

26 June 2009

MORE FUND MANAGERS BULLISH ON GREATER CHINA EQUITIES THIS QUARTER, SAYS HSBC SURVEY

75 per cent of fund managers polled in HSBC's quarterly Fund Managers Survey are holding a positive view towards Greater China equities in the second quarter of 2009, up from 67 per cent or two-thirds 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. The sectors seeing some of the biggest shifts in sentiment included Japanese equities about which 70 per cent of respondents took an underweight view (versus 33% in 1Q09). Fund managers views are split on European equities, neutral views (36% in 2Q09 vs 56% in 1Q09) shifted to underweight (36% in 2Q09 vs 22% in 1Q09) or overweight (27% in 2Q09 vs 22% in 1Q09). On the other hand, 45 per cent of respondents are becoming neutral on North American equities (vs 33%). Details of the HSBC survey of fund manager sentiment are attached.

Views towards bonds remained bullish in 2Q09 as 7 in 10 fund managers held an overweight view compared to 57 per cent of the respondents in 1Q09. 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).

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

Francois Moreau, Managing Director, Head of Personal Financial Services in Japan, The Hongkong and Shanghai Banking Corporation Limited, said “Despite strong equity rallies at the end of the first quarter, 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.”

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\$102.1 billion, a drop of 4.05 per cent from 4Q08. Equity funds, which decreased by US\$85.3 billion, contributed the most to the 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%

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

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.

Moreau went on to say, "While investor confidence has slightly improved, investors remain cautious about the continued uncertainty in the global economy. Investors should remain in regular contact with their financial advisors to update their strategies – with a view to keeping a balanced and diversified portfolio. 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 such as 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.

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Notes to editors:

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.

More fund managers bullish on Greater China equities this quarter, says HSBC survey/4

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 9,500 offices in 86 countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa. With assets of US\$2,527 billion at 31 December 2008, 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 2.6 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 and Yokohama) and Kansai (Kobe) areas.

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HSBC Fund Managers Survey: Tracking Global Money Flows

26 June 2009

Survey objectives

- To identify global liquidity flows
- To understand the dynamics of 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 12.8 per cent of global funds under management (FUM)¹, participated in this quarterly survey: AllianceBernstein, Allianz Global Investors, Baring Asset Management, BlackRock, Fidelity Investment Management, Franklin Templeton Investments, 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 4Q08 and 1Q09².
- The survey also collected fund managers' views for 2Q09, covering a number of asset classes and markets

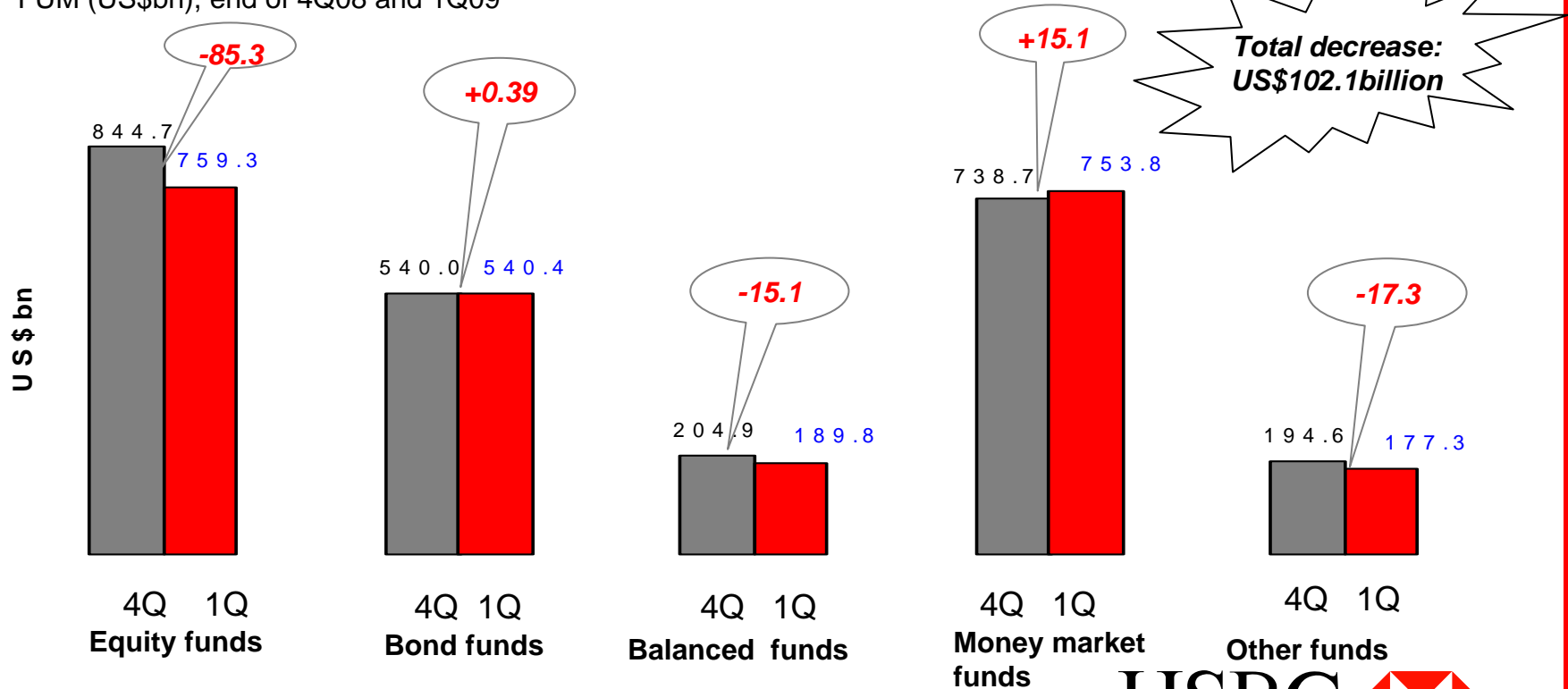
1. Total global FUM at the end of 4Q08 was US\$18.97trillion (Investment Company Institute)

2. 1Q09 data are as of 31 March 2009.

Funds under management in 1Q09

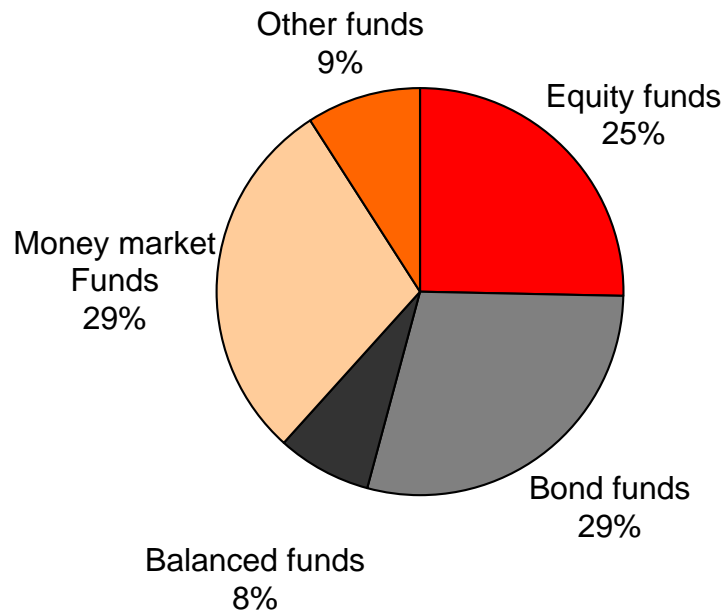
- Aggregated FUM of fund managers participating in survey reached US\$2.4 trillion as at the end of 1Q09. Survey estimates FUM recorded outflows of US\$102 billion between 4Q08 and 1Q09, representing a 4.05 per cent decrease.

FUM (US\$bn), end of 4Q08 and 1Q09

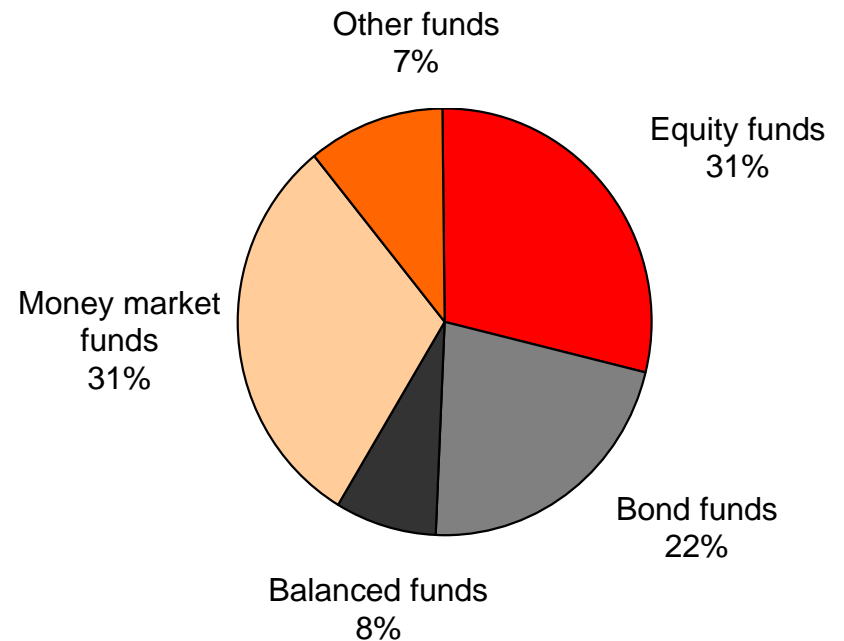


Breakdown of funds under management

FUM breakdown by asset type in 4Q08



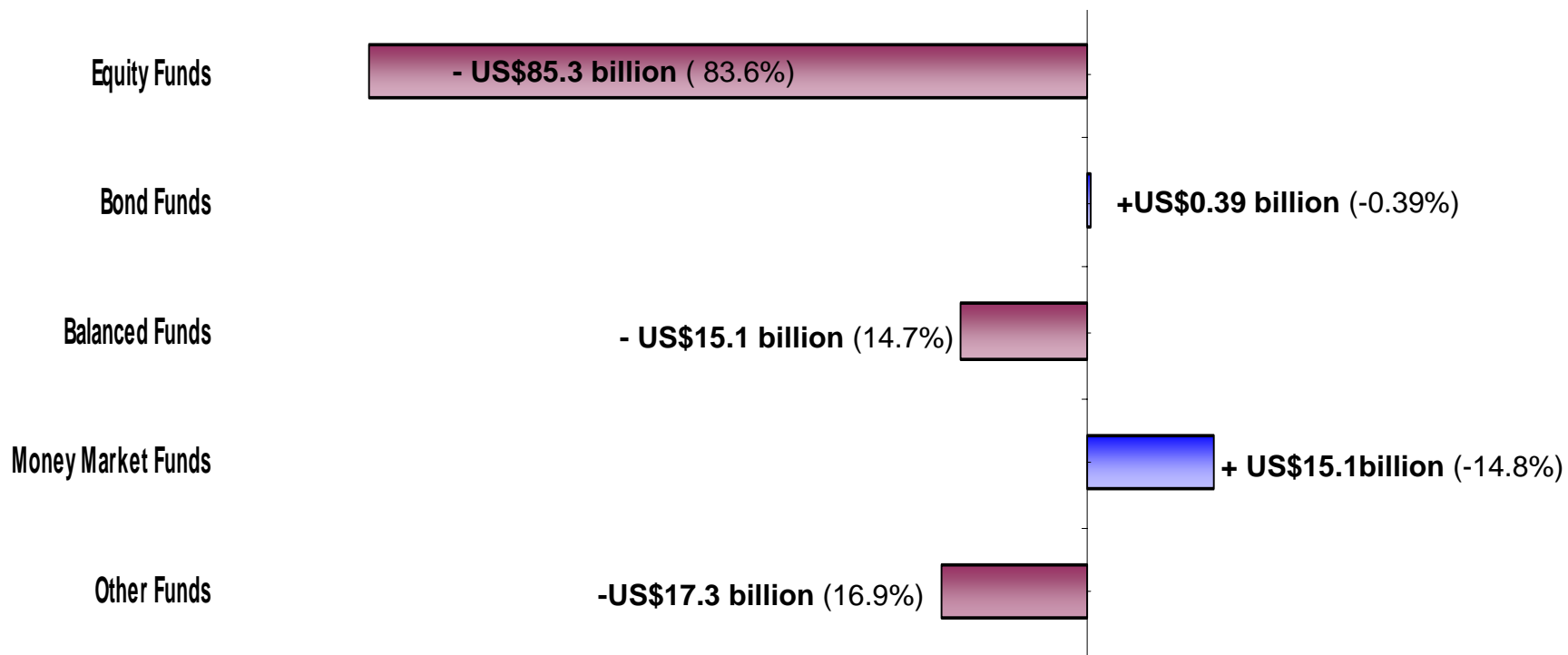
FUM breakdown by asset type in 1Q09



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 most to the FUM decrease during 1Q09



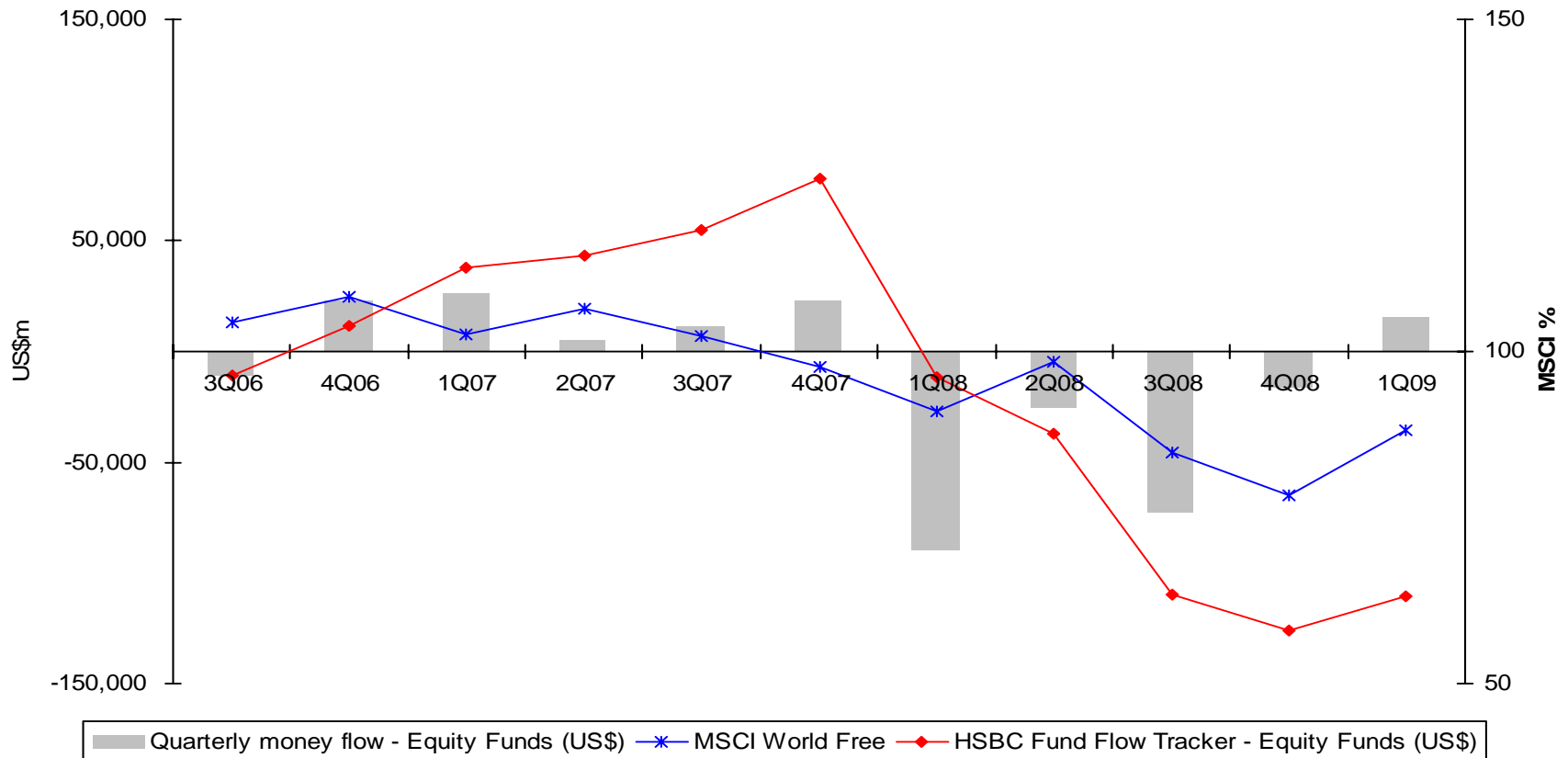
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HSBC Fund Flow Tracker – Equity Funds

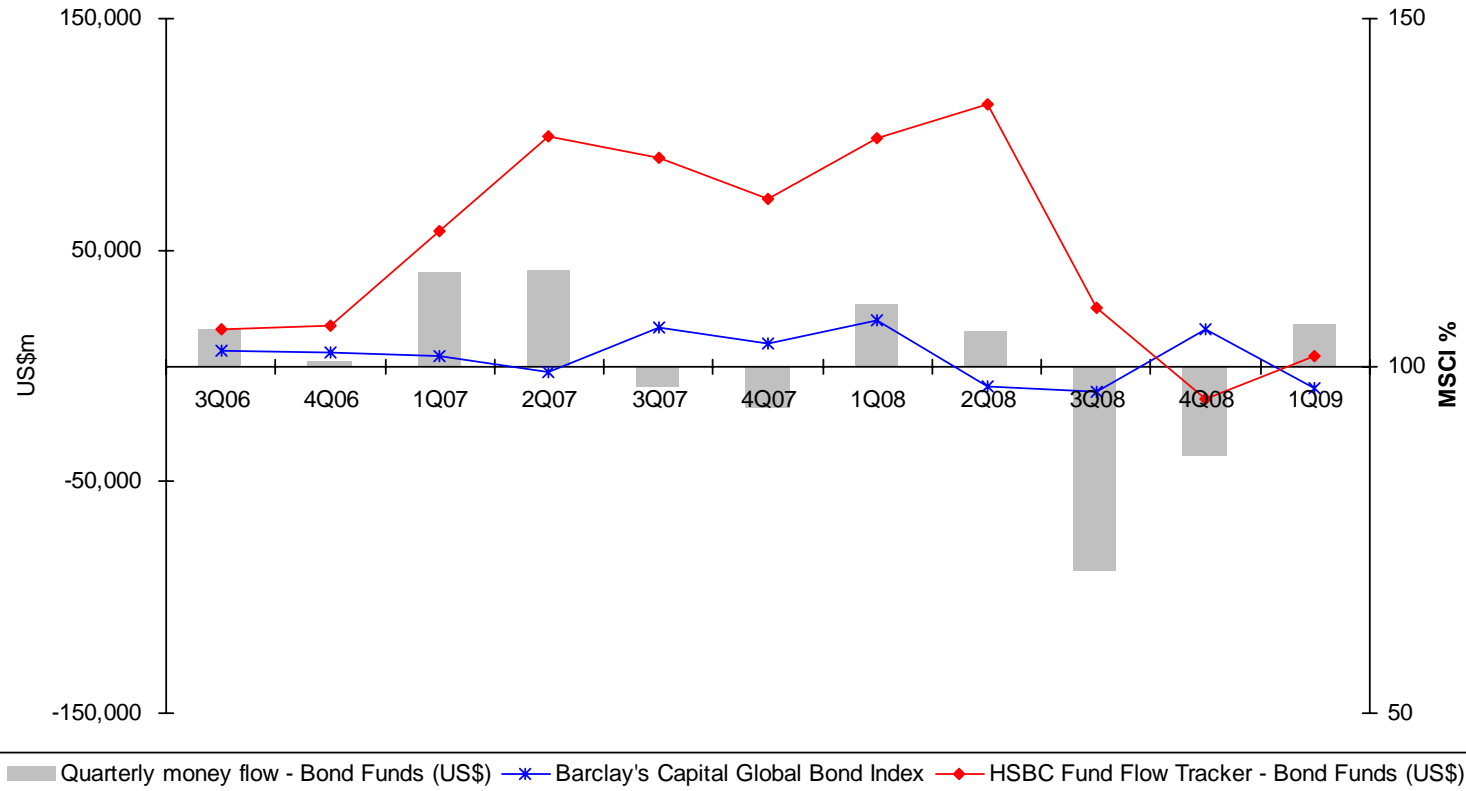
- Fund flows tracking market performance during 4Q08 to 1Q09. With improving equity market performance, 1Q09 recorded net inflows to equity funds.



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 saw inflows as a whole due to investors' flight-to-quality and gloomy economic outlook.

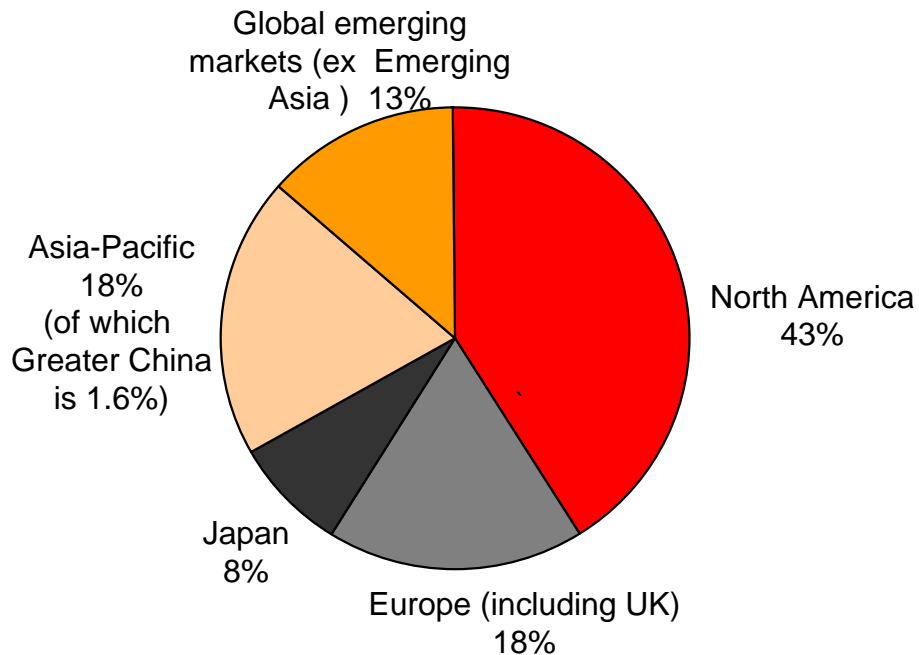


Note: The HSBC Fund Flow Tracker represents cumulative dollar value of money flows by quarter as reported in the HSBC Fund Managers Survey

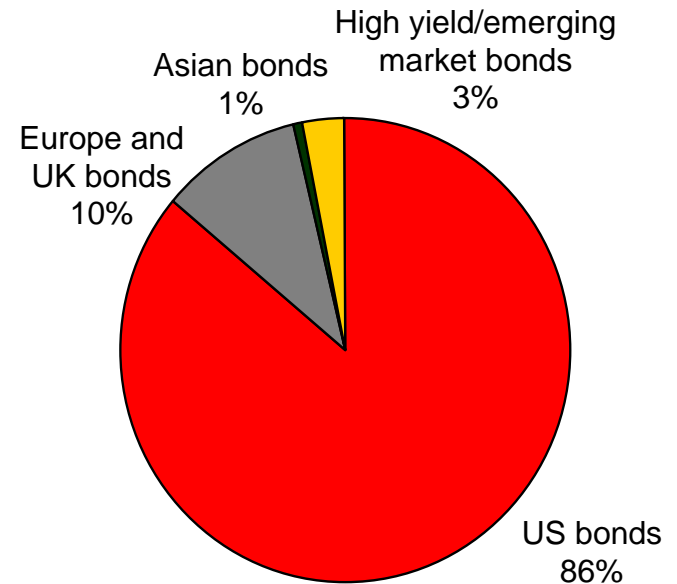
Breakdown of funds by geography

- US and Europe (including UK) still the dominating regions in equity / bond investments in 1Q09

Regional equity funds

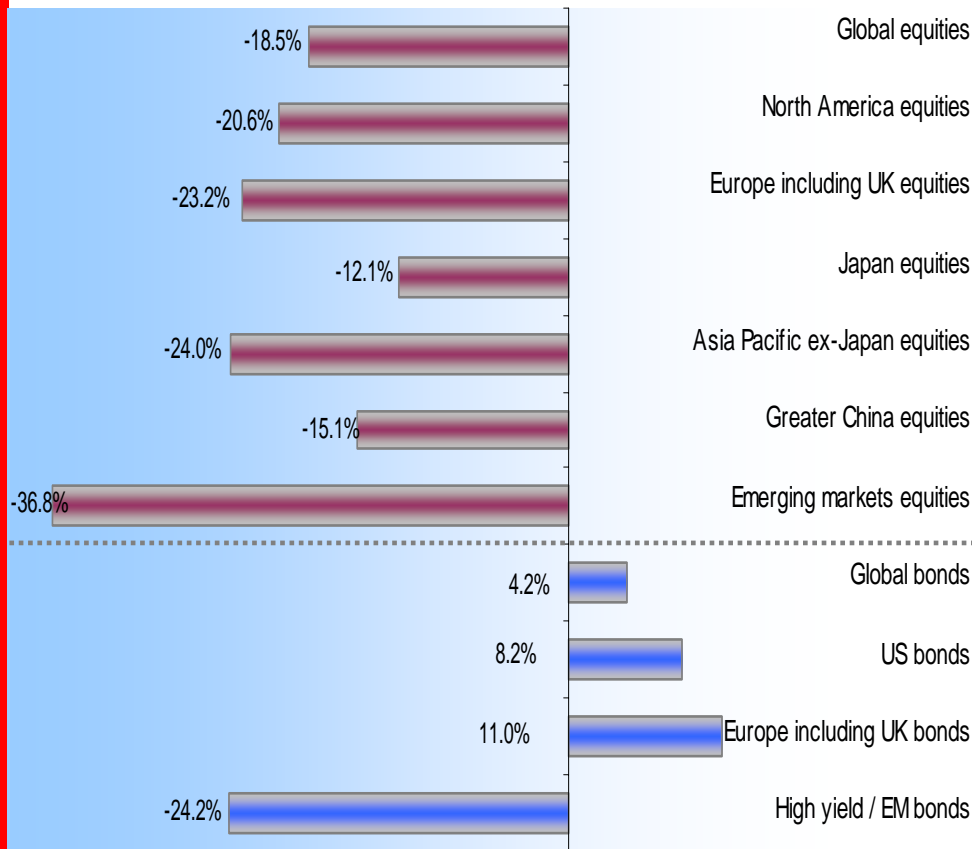


Regional bond funds

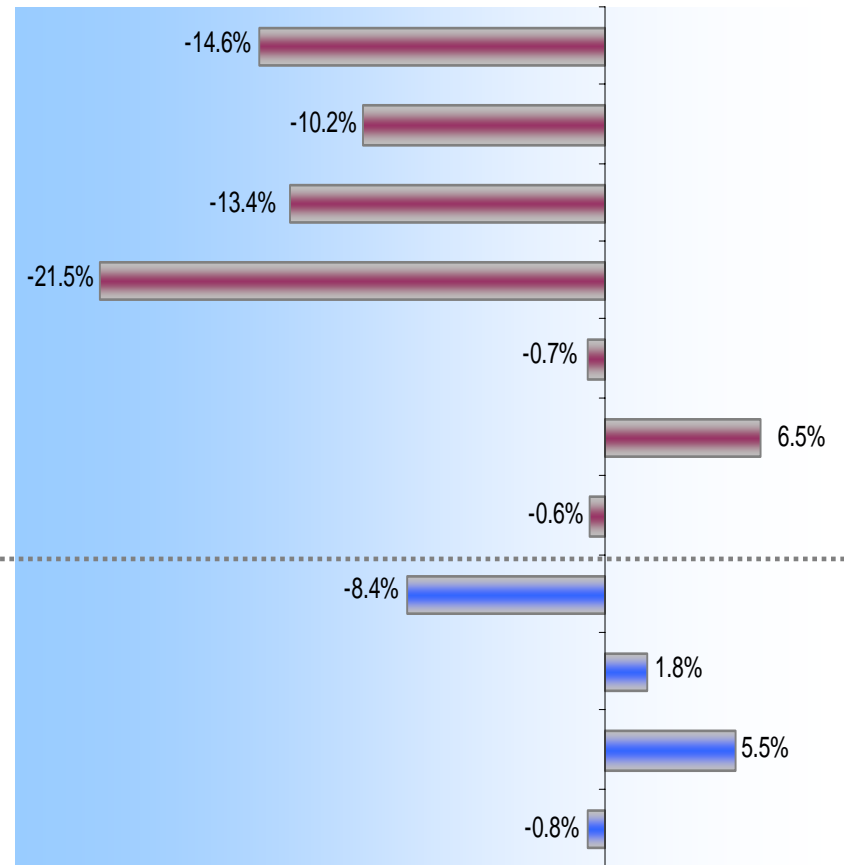




Change in funds under management

FUM growth/decline 4Q08



FUM growth/decline 1Q09

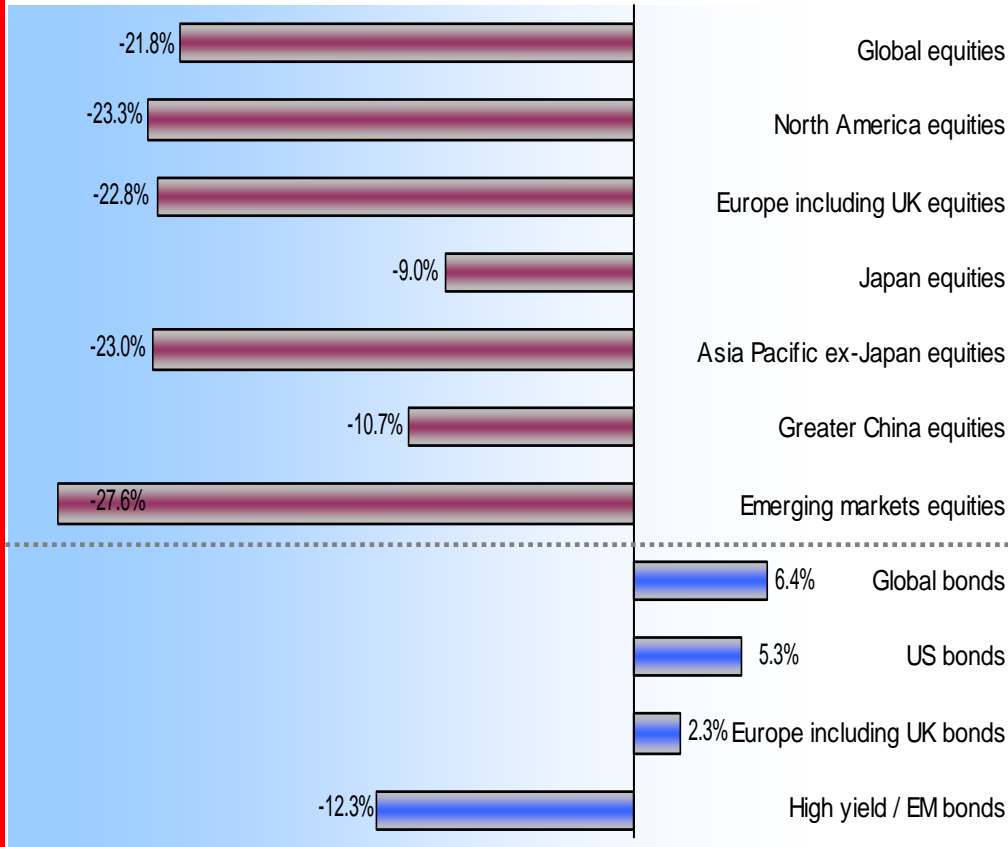


 **Equity funds**
 **Bond funds**

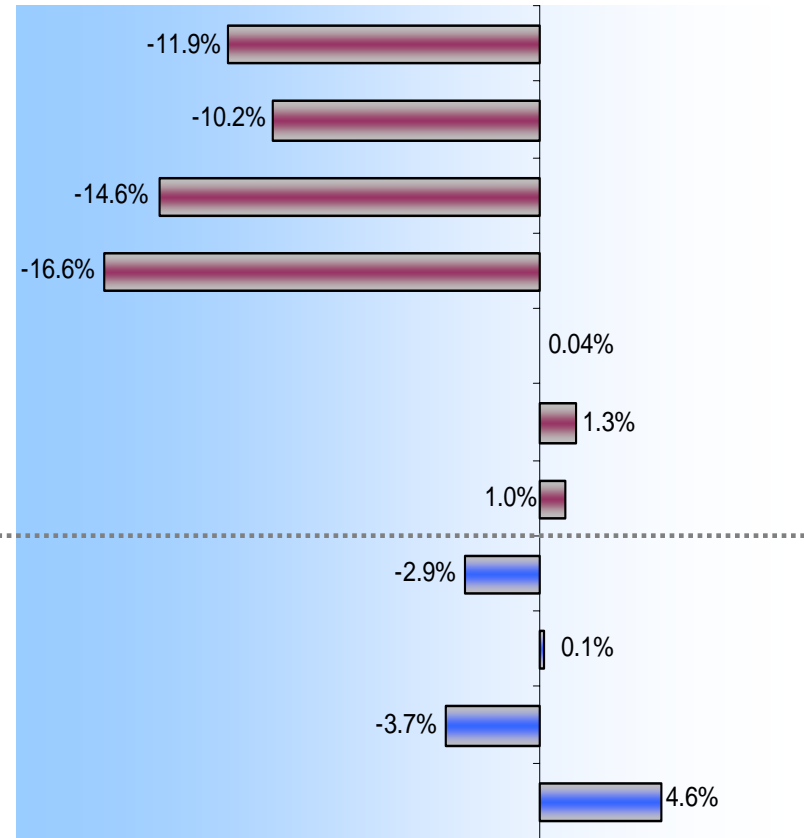
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Market performance in 4Q08 and 1Q09

Market performance in 4Q08



Market performance in 1Q09



 Equity funds
 Bond funds

Source: Bloomberg and Morningstar

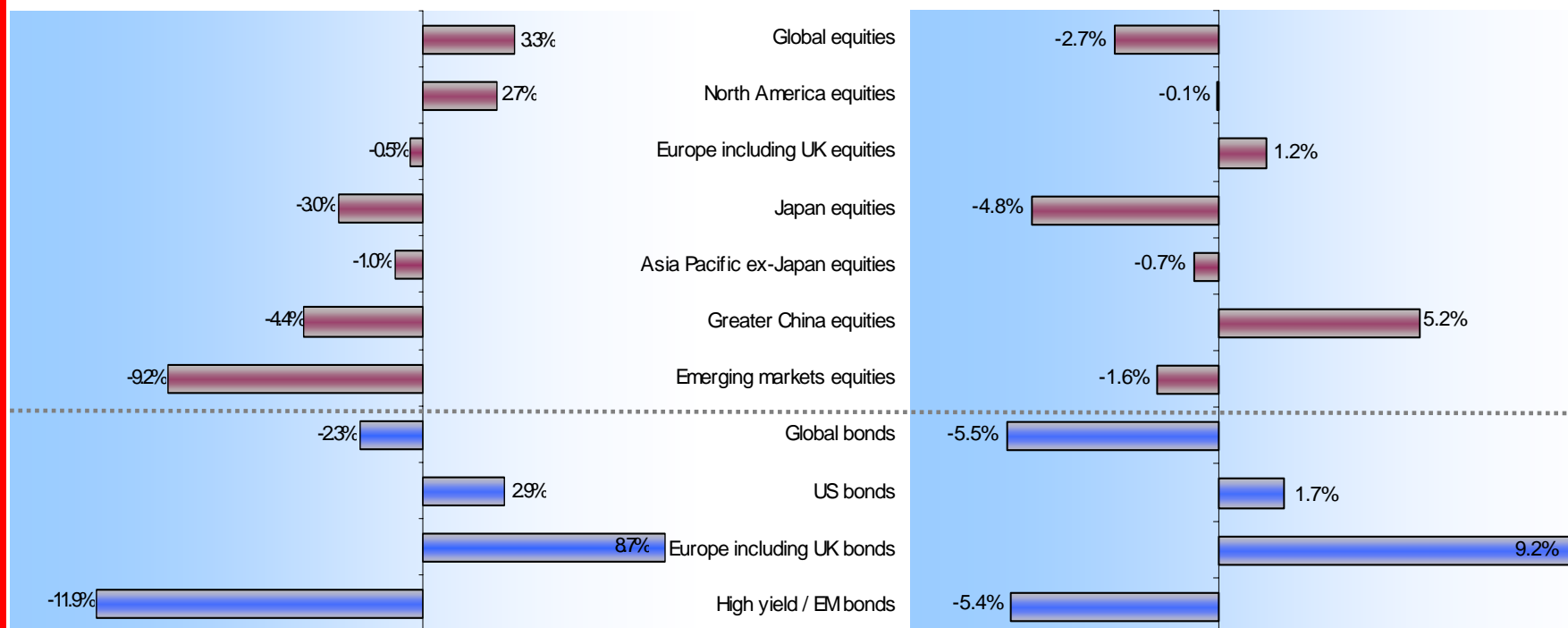
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Where did the money go?

- Greater China equity funds saw a 5.2% inflow, helped by China's emerging signs of recovery.
- Within fixed income range, European bonds posted the highest inflows due to loosening policies by the European Central Bank (ECB) and the Bank of England (BOE).

Estimate of net fund flow in 4Q08

Estimate of net fund flow in 1Q09



Equity funds
 Bond funds

Source: HSBC Survey

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2Q09 asset allocation strategies by class

- Fund managers polled remain cautious towards equity and are optimistic towards bonds.

Asset class allocation strategy	Underweight	Neutral	Overweight
Equities	40% (22%)	30%(44%)	30%(33%)
Bonds	10%(0%)	20%(43%)	70%(57%)
Cash	25%(17%)	50%(50%)	25%(33%)

Notes:

- Figures in brackets indicate survey results from the previous quarter (1Q09).
- Overweight:** Refers to an investment position that is larger than the generally accepted benchmark. It implies that one is more optimistic / bullish on the outlook on that position.
- Underweight:** Refers to an investment position that is smaller than the generally accepted benchmark. It implies that one is more pessimistic / bearish on the outlook on 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.

2Q09 Asset allocation strategies by geography

- On equities, interviewees remain most optimistic towards Greater China as China's latest economic indicators show growth recovery.
- Fund managers become less optimistic towards European equities and negative towards Japan equities on the worsening economic outlook.
- More fund managers favour global emerging markets /high yield bonds as financial markets are showing signs of stabilisation.

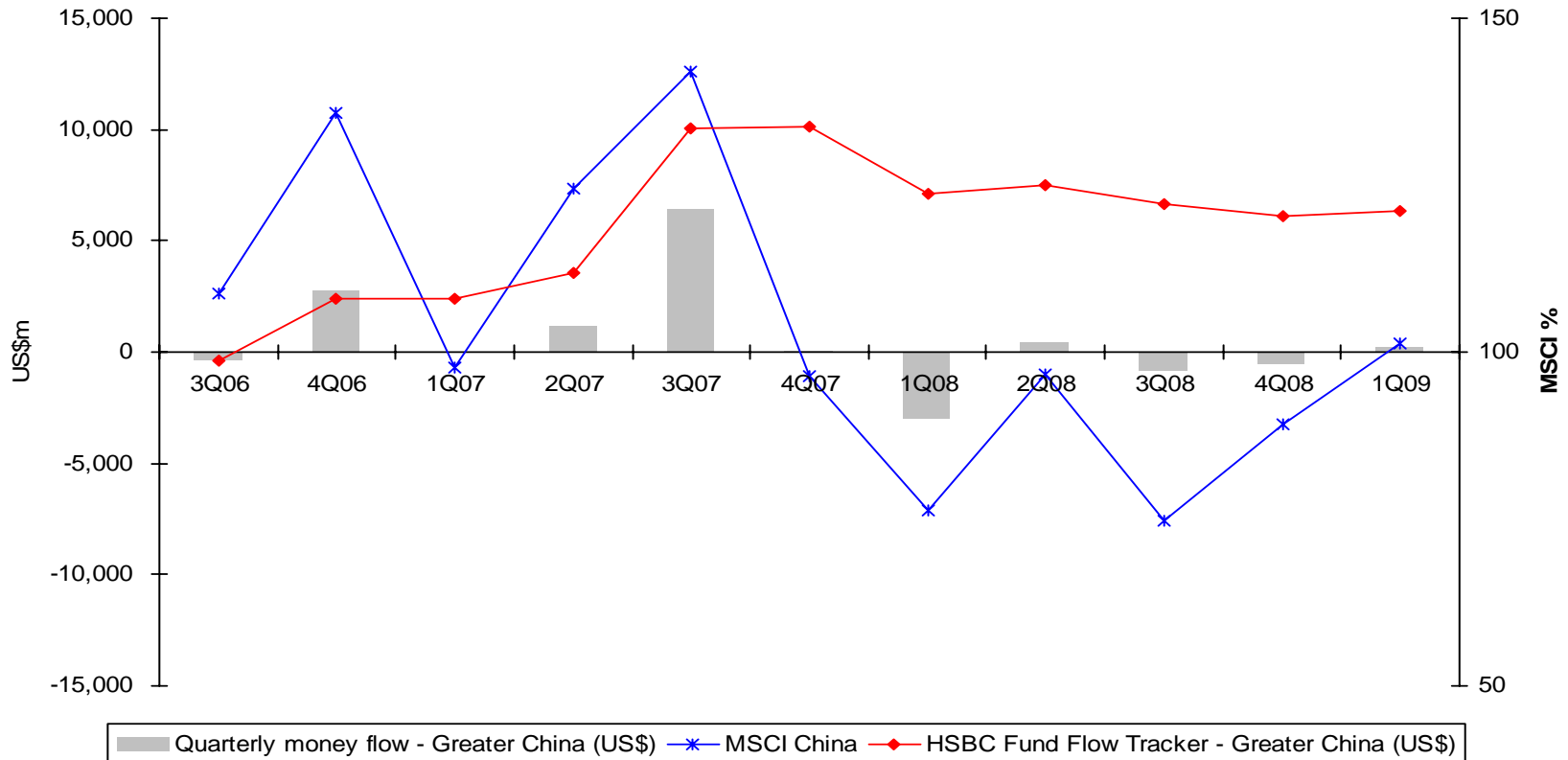
Regional Allocation Strategy	Underweight		Neutral		Overweight	
	2Q09	1Q09	2Q09	1Q09	2Q09	1Q09
Equities						
<i>North America</i>	27%	33%	45%	33%	27%	33%
<i>Europe (incl UK)</i>	36%	22%	36%	56%	27%	22%
<i>Japan</i>	70%	33%	20%	56%	10%	11%
<i>Asia Pacific ex Japan</i>	27%	22%	27%	33%	45%	44%
<i>Emerging Markets</i>	36%	38%	36%	25%	27%	38%
<i>Greater China</i>	0%	0%	25%	33%	75%	67%
Bonds						
<i>US Dollar</i>	11%	43%	44%	29%	44%	29%
<i>European</i>	0%	0%	44%	50%	56%	50%
<i>Global Emerging Markets/High Yield</i>	22%	33%	33%	33%	44%	33%
<i>Asian Bond</i>	25%	17%	38%	50%	38%	33%

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



HSBC Fund Flow Tracker – Greater China Equity Funds

- Stable fund flows support the positive view of fund managers



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 4Q08 to 1Q09

- Among equity funds, Greater China equity funds saw a 5.2% inflow, supported by China's emerging signs of recovery.
- Among fixed income funds, European bonds posted the highest inflows due to loosening policies by the European Central Bank (ECB) and the Bank of England (BOE).

Fund managers' views for 2Q09

- 7 in 10 fund managers hold an overweight view on bonds. They are overweight on bonds across all geographies.
- In general, fund managers are bearish on equities but within the equities sector, more have become bullish towards Greater China equities.

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.

Source of information

All graphs are derived from HSBC Fund Managers' Survey except for the graph on market growth (slide 11), which was sourced from Bloomberg and Morningstar.