Challenger stalks HSBC funds arm

The financial services group, under pressure to revive operations, is in talks to buy a $3.5 billion fund

By **DUNCAN HUGHES**

CHALLENGER Financial Services — part-owned by Kerry Packer, Australia's richest man — has confirmed it is in talks to buy the struggling $3.5 billion local fund management division of HSBC, the world's second-largest bank.

Challenger has in recent months been under intense pressure to revive its operations by restructuring its life operation, selling overseas assets and committing to rebuilding its wealth management division.

Wealth management is run by Chris Cuffe, the one-time boss of Colonial First State, the large fund management operation, owned by Commonwealth Bank.

HSBC's local asset management operation has been struggling to improve the performance of its flagship funds and does not own its distribution channels, relying on dealer groups and wholesale investment platforms.

A price tag for HSBC will be based on the split between retail and wholesale funds, length of investment mandates, regular fee income, the level of free reserves held by the funds and investor goodwill.

After 24 years in the Australian fund management business, HSBC is ranked 43rd in the retail market with a 0.2 per cent share, and 32nd in the wholesale market with 0.6 per cent, according to actuaries and researchers Plan For Life. HSBC's share of the retail market has been falling for the past five years.

HSBC is represented in all the major asset classes — Australian, international, fixed income, emerging markets and hedge funds — with property holdings of about $2 billion.

Its top five funds, measured by net assets, are in the third or fourth quartile for investment returns over the past three years, according to Morningstar Research. Its flagship Active-Growth Fund has underperformed the index over one and three years by about 4 per cent and 2 per cent respectively.

Challenger Financial, which announced the talks to the Australian Stock Exchange yesterday, has three core businesses in life, wholesale finance and wealth management. Mr Cuffe's wealth management division provides asset and fund management, funds administration and financial planning.

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At last month's half-year results, wealth management losses fell from $6 million to $1 million. The wealth management unit is expected to be consistently profitable from the second half of 2006.

The company said its reintegration was "largely complete" and that it would focus on developing its brand and a network of financial planners.

During 2004, fund and asset management increased from $7 billion to about $10 billion, with Australian equities rising by 75 per cent to $2 billion-plus.