1st Annual European Government Bond Investors’ Survey

April, 2009
Survey Overview

- Compiled from February 09 to March 09
- Completed by 150 European Government Bond Investors

Type of Investor

- A good representation per type of investors
European Government Bond Investors Demographics

Assets Under Management

- Over 20bn, 35%
- 5bn to 20bn, 23%
- 1bn to 5bn, 21%
- 200m to 1bn, 14%
- Under 200m, 7%

- Good split of volumes of assets under management
- 54% of respondents in a Fund/Portfolio Manager function, 34% in a Trading function whilst only 1% are in an Operational function.

Position in Firm

- Trader: 7%
- Fund/Portfolio Manager: 54%
- Sales: 5%
- Market Professional: 1%
- Operations: 34%
European Government Bond Investors
Geographical Split

*Other are mostly Eastern and Central Europe

Geographical Locations

- Austria: 5%
- Asia: 5%
- Belgium: 4%
- Greece: 4%
- Germany: 10%
- Luxembourg: 23%
- North America: 1%
- Nordic region: 0%
- Middle: 2%
- Netherlands: 4%
- Portugal: 3%
- Spain: 12%
- Switzerland: 3%
- UK: 23%
- Other: 10%

% Responses
41% of the respondents said their overall holdings of European Government bonds over the next six months would remain more or less the same.

A bit of a surprise: 12% of the investors are planning to decrease their investments plans in European Government bonds when unprecedented amounts of issuance are forecast.

45% however believe their holdings in European Government bond will increase.
50% of respondent believe spreads will remain more or less the same

Almost an equal share of respondents believe spreads will tighten somewhat (25%) as believe spreads will widen significantly (22%)

There is very little support for significant tightening in the market; or a significant widening
Only a minority (14%) think that country spreads will remain more or less the same which suggests a forecast of a continued volatility trend.

The largest amount (47%) of respondents believe country spreads between European Government bonds will widen somewhat which further supports the volatility trend.
2 and 5 year bonds are the investors’ most favoured maturity bands which was further supported by the fact that some respondents wrote in to suggest maturity bands between 2 and 5 years.
The majority of the investors believes that competitive auctions (46%) and syndications (35%) are the best methods of issuance for the market.
Secondary market liquidity and transparency are key criteria to decide to invest in particular European Government bonds.

Spreads relative to Germany are also an important criteria taken into account by the investors.

Range of products offered by issuers is however the least important criteria in their investment decision strategy.
Swaps to Spreads

Change in Swap Spreads for European Government Bonds over Next Six Months

- Narrow significantly: 3%
- Narrow somewhat: 33%
- Remain the same: 31%
- Widen somewhat: 30%
- Widen significantly: 4%

Very even distribution of results which shows an absence of consensus amongst investors regarding the change in swap spreads.

Equally split between the respondents: 1/3 believe they will narrow somewhat, 1/3 that they will remain more or less the same and 1/3 finally believe they will widen somewhat.
Again, little consensus. Almost half believe it will decrease somewhat (43%) but others believe it will increase somewhat (29%) or it will remain the same (17%).
A majority of investors believes the inflation rate will be lower over the next six months (61%)

Only a minority thinks it will be higher (14%)
Half of the respondents believe that inflation-linked bonds, as part of the issuance programme, are important.

A third however are neutral whereas 1/5 do not think inflation-linked bonds are important.
Opportunity for Some Form of Common Issuance in Europe

Support of Common Debt Issuance

- 59% of the investors support some form of common issuance
- No consensus amongst the respondents on the form of common issuance (only 13% would see it in a T-Bill programme whereas 21% would see it amid AAA issuers)
Key Trends & Conclusions

1. Overall holdings in European Government Bonds will remain more or less the same over the next six months for 2/5 of the investors although a third of respondents believe it will increase.

2. There is a consensus amongst the investors that the volatility trend for spreads will continue this year.

3. There is no consensus amongst investors regarding the change in swaps spreads nor the change in country spreads between European Government bonds.

4. The key criteria for investing in a particular European bond is secondary market liquidity and transparency as well as the bond spreads relative to Germany. The range of products offered does not affect their investment choice particularly.

5. A majority of investors agrees that the inflation rate will be lower over the next six months and nonetheless still believes inflation-linked bonds as part as the issuance programme are important.

6. Finally a clear majority of investors supports some sort of common issuance although there is no consensus on the most appropriate form of issuance.
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