

News Release

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FUND MANAGERS TURN POSITIVE ON GREATER CHINA EQUITIES

**** Over half of fund managers overweight Greater China equities ****

**** Positive outlook on Asian bonds and global emerging markets/high yield bonds ****

Global fund managers are most optimistic about Greater China¹ equities with 56% holding an overweight view in the first quarter of 2012 as they look to move away from cash to equities and bonds this quarter, according to HSBC's latest Fund Managers' Survey.

Over a tenth of fund managers shifted from neutral to overweight views towards Greater China equities in 1Q 2012, one of the worst performing asset classes last year that started to turn around in 4Q11. MSCI China and Hang Seng Index fell 18.2% and 17.3% in 2011, versus a 2.1% gain for Standard & Poor's 500 in the U.S. and a 10.5% drop for MSCI Europe. The performance reversed in the last quarter as Chinese equities recovered by 8.1%.

Glen Tonks, Head of Wealth at HSBC New Zealand, says: "Greater China equities are currently trading at a price-to-earnings ratio of nearly 10 times. With an attractive valuation, Greater China equities may offer potential wealth opportunities and diversification for New Zealand growth orientated investors. China's recent monetary easing measures such as cutting the reserve ratio requirement also improved market sentiment."

1Q 2012 asset allocation strategies

As equity markets rebound, fund managers are less bearish on equities with 50% and 30% of respondents holding neutral and overweight views, respectively (vs 20% and 30% in 4Q 2011). Only one-fifth (20%) of respondents hold an underweight view in 1Q 2012, dropping significantly from 50% in the previous quarter. Apart from Greater China equities, an increasing number of fund managers favour emerging markets equities (55%) and Asia Pacific ex Japan equities (40%) this quarter, compared with 27% and 20% respectively in 4Q 2011.

Over four in ten (44%) fund managers favour bonds as an asset class (vs. 22% in 4Q 2011). As many companies have solid fundamentals and are supported by relatively strong Asian economies, the majority of respondents are bullish on Asian bonds (88%) and global emerging markets/high yield bonds (78%) while bearish on European bonds (89%).

More fund managers are underweight towards cash (44% this quarter, compared with 22% in 4Q 2011).

"While the survey shows a continued and increasing preference for bonds as investors look for yield in a prolonged low interest environment, fund managers are looking at riskier assets again on the back of improving economies, resilient corporate earnings and attractive valuations," says Mr Tonks.

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Asset class allocation strategy

	Underweight		Neutral		Overweight	
	1Q 2012	4Q 2011	1Q 2012	4Q 2011	1Q 2012	4Q 2011
Equities	20%	50%	50%	20%	30%	30%
- <i>Greater China</i>	11%	11%	33%	44%	56%	44%
- <i>Emerging markets</i>	18%	18%	27%	55%	55%	27%
- <i>Asia Pacific ex. Japan</i>	30%	30%	30%	50%	40%	20%
Bonds	22%	22%	33%	56%	44%	22%
- <i>Asian</i>	0%	0%	13%	38%	88%	63%
- <i>Global emerging markets/high yield</i>	0%	11%	22%	11%	78%	78%
- <i>European</i>	89%	89%	11%	11%	0%	0%
Cash	44%	22%	33%	33%	22%	44%

4Q 2011 global fund flows

Funds under management (FUM) across the 13 of the world's leading fund management houses² polled reached US\$3.81 trillion³ at the end of 4Q 2011, up by 3.7% from the previous quarter. Reflecting investors' conservative outlook amidst a volatile market, money market funds contributed 36.2% of the increase in FUM.

The survey recorded a net outflow of USD42.2 billion for equity funds in 4Q 2011 as investor sentiment was dampened by the European debt crisis. As investors continued to search for safe havens, bond funds recorded a net inflow of USD19.7 billion last quarter, particularly US bonds.

Net fund flows⁴ (as a percentage of FUM):

Asset class	End 4Q 2011	End 3Q 2011
US bonds	+4.6%	-3.9%
Japan equities	+3.1%	-4.4%
Emerging markets/High yield bonds	+2.8%	-3.6%
Europe including UK bonds	+2.7%	-3.7%
Global bonds	+2.6%	-4.4%
Asian bonds	+0.5%	+4.7%
Emerging markets equities	-1.8%	-4.2%
Asia-Pacific ex-Japan equities	-2.0%	-6.4%
Europe including UK equities	-2.4%	+2.9%
North American equities	-2.8%	-2.7%
Greater China equities	-5.5%	+5.5%
Global equities	-6.1%	-2.9%

Market performance 4Q 2011 vs 3Q 2011

The majority of equity and bond funds recorded positive returns in Q4 2011. Greater China equities posted one of the largest rebound, becoming the second best performer in Q4 2011 (+8.1%) from being the worst performer (-25.2%) in Q3 2011. Emerging markets equities and Europe including UK

equities also showed a strong turnaround from -22.6% to +4.4% and from -22.6% to +5.1% in Q3 2011 and Q4 2011 respectively.

"This quarter, there are signs of improved investor outlook, with selective prospects in equities and bonds. New Zealand growth investors should consider opportunities in emerging markets, which are likely to be the prime beneficiaries coming out of the economic crisis. One good reason to invest in emerging markets is the exposure to rising domestic consumption. Emerging economies such as Brazil, Russia, India and China (BRIC nations) are among the fastest growing economies today and are increasingly being driven by domestic demand as exports as percentage of GDP falls," adds Mr Tonks.

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Notes to editors:

Footnotes

1: Greater China includes mainland China, Hong Kong and Taiwan

2: 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, Schroders Investment Management and Société Générale.

3: Funds under management of fund managers polled in 4Q 2011 reached US\$3.81 trillion, accounting for about 16% of global funds under management. According to the Investment Company Institute, total global FUM at the end of 3Q 2011 was US\$23.13 trillion

4: Net fund flows are derived by subtracting market change from funds under management (FUM) change during 4Q 2011.

More details of the survey

Please see the attached report **HSBC's Fund Managers' Survey: Tracking Global Money Flows** for more information. The survey was conducted in January and February 2012.

1. **HSBC in New Zealand** operates through a network of branches and offices, providing personal and commercial financial services, payment and cash management, trade finance, treasury and financial markets, corporate banking, investment advisory and securities custody services. The principal HSBC Group member in New Zealand is The Hongkong and Shanghai Banking Corporation Limited, incorporated in Hong Kong SAR, acting through its New Zealand branch.
2. **The Hongkong and Shanghai Banking Corporation Limited**
The Hongkong and Shanghai Banking Corporation Limited is the founding and a principal member of the HSBC Group which serves around 89 million customers through four global businesses: Retail Banking and Wealth Management, Commercial Banking, Global Banking and Markets, and Global Private Banking. The HSBC Group's network covers 7,200 offices in 85 countries and territories in six geographical regions: Europe, Hong Kong, Rest of Asia-Pacific, Middle East and North Africa, North America and Latin America. With assets of US\$2,556bn at 31 December 2011, HSBC is one of the world's largest banking and financial services organisations.

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