



9 June, 2010

**OVER HALF OF FUND MANAGERS ARE UNDERWEIGHT  
TOWARDS EUROPEAN AND JAPANESE EQUITIES**

*\*\*\*Fund manager overweight on global emerging markets/high yield bonds\*\*\**

Over half of fund managers (56%) polled in HSBC's quarterly Fund Managers Survey hold underweight position towards Europe including UK equities amidst a spiralling European debt crisis. In addition, 63 per cent are holding a negative view on Japanese equities in the second quarter of 2010,

Last quarter, 50 per cent of fund managers were overweight while the other half were neutral towards equities. However, 20 per cent of respondents have become bearish on equities in this quarter on concern that Europe debt crisis poses risk to global economic recovery. On the other hand, fund managers have turned lukewarm towards bonds. The majority of fund managers (75%) are neutral towards bonds this quarter, up from 56 per cent in 1Q10. There are no fund managers holding an overweight view towards cash in 2Q10.

Three in four respondents (75%) are bullish on emerging markets equities in 2Q10, up from 60 per cent in the previous quarter. The majority (88%) also hold an overweight view on global emerging markets/high yield bonds, a jump from 38 per cent in 1Q10. While no fund managers are underweight towards Asia-Pacific ex-Japan equities, only 38 per cent hold an overweight view in 2Q10, down from 70 per cent in 1Q10.

Over half (56% vs 40%) of the respondents are underweight towards European equities, while the proportion of those who are bullish towards European bonds declined to 29 per cent from 50 per cent.

North American assets remained attractive with only 11 per cent of respondents holding an underweight view on US equities (vs 20% in 1Q10). None hold an underweight view on US bonds (vs 11% in 1Q10).

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Principal members of HSBC in Japan are:  
The Hongkong and Shanghai Banking Corporation Limited  
HSBC Securities (Japan) Limited  
HSBC Global Asset Management (Japan) K.K.

## Fund managers underweight towards European and Japanese equities /2

Godfrey Swain, Managing Director and Head of Personal Financial Services in Japan, said: “Investors have become more attuned to global economic developments and are reacting quickly to the volatility caused by fast-changing events by rebalancing their portfolios. In general, investors remain cautious, favouring bonds that provide diversified exposure and equities in regions such as the US and emerging markets, where economic recovery is more apparent and sustainable.”

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 1Q10, the fund houses covered in the survey reported aggregated FUM of US\$3.82 trillion, representing about 16.5 per cent of the estimated total global FUM<sup>3</sup>.

The survey shows that at the end of 1Q10, FUM increased by US\$35 billion, up 0.93 per cent from 4Q09. Bond funds led the rise in FUM, posting an increase of US\$65.5 billion in 1Q10, while equity funds rose US\$36.4 billion. Balanced funds and other funds increased by US\$8.5 billion and US\$7.5 billion, respectively, while money market funds declined US\$82.8 billion.

Below are the net fund flows derived by subtracting market growth from FUM growth during 1Q10 in various asset classes:

### Net flows as percentage of FUM for selected sectors

Asset class	End 1Q10	End 4Q09
Asia-Pacific ex-Japan equities	+1.9%	+3.8%
Emerging markets equities	+5.6%	+6.9%
Greater China equities	+1.6%	+3.3%
Japan equities	-0.8%	-2.6%
Global equities	-5.8%	+3.2%
Europe including UK equities	+0.5%	-3.9%
North American equities	+3.0%	+0.2%
High yield/EM bonds	+9.6%	+5.6%
Global bonds	+22.5%	+8.0%
Europe including UK bonds	-0.6%	-6.6%
US bonds	-6.7%	-2.3%

*more*

### **Fund managers underweight towards European and Japanese equities /3**

Across all asset classes, global bonds posted the biggest inflows of US\$20.5 billion, rising 22.5 per cent in 1Q10 compared to the previous quarter's 8 per cent growth. High yield/emerging market bonds recorded US\$6.1 billion of inflows, up 9.6 per cent in 1Q10. Inflows of US\$5.1 billion were invested in emerging markets equities, up 5.6 per cent, but lower than the 6.9 per cent growth recorded in 4Q09. Inflows to Greater China equities slowed to US\$330 million in 1Q10 from US\$607 million last quarter, reflecting weak sentiment in the Mainland equities market.

The HSBC Fund Flow Tracker, which represents cumulative dollar value of money flows since 3Q06 showed that equity funds posted outflows of US\$12.04 billion in 1Q10 as opposed to an inflow of US\$20.1 billion last quarter. Bond funds continued to see record volumes, with inflows of US\$68.2 billion in 1Q10, up from US\$44.3 billion in 4Q09. North American equity flows also saw a record high with inflows of US\$8.6 billion in 1Q10, over 16 times that of 4Q09 at US\$525 million, and two-thirds the amount of inflows at the peak of the market in 1Q07 at US\$12.9 billion.

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## **Fund managers underweight towards European and Japanese equities /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 1Q10.

**3:** According to the Investment Company Institute, total global FUM at the end of the fourth quarter of 2009 was US\$22.88 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 April and May 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 3.6 million customers through 350 international Premier Centres in 45 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.

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# HSBC Fund Managers Survey: Tracking Global Money Flows

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# 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

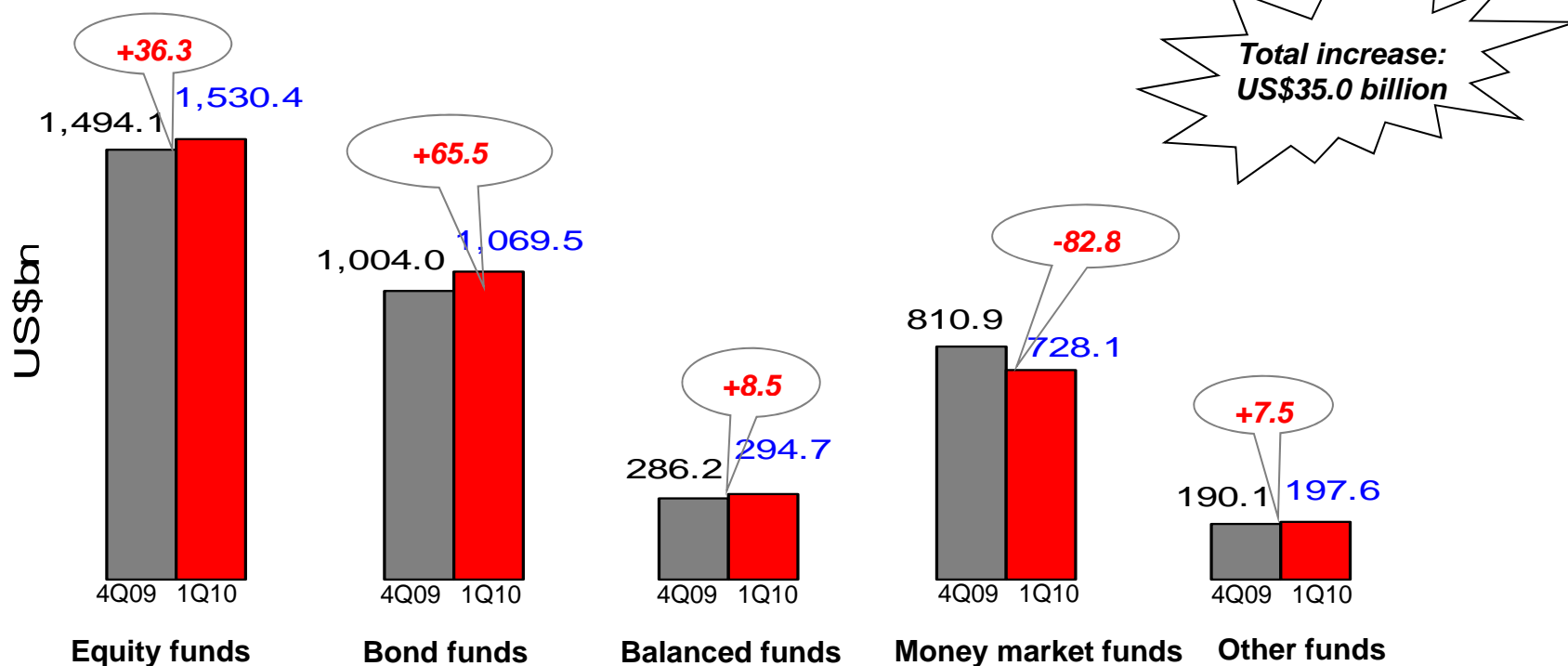
- **HSBC's partner fund managers, accounting for about 16.5 per cent of global funds under management (FUM)<sup>1</sup>, participated in this quarterly survey: AllianceBernstein, Allianz Global Investors, Baring Asset Management, BlackRock, Fidelity Investment Management, Franklin Templeton Investments, 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 4Q09 and 1Q10<sup>2</sup>.**
- **The survey also collected fund managers' views for 2Q10, covering a number of asset classes and markets.**

1. Total global FUM at the end of 4Q09 was US\$22.88 trillion (Investment Company Institute).  
2. 1Q10 data are as of 31 March 2010.

# Funds under management (FUM) in 1Q10

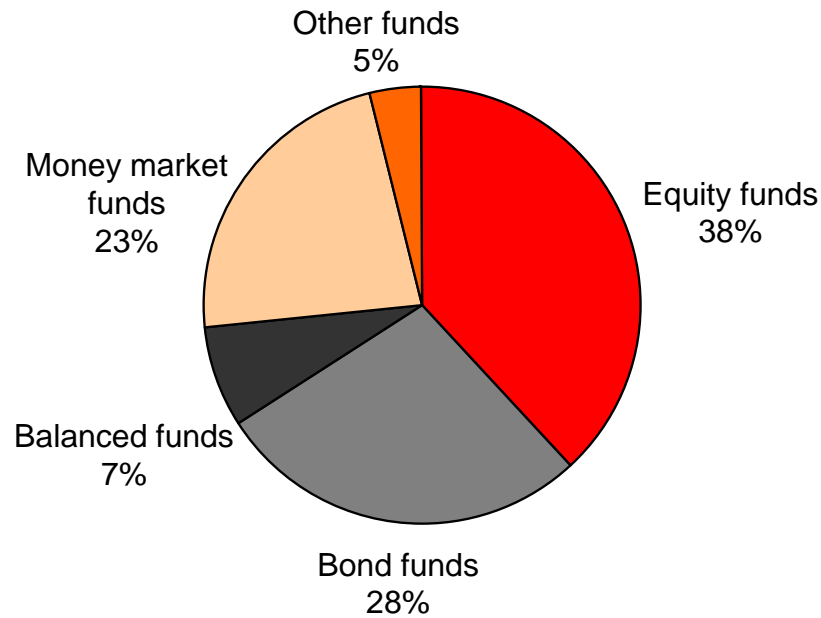
- Aggregated FUM of managers in the survey reached US\$3.82 trillion at the end of 1Q10. Survey estimates FUM recorded an increase of US\$35.0 billion between 4Q09 and 1Q10, up 0.93 per cent.

FUM (US\$bn), end of 4Q09 and 1Q10

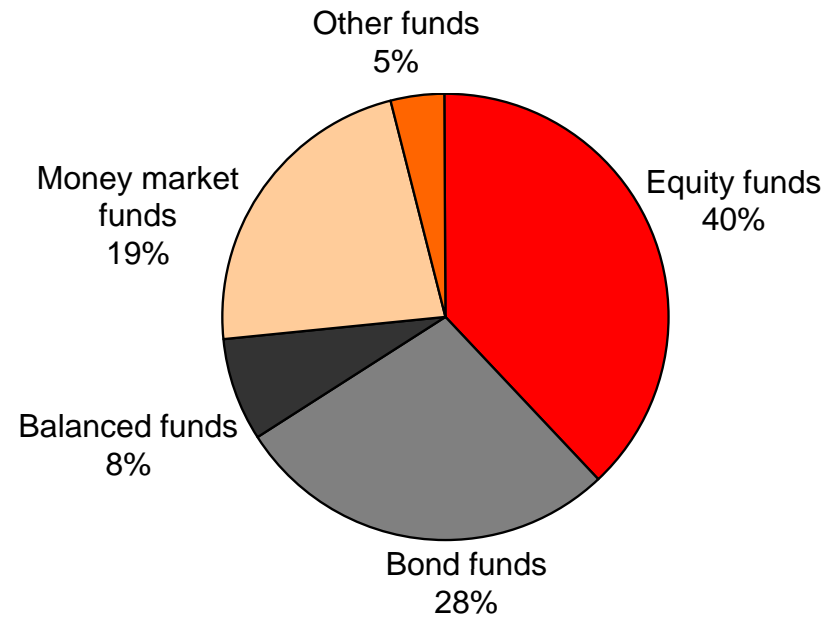


# Breakdown of FUM

FUM breakdown by asset type in 4Q09



FUM breakdown by asset type in 1Q10

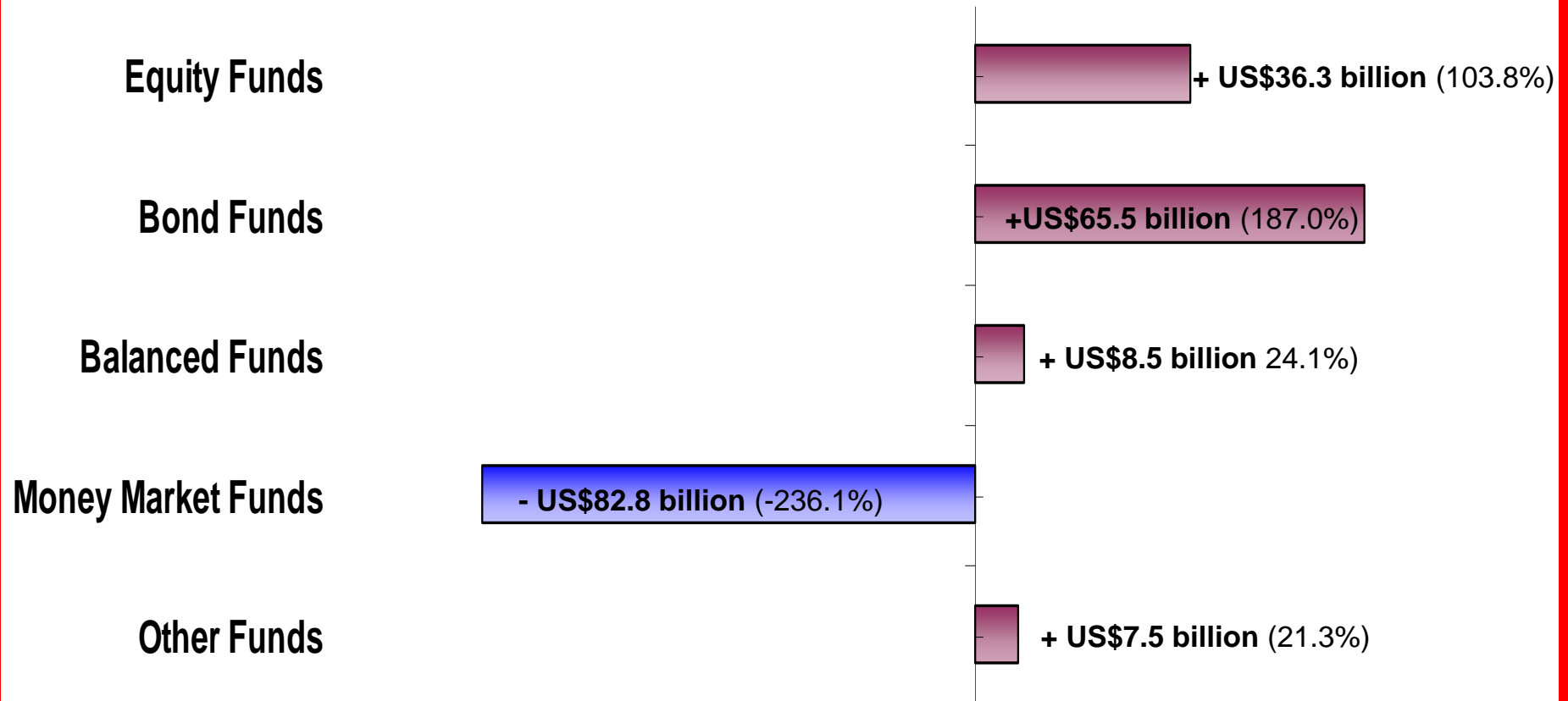


Note: Figures may not add up to exactly 100 per cent due to rounding.



# Estimate of contribution to FUM change by asset class

- Bond funds contributed the most to the FUM increase during 1Q10.

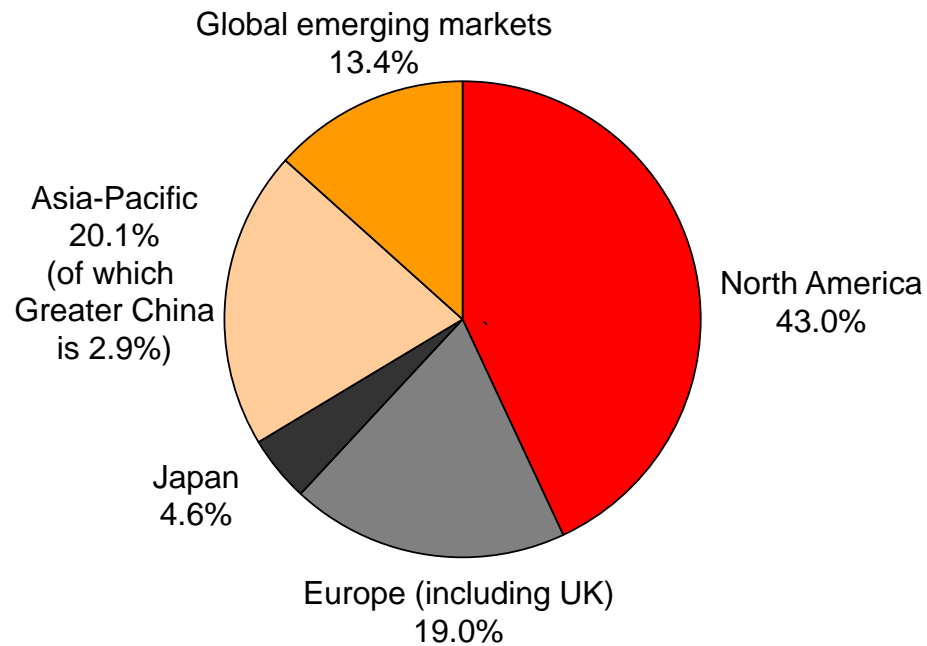


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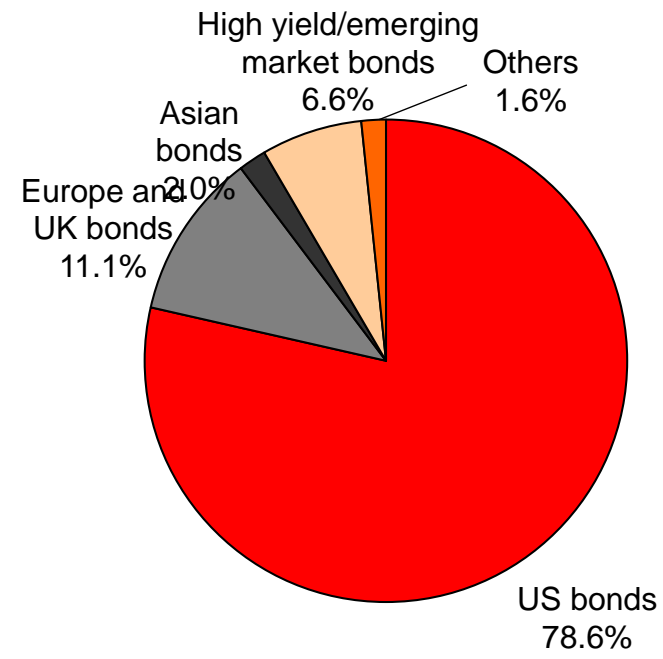
# Breakdown of funds by geography

- US was still the dominating region in equity/bond investments in 1Q10.
- On equity funds, Asia-Pacific continues to be the second largest region.

**Regional equity funds**



**Regional bond funds**



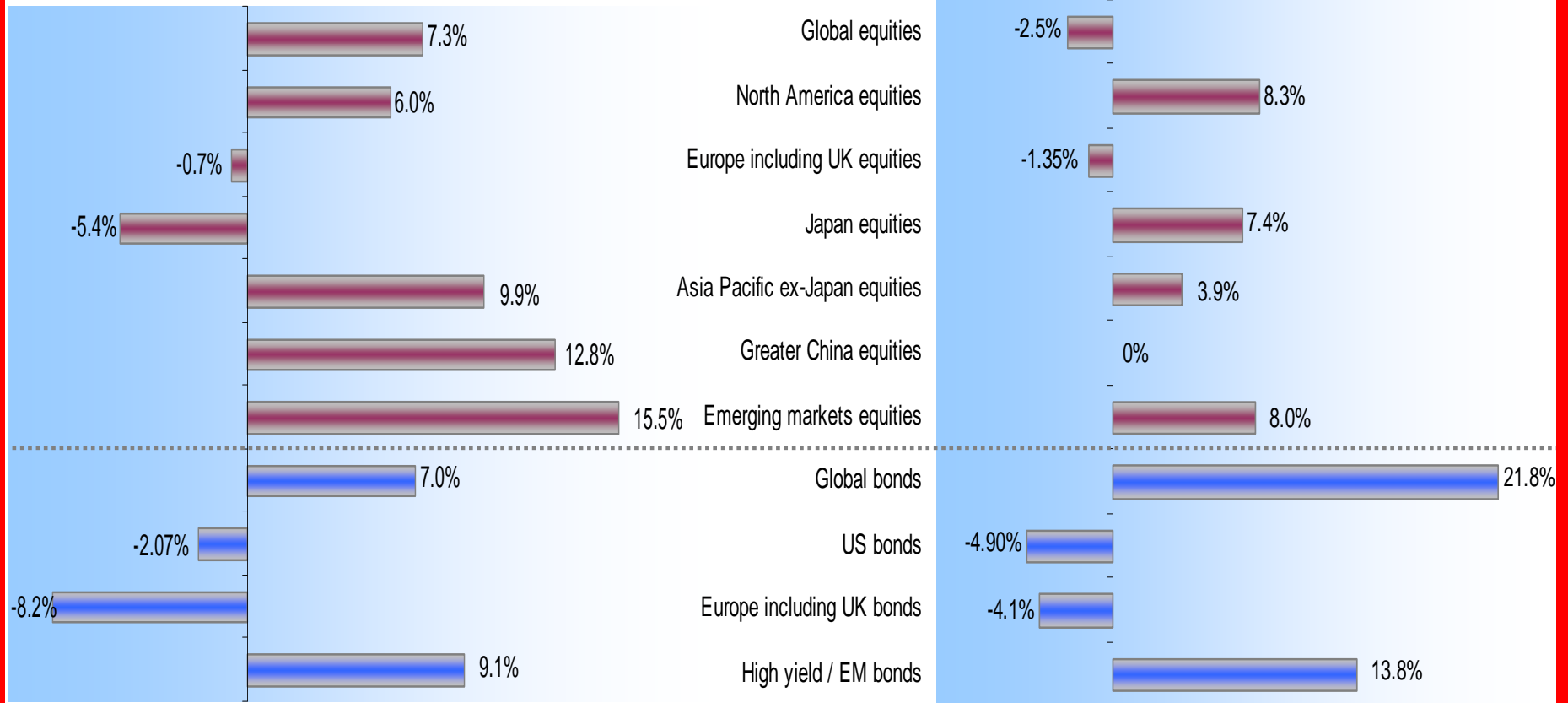
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# Change in FUM in 4Q09 vs 1Q10

FUM growth/decline 4Q09

FUM growth/decline 1Q10

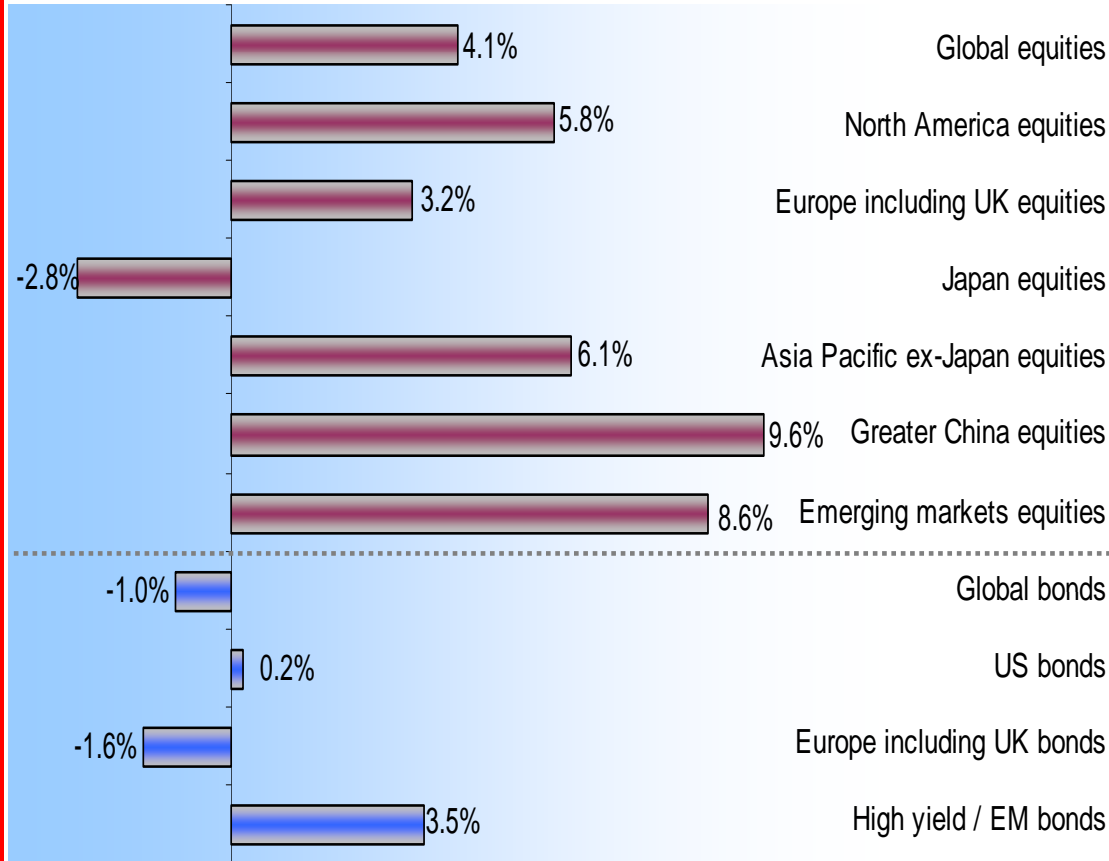


 Equity funds  
 Bond funds

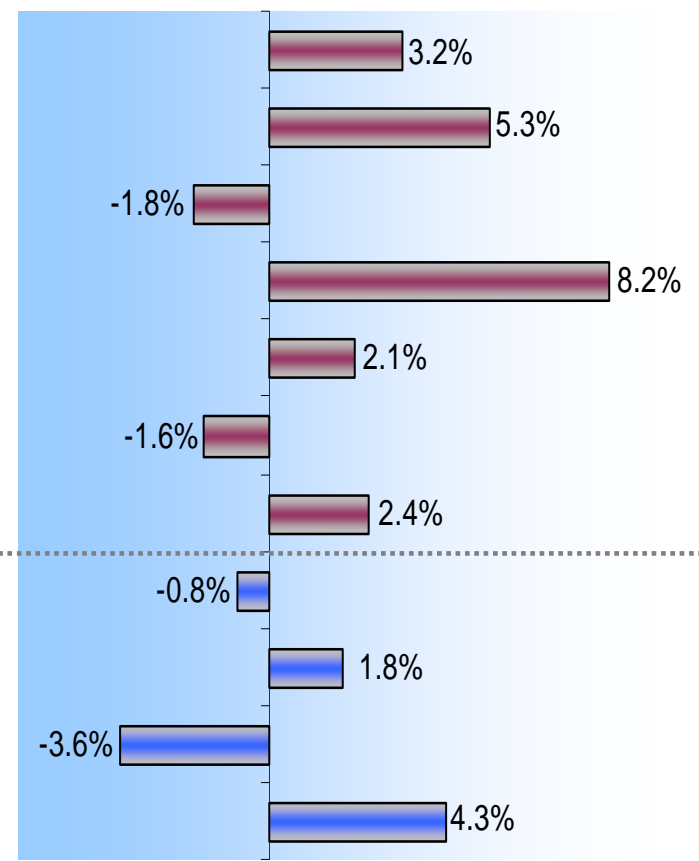
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# Market performance in 4Q09 vs 1Q10

Market performance in 4Q09



Market performance in 1Q10



 Equity funds  
 Bond funds

Source: Bloomberg and Morningstar.

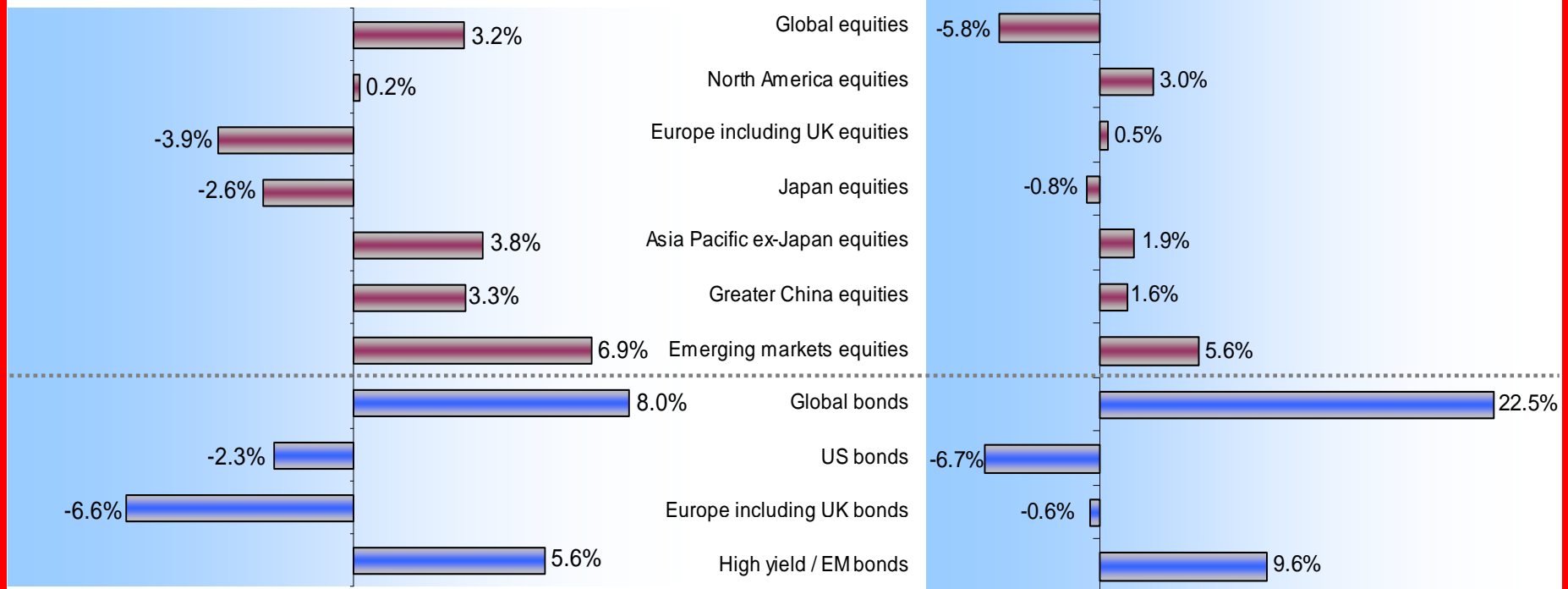
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# Where did the money go?

- Global bond funds saw the highest inflows in 1Q10.
- The pace of inflows to Asia Pacific ex Japan and Great China equities slowed down.
- North American equity funds continued to see inflows with encouraging economic data.

Estimate of net fund flow in 4Q09

Estimate of net fund flow in 1Q10



 Equity funds  
 Bond funds

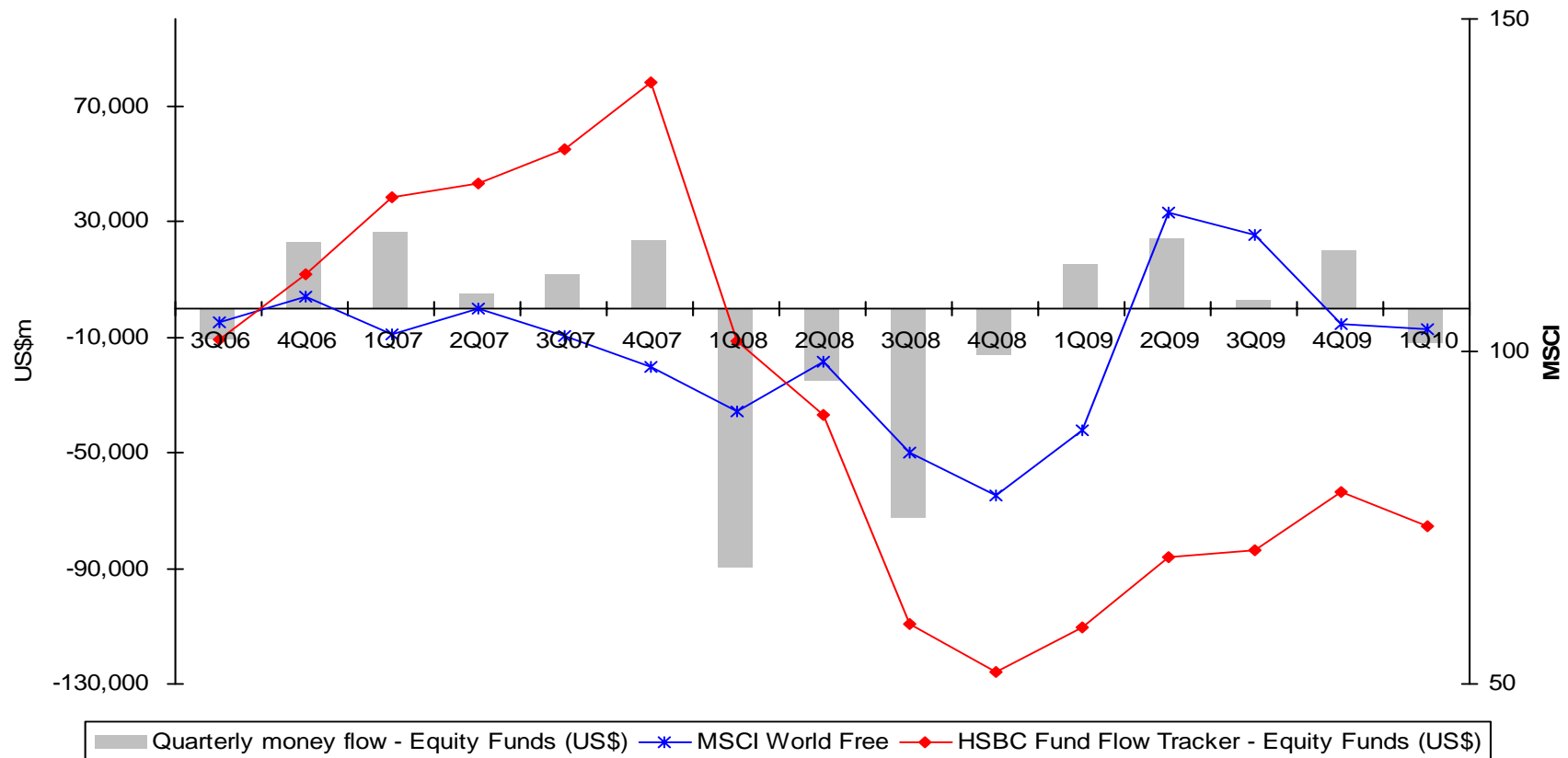


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Source: HSBC Survey. Net fund flow is derived by subtracting market change from FUM change during the period.

# HSBC fund flow tracker: equity funds

- Equity funds saw outflows on concerns that contagion risk of Greek debt crisis may derail global recovery.

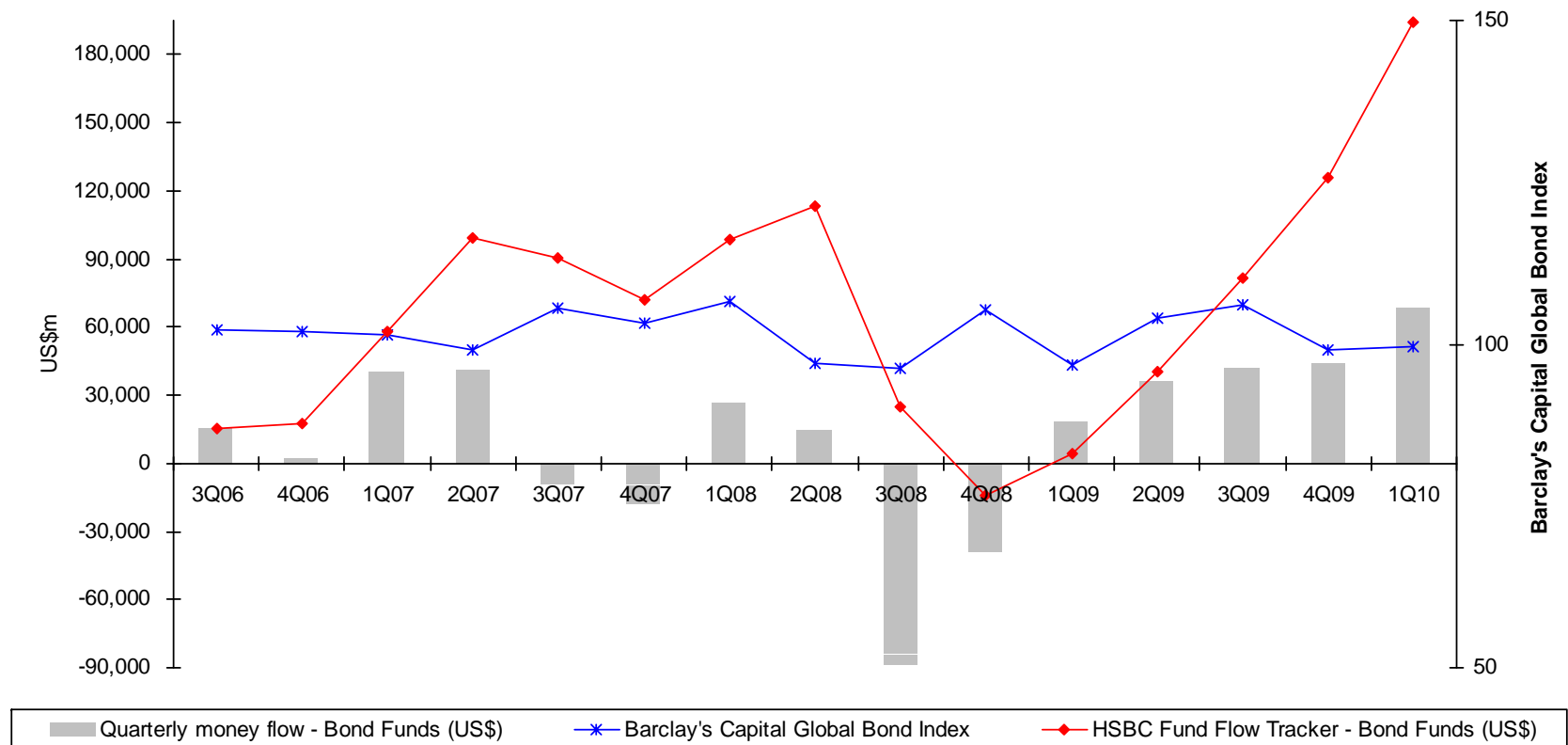


Note: The HSBC Fund Flow Tracker represents cumulative dollar value of money flows by quarter as reported in the HSBC Fund Managers Survey.



# HSBC fund flow tracker: bond funds

- Bond funds as a whole recorded the biggest inflow in 1Q10 since the survey as investors flee to the safety of bonds.



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



## 2Q10 asset allocation strategies by class

- Fund managers turned less bullish towards equities on concern that Europe's debt crisis poses risk to global economic recovery.
- The sovereign debt crisis also led more fund managers to take a neutral stance towards bonds.

Asset class allocation strategy	Underweight	Neutral	Overweight
Equities	20% (0%)	40% (50%)	40% (50%)
Bonds	0% (0%)	75% (56%)	25% (44%)
Cash	63% (71%)	38% (29%)	0% (0%)

Notes:

- *Figures in brackets indicate survey results from the previous quarter (1Q10).*
- *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.*

## 2Q10 asset allocation strategies by geography

- Over half of fund managers hold an underweight position towards Europe including UK equities in the wake of the European debt crisis.
- More fund managers are positive towards North America equities.
- No fund managers hold underweight position towards US dollar bonds and majority of fund managers are positive on global emerging market/high yield bonds.

Regional Allocation Strategy	Underweight		Neutral		Overweight	
	2Q10	1Q10	2Q10	1Q10	2Q10	1Q10
<b>Equities</b>						
North America	11%	20%	44%	30%	44%	50%
Europe (incl UK)	56%	40%	22%	40%	22%	20%
Japan	63%	50%	13%	40%	25%	10%
Asia Pacific ex Japan	0%	0%	63%	30%	38%	70%
Emerging Markets	25%	0%	0%	40%	75%	60%
Greater China	0%	0%	29%	25%	71%	75%
<b>Bonds</b>						
US Dollar	0%	11%	63%	56%	38%	33%
European	29%	13%	43%	38%	29%	50%
Asian Bond	33%	33%	50%	33%	17%	33%
Global Emerging Markets/High Yield	13%	0%	0%	63%	88%	38%

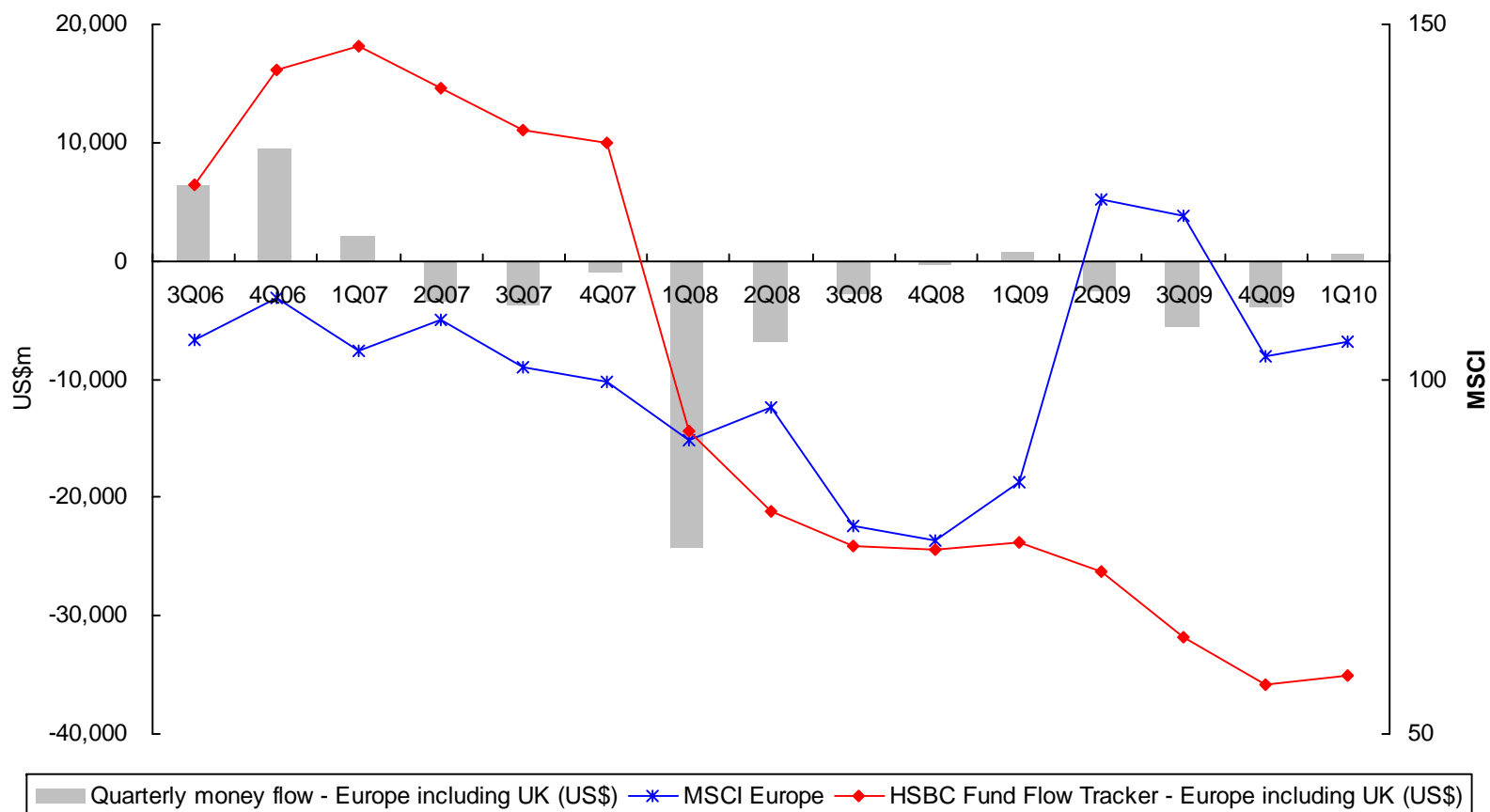
Note: Figures may not add up to exactly 100 per cent due to rounding.

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# HSBC fund flow tracker: Europe equity funds

- European debt crisis dampened investment sentiment toward Europe including UK equity.

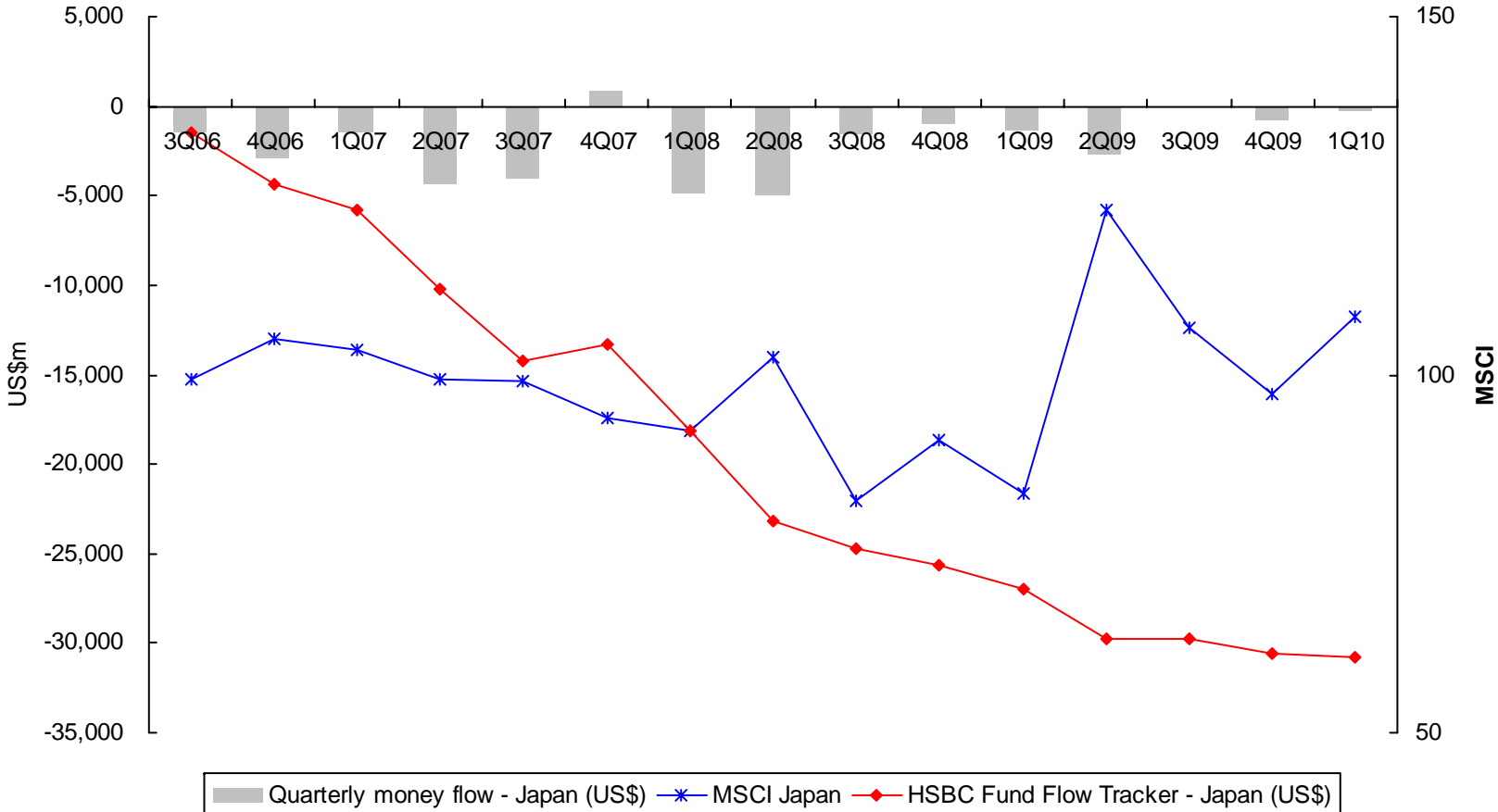


Note: The HSBC Fund Flow Tracker represents cumulative dollar value of money flows by quarter as reported in the HSBC Fund Managers Survey.



# HSBC fund flow tracker: Japan equity funds

- Japan equity funds saw continuous outflows since the start of HSBC fund flow tracker, but the pace had slowed.

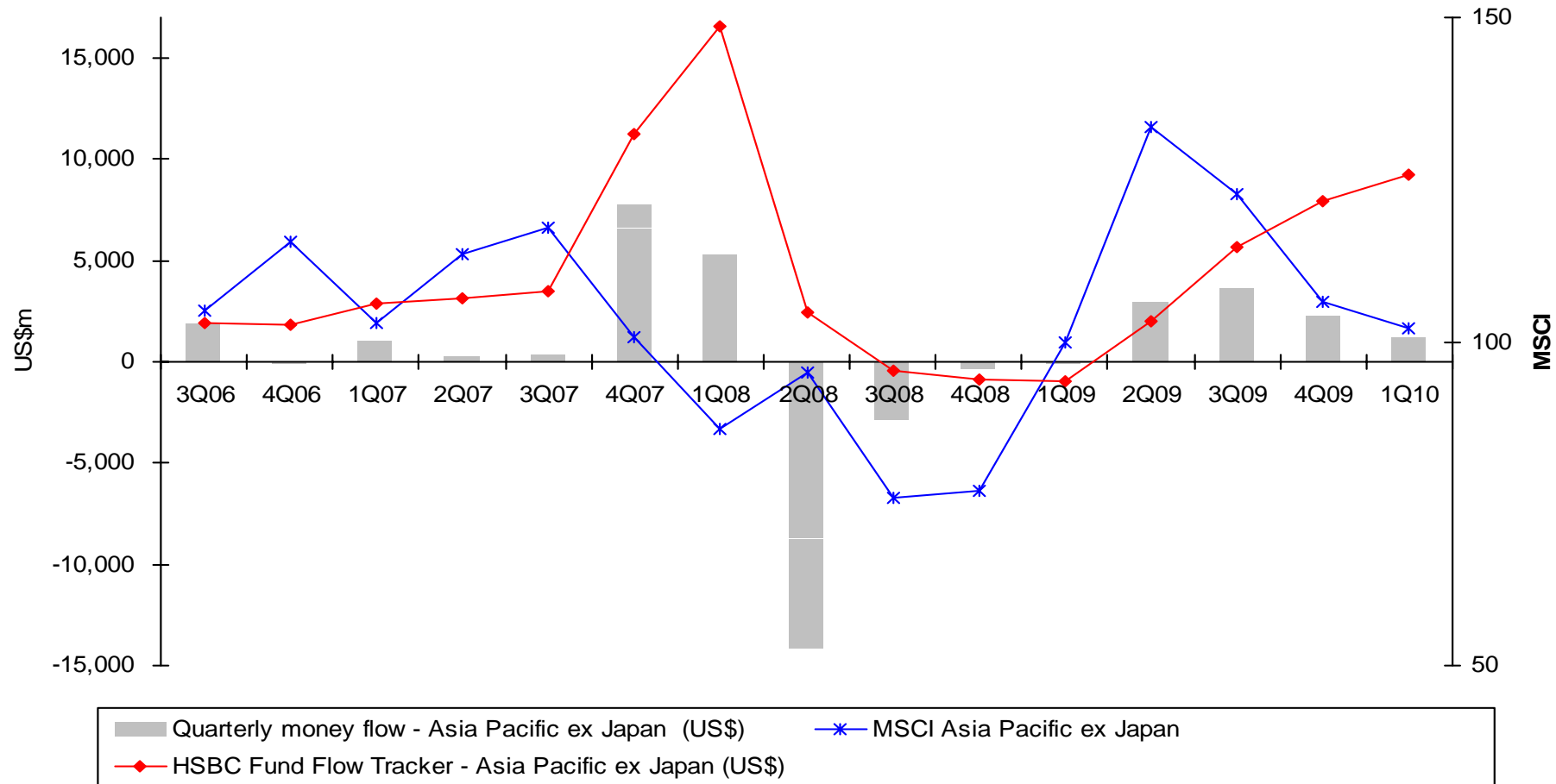


Note: The HSBC Fund Flow Tracker represents cumulative dollar value of money flows by quarter as reported in the HSBC Fund Managers Survey.



# HSBC fund flow tracker: Asia-Pacific ex-Japan equity funds

- Asia Pacific ex-Japan equity funds attracted inflows but the pace had decelerated.

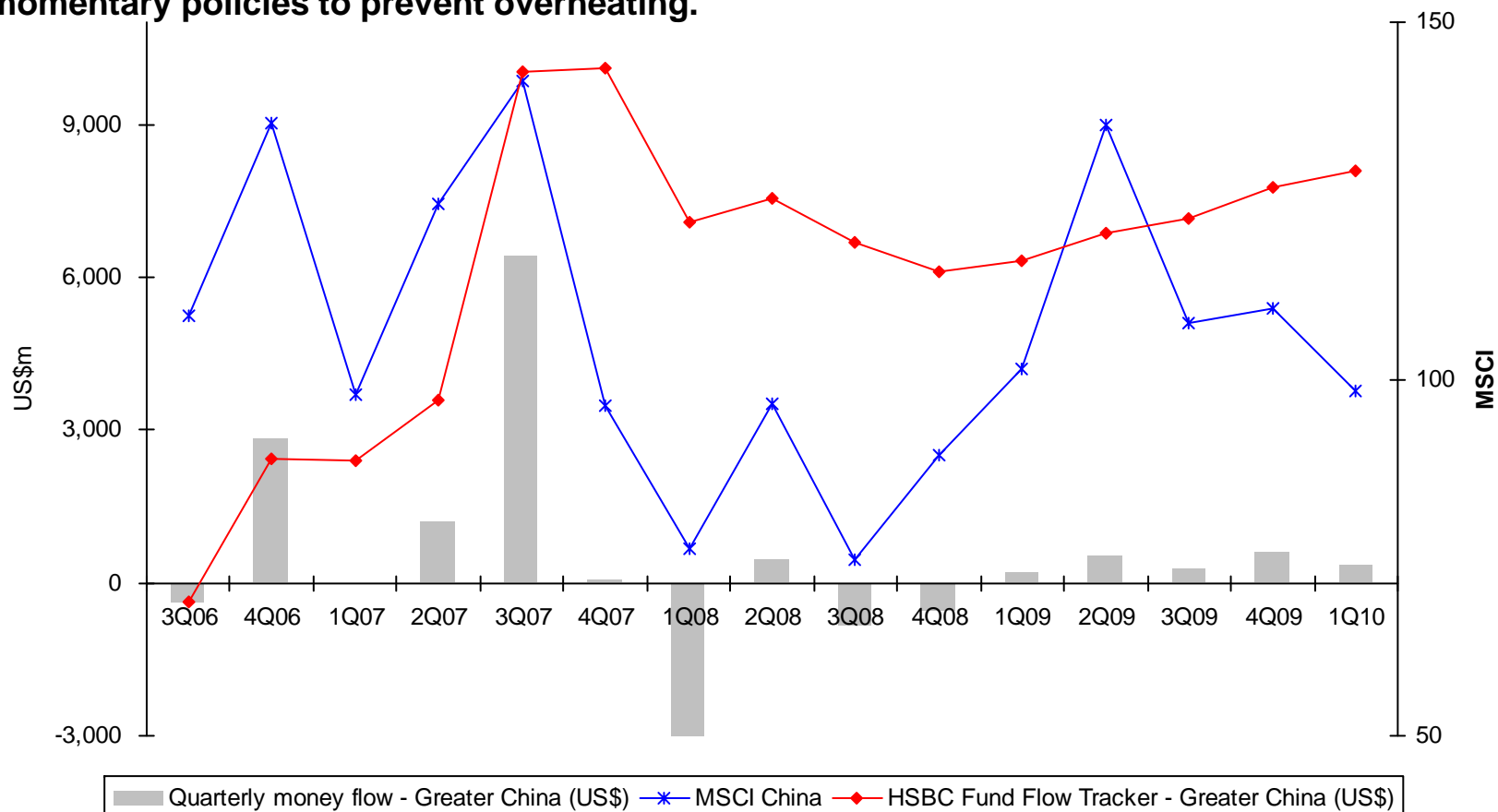


Note: The HSBC Fund Flow Tracker represents cumulative dollar value of money flows by quarter as reported in the HSBC Fund Managers Survey.



# HSBC fund flow tracker: Greater China equity funds

- Inflows to Greater China equities slowed down as concerns grew about increased more momentary policies to prevent overheating.

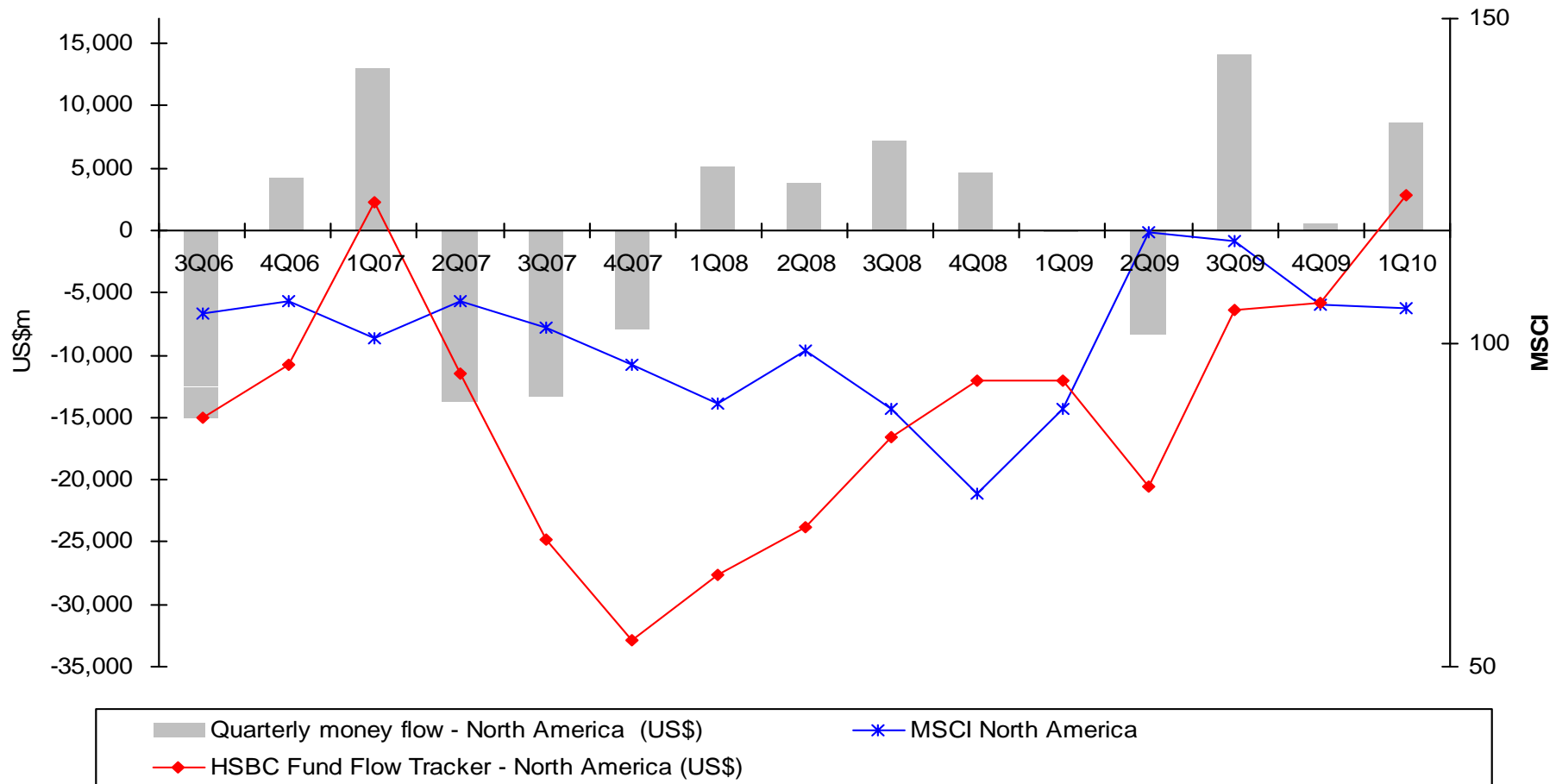


Note: The HSBC Fund Flow Tracker represents cumulative dollar value of money flows by quarter as reported in the HSBC Fund Managers Survey.



# HSBC fund flow tracker: North America equity funds

- North American equity funds continued to see inflows on improving economic conditions.



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



# Survey highlights

## Fund flows from 4Q09 to 1Q10

- Global bond funds saw the highest inflows in 1Q10.
- North American equity funds continued to see inflows.
- The pace of inflows to Asia Pacific ex Japan and Great China equities slowed down.

## Fund managers' views for 2Q10

- Fund managers became less bullish towards equities on concerns that Europe's debt crisis poses risk to global economic recovery.
- The sovereign debt crisis also led more fund managers to take a neutral stance towards bonds.
- Over half of fund managers hold underweight position towards Europe including UK equities and Japan equities.
- Three in four fund managers are bullish on emerging market equities in 2Q10 and the majority hold an overweight view towards global emerging market/high yield bonds.
- North American equities remained attractive with only 11 per cent of respondents holding an underweight view on US equities. No underweight views on US bonds.

# Survey highlights

## HSBC Fund Flow Tracker

- **Flows in 1Q2010 have been impacted by the contagion risk posed by the European debt crisis and potential regulatory risks elsewhere such as in mainland China.**
  - Outflows in equity funds as the European debt crisis dampened investment sentiment.
  - The biggest bond inflows since the survey was recorded as investors flee to safety.
  - Inflows to Greater China and Asia Pacific ex Japan equities have slowed.
- **Investors to remain cautiously optimistic and selective about asset allocation strategies.**
- **Investors to remain focused on the short-term with flexibility to rebalance.**

## 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.*