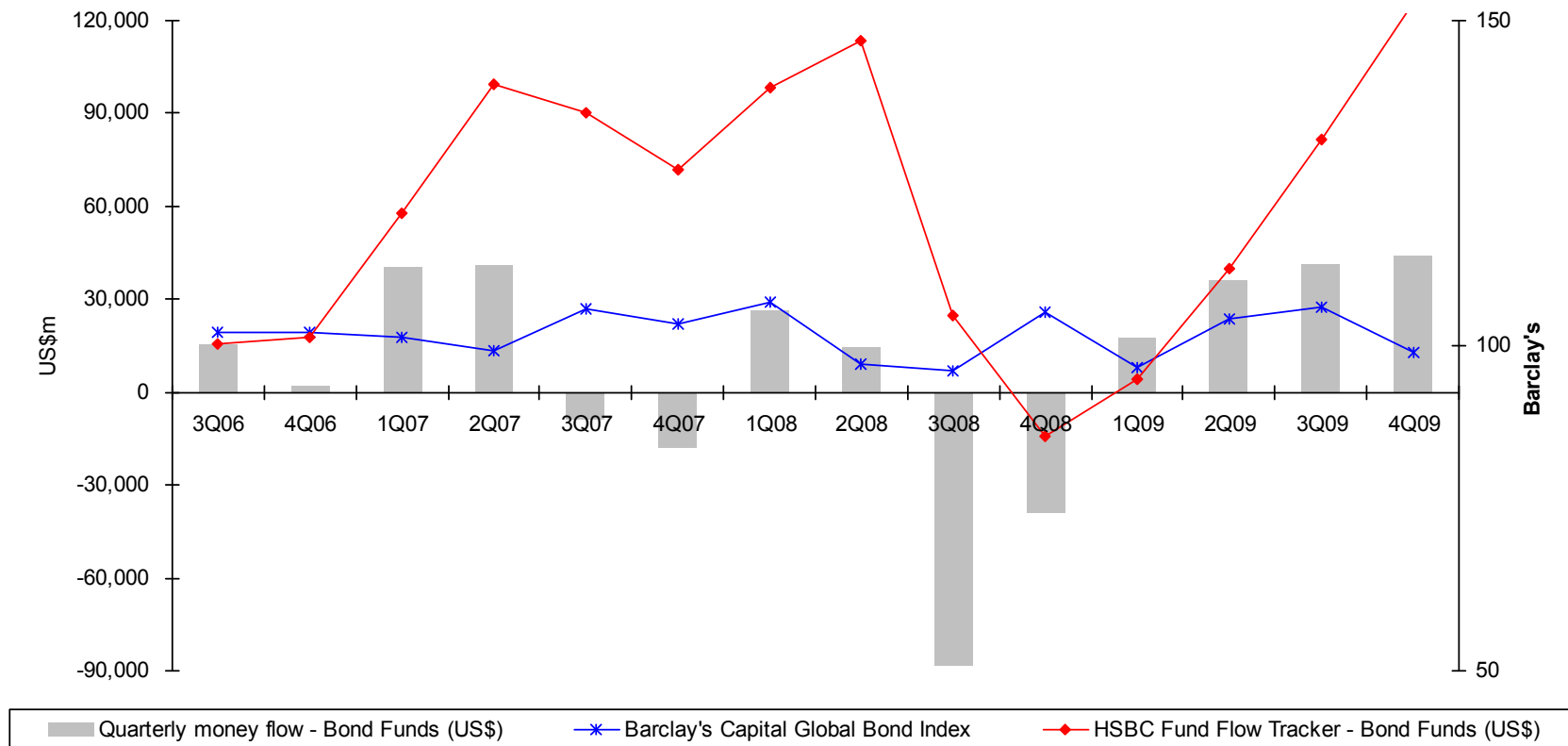
Note: The HSBC Fund Flow Tracker represents cumulative dollar value of money flows by quarter as reported in the HSBC Fund Managers Survey.



The world's local bank

# HSBC Fund Flow Tracker: Bond funds

- 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.



Note: The HSBC Fund Flow Tracker represents cumulative dollar value of money flows by quarter as reported in the HSBC Fund Managers Survey.

# 1Q10 asset allocation strategies by class

- Appetite for equities increasing especially in emerging markets which are recovering faster and in a more sustainable manner than the West.
- A more cautious stance on bonds after record gains in 2009.

Asset class allocation strategy	Underweight	Neutral	Overweight
<b>Equities</b>	0% (11%)	50% (56%)	<b>50%</b> (33%)
<b>Bonds</b>	0% (11%)	<b>56%</b> (33%)	44% (56%)
<b>Cash</b>	<b>71%</b> (71%)	29% (29%)	<b>0%</b> (0%)

Notes:

- *Figures in brackets indicate survey results from the previous quarter (4Q09).*
- *Overweight: Refers to an investment position that is larger than the generally accepted benchmark. It implies that one is more optimistic or bullish on the outlook of that position.*
- *Underweight: Refers to an investment position that is smaller than the generally accepted benchmark. It implies that one is more pessimistic or bearish on the outlook of that position.*
- *Neutral: Refers to an investment position that is equal to the generally accepted benchmark. It implies that one has no biased view on the outlook of that position.*
- *Figures may not add up to exactly 100 per cent due to rounding.*



# 1Q10 Asset allocation strategies by geography

- Fund managers remain bullish towards emerging markets equities, especially on Greater China.
- More managers (50% vs 22%) hold an overweight view towards North America equities.
- With returns on high yield bonds at over 60% last year, fund managers became cautious with 63% taking a neutral view (vs 14% in 4Q09).

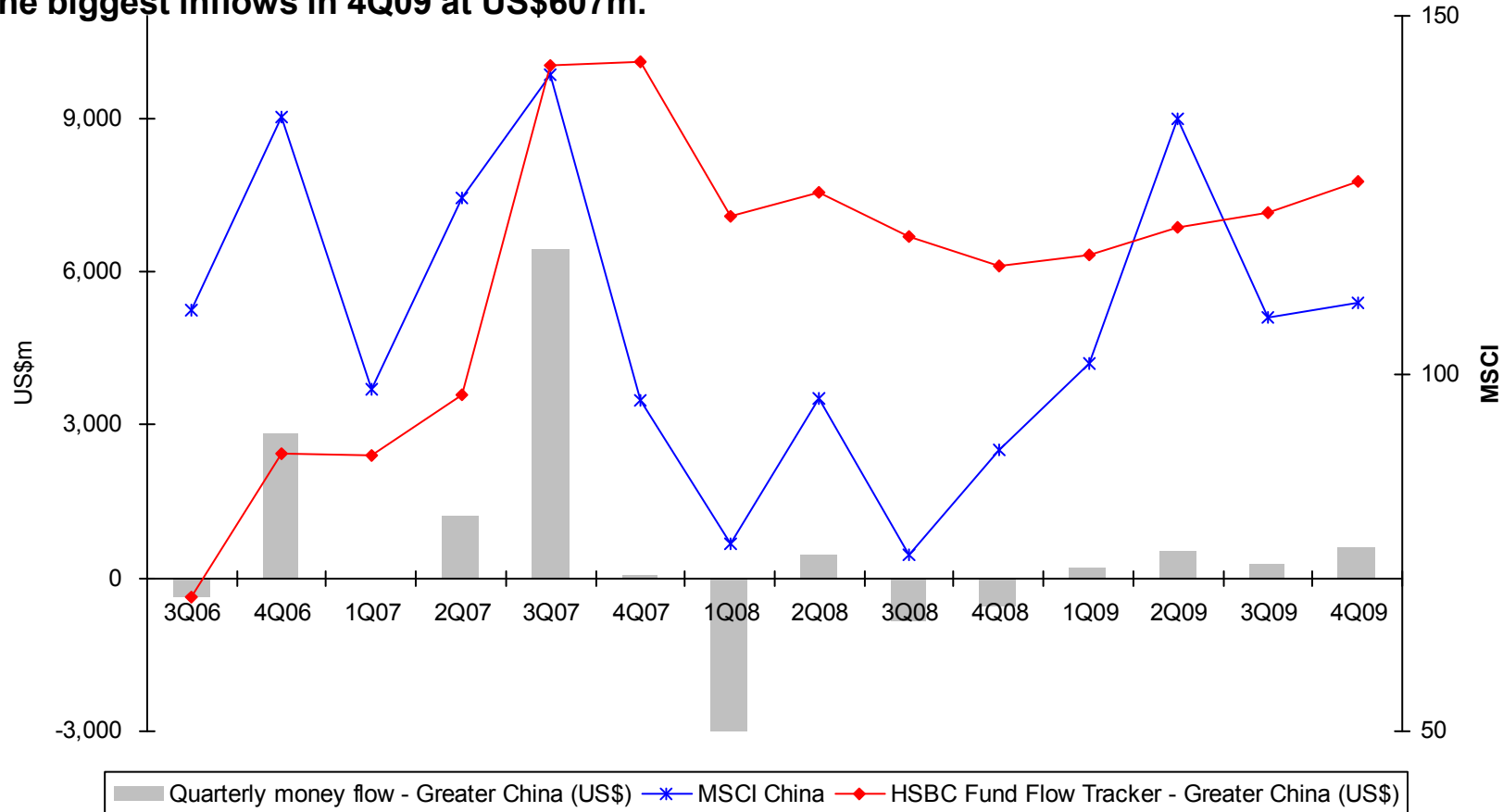
Regional Allocation Strategy	Underweight		Neutral		Overweight	
	1Q10	4Q09	1Q10	4Q09	1Q10	4Q09
<b>Equities</b>						
<i>North America</i>	20%	33%	30%	44%	50%	22%
<i>Europe (incl UK)</i>	40%	33%	40%	67%	20%	0%
<i>Japan</i>	50%	60%	40%	30%	10%	10%
<i>Asia Pacific ex Japan</i>	0%	0%	30%	30%	70%	70%
<i>Emerging Markets</i>	0%	11%	40%	33%	60%	56%
<i>Greater China</i>	0%	0%	25%	43%	75%	57%
<b>Bonds</b>						
<i>US Dollar</i>	11%	14%	56%	57%	33%	29%
<i>European</i>	13%	14%	38%	29%	50%	57%
<i>Global Emerging Markets/High Yield</i>	0%	14%	63%	14%	38%	71%
<i>Asian Bond</i>	33%	33%	33%	33%	33%	33%

Note: Figures may not add up to exactly 100 per cent due to rounding.



# HSBC Fund Flow Tracker: Greater China Equity Funds

- Greater China has seen continuous inflows with its strong economic fundamentals. It recorded the biggest inflows in 4Q09 at US\$607m.

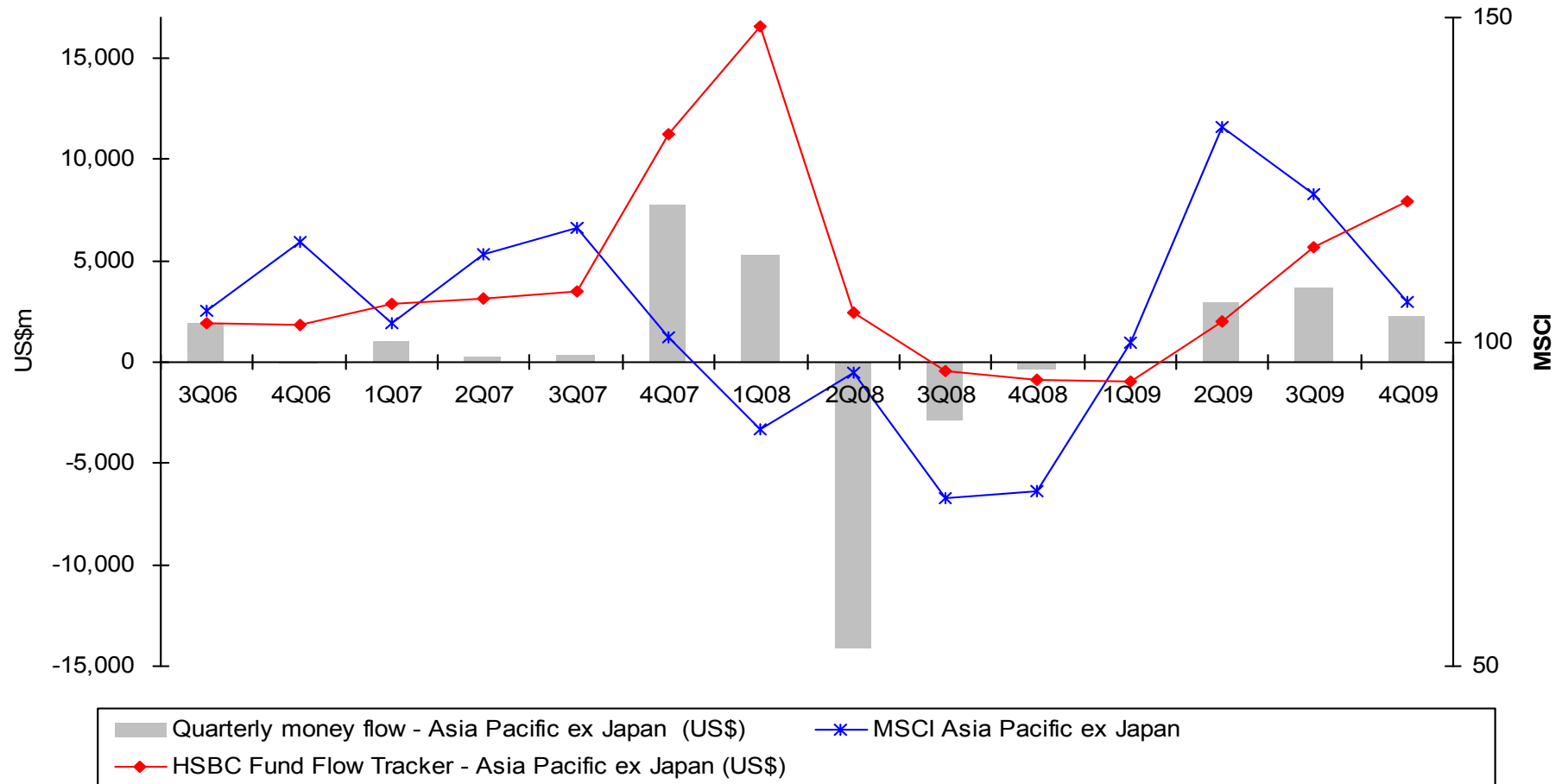


Note: The HSBC Fund Flow Tracker represents cumulative dollar value of money flows by quarter as reported in the HSBC Fund Managers Survey.



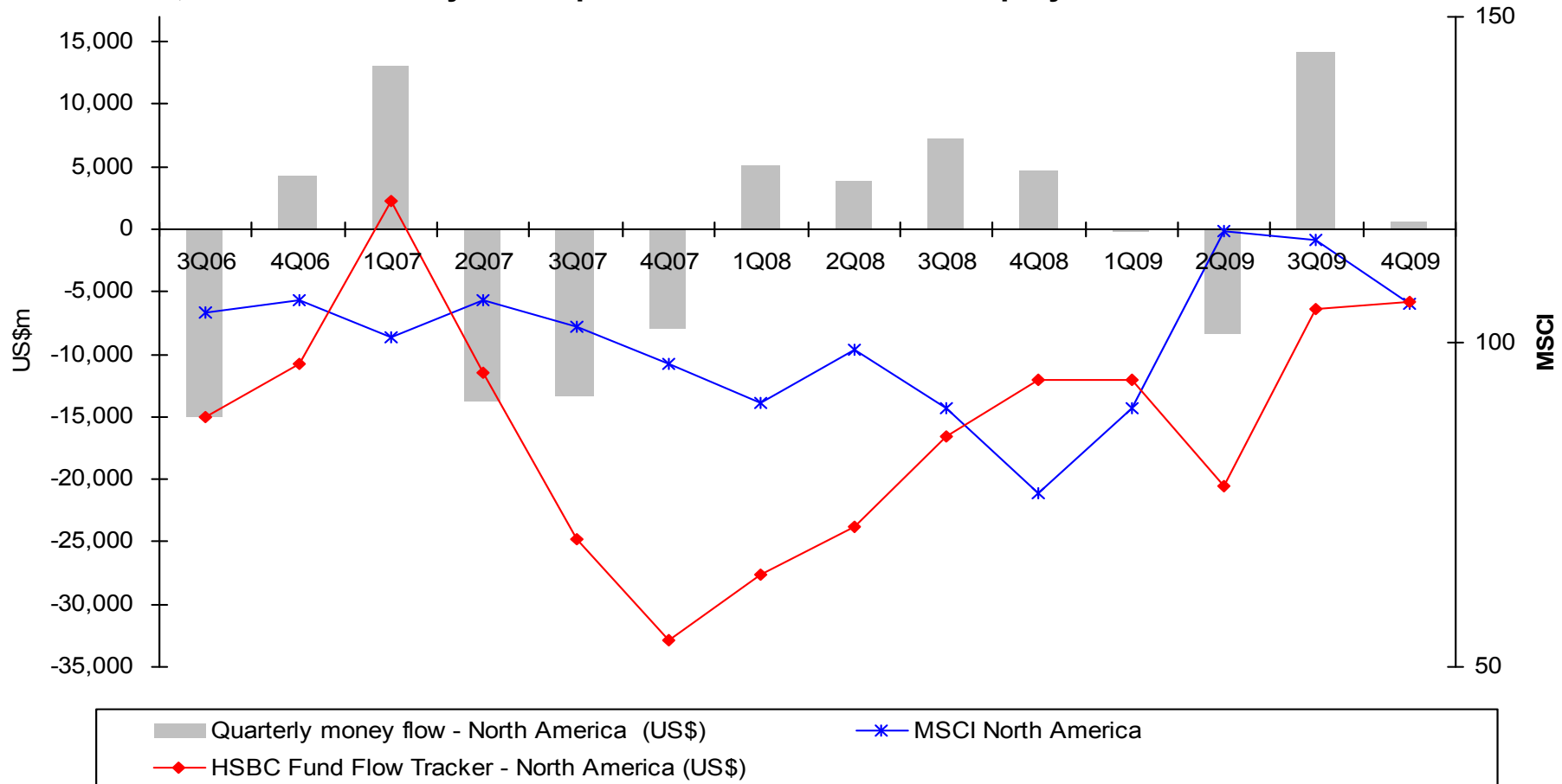
# HSBC Fund Flow Tracker: Asia-Pacific ex-Japan Equity Funds

- Asia Pacific ex-Japan equity funds attracted inflows as the region led the global economic recovery.



# HSBC Fund Flow Tracker: North America Equity Funds

- North American equity funds saw inflows of US\$525m in 4Q09. Though significantly lower than 3Q09, the US is the only developed market that recorded equity inflows in 4Q09.



# Survey Highlights

## Fund flows from 3Q09 to 4Q09

- Bond funds saw the highest inflows in 4Q09.
- Equity funds in fast-growing markets ie emerging markets equities, Greater China equities, Asia-Pacific ex-Japan equities continued to attract inflows.
- Only North America equity funds posted inflows among the developed markets.

## Fund managers' views for 1Q10

- Increased appetite for equities especially in emerging markets.
- A more cautious stance on bonds after record gains in 2009.
- The majority of fund managers bullish on Greater China, Asia-Pacific ex-Japan and emerging markets equities.
- Half of fund managers hold an overweight view towards North America equities.

# Survey Highlights

## HSBC Fund Flow Tracker

- **2009 marked the return of investor confidence as wealth flows either strongly recovered from 2008 or exceeded the highs of 2007**
  - Equity funds inflow in 4Q09 rebounded by nearly eight times the amount of inflows from 3Q09.
  - 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\$44.3bn.
  - Total bond inflows for 2009 reached US\$140bn, 2.5 times the amount of inflows in 2007.
- **Investors to remain cautiously optimistic and selective about asset allocation strategies.**
- **Investors to remain focused on the short-term with flexibility to rebalance and take advantage of new growth opportunities.**

## Disclaimer

*The information obtained in the survey has been provided by third parties and the Bank has not independently verified such information. The Bank makes no guarantee, representation or warranty and accepts no responsibility or liability as to the accuracy or completeness of the information. The information or opinion expressed herein does not constitute an offer to sell and should not be construed to be a recommendation to buy or sell any securities, currencies, commodities or financial instruments referred to above. The Bank shall not be held liable for damages arising out of any person's reliance upon this information or for opinion or conclusion which the reader may draw from the information.*