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Trends in the European Investment Fund Industry in the First Quarter of 2003

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Trends in the European Investment Fund Industry

The combined assets of the investment fund market in Europe, i.e. the market for UCITS¹ and other nationally regulated types of investment funds, fell by 1.0% during the first quarter of 2003 (Table 1). The decline was concentrated in equity funds, which suffered from the fall in stock markets that preceded the Iraq war. **Investors reacted to the stock market downturn by increasing their purchases of fixed-income and real estate funds. Investor demand for capital guaranteed/protected funds was also very strong, boosting assets by 14% to a record EUR 139 billion. These developments contributed to offset almost entirely the negative market impact on the fund industry's total assets in the first quarter of 2003.**

Three countries (France, Luxembourg and Germany) continue to dominate the industry with a global market share of 59%. Italy and the United Kingdom follow in this ranking.

With EUR 3,265 billion invested in UCITS, this segment of the business accounted for 77.5% of the fund market at end-March 2003.

Table 1. Net Assets of the European Investment Fund Industry						
	31/03/2003		31/12/2002		31/03/2002	
Members	EUR m	Share	EUR m	% chg ⁽¹⁾	EUR m	% chg ⁽²⁾
Austria	86,595	2.1%	85,821	0.9%	86,643	-0.1%
Belgium	74,552	1.8%	77,181	-3.4%	84,294	-11.6%
Czech Republic	3,565	0.1%	3,304	7.9%	2,858	24.7%
Denmark	39,115	0.9%	38,293	2.1%	41,198	-5.1%
Finland	17,596	0.4%	15,749	11.7%	15,853	11.0%
France	916,850	21.8%	889,330	3.1%	936,300	-2.1%
Germany	746,450	17.7%	750,964	-0.6%	809,508	-7.8%
Greece	27,942	0.7%	27,096	3.1%	26,034	7.3%
Hungary	4,474	0.1%	3,974	12.6%	3,426	30.6%
Ireland	300,334	7.1%	303,881	-1.2%	328,581	-8.6%
Italy	371,254	8.8%	371,417	0.0%	412,316	-10.0%
Liechtenstein	3,447	0.1%	3,675	-6.2%	--	--
Luxembourg	823,936	19.6%	844,508	-2.4%	967,726	-14.9%
Netherlands	106,300 ⁽³⁾	2.5%	106,300 ⁽³⁾	--	106,300	--
Norway	13,409	0.3%	14,753	-9.1%	17,413	-23.0%
Poland	6,038	0.1%	5,528	9.2%	3,752	60.9%
Portugal	24,845	0.6%	24,509	1.4%	24,595	1.0%
Spain	177,980	4.2%	172,913	2.9%	181,743	-2.1%
Sweden	54,508	1.3%	56,065	-2.8%	76,708	-28.9%
Switzerland	75,889	1.8%	86,462	-12.2%	96,222	-21.1%
United Kingdom	336,354	8.0%	370,235	-9.2%	536,452	-37.3%
All Funds	4,211,432	100.0%	4,251,957	-1.0%	4,757,921	-11.5%
UCITS Assets	3,265,059	77.5%	3,298,031	-1.0%	3,712,406	-12.1%
Non-UCITS Assets	946,373	22.5%	953,927	-0.8%	1,045,516	-9.5%

(1) End-March 2003 compared to end 2002.

(2) End-March 2003 compared to end-March 2002.

(3) Figure at end 2001.

¹ UCITS is used in this note in the sense of publicly offered open-end funds investing in transferable securities and money market funds.

Trends in the UCITS industry

Total assets in the UCITS market dropped by 1.0% during the first quarter of 2003 (Table 2). This decline largely reflected declining stock prices and net outflows from equity and balanced funds. The combination of these factors left equity fund assets at EUR 901 billion at the end of March 2003, the lowest level in four years.

Investor's response to the slide in stock prices was in line with the well-established pattern of strong net inflow to money market and bond funds during market downturns. Chart 1 shows that this pattern accelerated in the first quarter with money market and bond funds benefiting from a record EUR 57 billion of net inflows in the group of countries reported in Table 2. **The consequence of these developments was that the share of assets held in bond and money market funds was 55% at the end of March 2003, compared to 43% one year before.**

Table 2. Breakdown of UCITS Assets by Category ⁽¹⁾						
Fund types	31/03/2003		31/12/2002		31/03/2002	
	EUR bn	Share	EUR bn	% chg ⁽²⁾	EUR bn	Share
Equity	901	30%	988	-8.8%	1,398	40%
Balanced	414	14%	434	-4.6%	519	15%
Total Equity & Balanced	1,314	43%	1,421	-7.5%	1,917	55%
Bond	992	33%	964	2.9%	924	27%
Money Market	666	22%	614	8.5%	562	16%
Other	57	2%	60	-4.3%	70	2%
All Funds	3,030	100%	3,060	-1.0%	3,473	100%
including Ireland	3,265		3,298	-1.0%	3,712	

(1) Excluding Ireland for which no data breakdown is available.

(2) End-March 2003 compared to end-December 2002.

Table 3. Net Sales of UCITS in the First Quarter of 2003 ⁽¹⁾					
Members	Equity Funds	Bond Funds	Balanced Funds	Money Market Funds	Total
Austria	37	410	21	687	1,155
Czech Republic	1	136	-96	246	287
Denmark	-400	1,957	8	0	1,565
Finland	109	244	-3	1,846	2,196
Germany	-1,121	2,364	-635	3,422	4,030
Greece	-95	690	-2,505	3,206	1,296
Italy	-4,893	7,453	-4,861	8,264	5,962
Liechtenstein	-38	-37	-1	27	-50
Luxembourg	-5,853	14,317	2,448	810	11,722
Norway	-156	220	-20	394	439
Portugal	-72	207	-84	-7	44
Spain	2,775	3,240	-2,347	2,237	5,905
Sweden	1,038	335	266	455	2,094
Switzerland	-103	-253	-460	1,842	1,026
United Kingdom	-151	1,991	57	79	1,976
Total	-8,922	33,274	-8,212	23,508	39,647

(1) In EUR millions for FEFSI members for which data are available; these controlled 63% of total UCITS assets at end 2002.

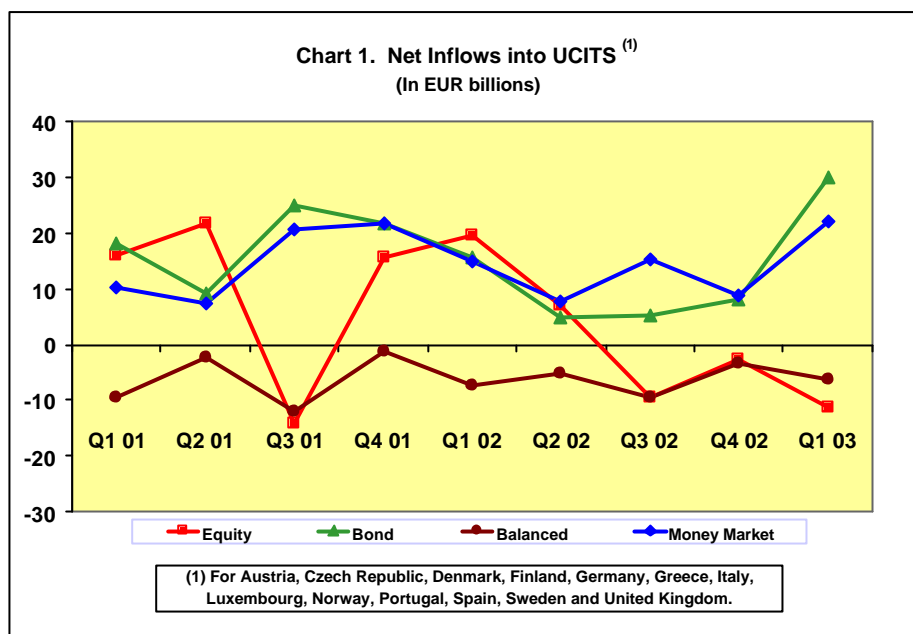


Chart 2 compares the recent pattern of net inflows into equity funds, expressed as a percentage of prior quarter-end assets, with the stock market performance, measured as the quarter-to-quarter percentage change in the Dow Jones Broad Europe STOXX index. The evidence reported here indicates that quarterly inflows into equity funds are driven by investor reactions to stock market fluctuations. The negative flows observed in the third quarter of 2001 were triggered by sharp falls in stock prices but could be reversed in the following quarter thanks to a strong stock market's rally at the end of 2001. Stock prices plunged again during the third quarter of last year, and so did equity inflows. Chart 2 also suggests that the stock market rebound at the end of last year was not strong enough to produce positive inflows, and investors remained very cautious in the first quarter of this year as stock prices slipped down again.

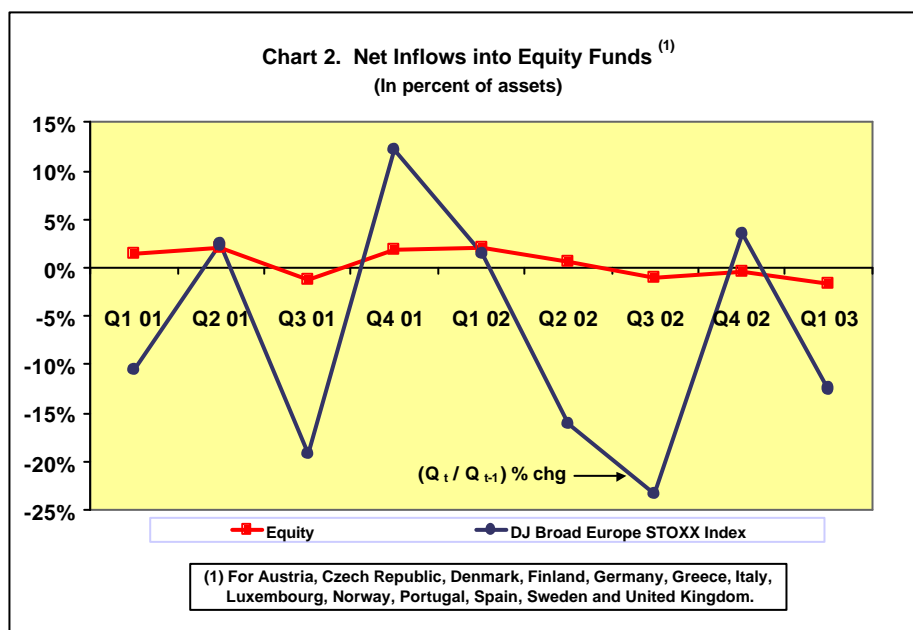


Table 5. Net Assets of the European UCITS Industry

Members	31/03/2003		31/12/2002		31/03/2002	
	EUR m	Share	EUR m	% chg ⁽¹⁾	EUR m	% chg ⁽²⁾
Austria	64,980	2.0%	63,771	1.9%	64,417	0.9%
Belgium	68,894	2.1%	71,501	-3.6%	79,048	-12.8%
Czech Republic	3,406	0.1%	3,144	8.3%	2,432	40.0%
Denmark	32,526	1.0%	31,739	2.5%	35,857	-9.3%
Finland	17,596	0.5%	15,749	11.7%	15,853	11.0%
France	831,800	25.5%	805,900	3.2%	842,300	-1.2%
Germany	192,965	5.9%	199,455	-3.3%	244,024	-20.9%
Greece	26,432	0.8%	25,385	4.1%	23,864	10.8%
Hungary	4,266	0.1%	3,808	12.0%	3,364	26.8%
Ireland	235,505	7.2%	238,501	-1.3%	239,824	-1.8%
Italy	360,426	11.0%	360,693	-0.1%	403,639	-10.7%
Liechtenstein	3,435	0.1%	3,668	-6.4%	--	--
Luxembourg	749,377	23.0%	766,539	-2.2%	886,900	-15.5%
Netherlands	88,800 ⁽³⁾	2.7%	88,800 ⁽³⁾	--	88,800	--
Norway	13,409	0.4%	14,753	-9.1%	17,413	-23.0%
Poland	5,562	0.17%	5,214	6.7%	3,683	51.0%
Portugal	19,068	0.6%	19,042	0.1%	19,226	-0.8%
Spain	175,582	5.4%	170,814	2.8%	180,129	-2.5%
Sweden	53,735	1.6%	55,299	-2.8%	76,182	-29.5%
Switzerland	67,901	2.1%	78,785	-13.8%	88,279	-23.1%
United Kingdom	249,394	7.6%	275,471	-9.5%	397,173	-37.2%
All Funds	3,265,059	100%	3,298,031	-1.0%	3,712,406	-12.1%

(1) End-March 2003 compared to end 2002; (2) End-March 2003 compared to end-March 2002; (3) Figure at end 2001.

Concerning the geographical developments in the UCITS market, the following comments may be made:

- Among the fund industry's leading countries, only France recorded a positive growth in assets thanks to an increase of EUR 30 billion in money market fund assets and EUR 4 billion in bond fund assets. In Italy, despite a fall of EUR 11 billion in equity fund assets, total UCITS assets remained nearly constant thanks to offsetting inflows to money market and bond funds. Germany and Luxembourg also experienced strong inflows into fixed-income funds but they were not sufficient to prevent a fall in total assets. The poor stock market performance also affected the United Kingdom, which in addition suffered from the depreciation of the pound vis-à-vis the euro.
- After a very strong performance last year, UCITS assets continued to grow at a good pace in Eastern Europe thanks to a good performance of bond funds in Poland and double-digit growth in bond and money market funds in the Czech Republic and Hungary.
- In Scandinavian Europe, Finland registered a record increase in money market fund assets (+41%) whereas Denmark benefited from inflows into bond funds (+9%). Despite Sweden's high exposure to stock market fluctuations, Swedish assets only fell slightly as all types of UCITS benefited from positive inflows. Finally, Norway suffered from the poor stock market performance as well as from the appreciation of the euro.
- Elsewhere in Europe, Austria and Greece benefited from a strong increase in money market fund assets (+20% and +32%, respectively), whereas Spain was the only country to report positive growth in equity funds thanks to strong inflows into equity guaranteed funds. Finally, a reduction in the number of Swiss funds included in this reporting quarter for Switzerland explains the drop in assets.

Trends in the non-UCITS industry

The non-UCITS² market is dominated by four types of products: the German special funds reserved for institutional investors, the British closed-ended investment trusts, the real estate funds and the French open-ended employees saving funds.

The volatility in stock market prices continued to benefit real estate funds, which recorded strong growth in Spain (+14%), Luxembourg (+12%), Germany (+9%) and Portugal (+6%).

It should also be noted that the flows of funds into German “Spezialfonds” reached EUR 6.5 billion in the first quarter of 2003 – a development that helped to limit the fall of assets in this category of funds to less than 1%.

Table 6. Breakdown of Non-UCITS Assets by Category ⁽¹⁾						
Fund types	31/03/2003		31/12/2002		31/03/2002	
	EUR bn	Share	EUR bn	% chg ⁽²⁾	EUR bn	% chg ⁽³⁾
Special / Institutional	567	64%	578	-1.9%	606	-6.4%
German "Spezialfonds"	476	54%	480	-0.9%	503	-5.4%
Closed-ended	101	11%	107	-5.4%	149	-32.2%
British investment trusts	68	8%	74	-7.5%	110	-38.3%
Open-ended	47	5%	47	-1.2%	58	-18.8%
French employees savings	47	5%	47	-1.1%	57	-18.7%
Property funds	134	15%	126	6.3%	114	17.6%
Other	33	4%	31	6.9%	30	7.6%
Total	881	100%	889	-0.8%	957	-7.9%
including Ireland	946		954	-0.8%	1,046	-9.5%

(1) Excluding Ireland for which no data breakdown is available.

(2) End-March 2003 compared to end-December 2002

(3) End-March 2003 compared to end-March 2002.

² “Non-UCITS” is used in this note in the sense of nationally regulated funds that are not publicly offered and/or that are closed-end funds.