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# *Trends in the European Investment Fund Industry in the Second Quarter of 2003 and Results for First Half 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 UCITS<sup>1</sup> and other nationally regulated types of investment funds, increased by 6.9% during the second quarter of 2003, adding EUR 290 billion to the industry (Table 1). **The increase was driven by the upturn of worldwide stock markets and the rebound in equity fund demand. The overall result for the first half of 2003 was a 5.8% increase in total fund assets.**

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 3,486 billion invested in UCITS, this segment of the business accounted for 77.7% of the fund market at end-June 2003.

Table 1. Net Assets of the European Investment Fund Industry						
Members	30/06/2003		31/03/2003		31/12/2002	
	EUR m	Share	EUR m	% chg <sup>(1)</sup>	EUR m	% chg <sup>(2)</sup>
Austria	89,921	2.0%	86,595	3.8%	85,821	4.8%
Belgium	78,532	1.8%	74,552	5.3%	77,181	1.8%
Czech Republic	3,700	0.1%	3,565	3.8%	3,304	12.0%
Denmark	43,625	1.0%	39,130	11.5%	38,288	13.9%
Finland	19,912	0.4%	17,596	13.2%	15,749	26.4%
France	960,500	21.4%	915,450	4.9%	891,000	7.8%
Germany	797,501	17.8%	746,450	6.8%	750,964	6.2%
Greece	30,841	0.7%	27,942	10.4%	27,096	13.8%
Hungary	4,224	0.1%	4,474	-5.6%	3,974	6.3%
Ireland	328,535	7.3%	300,334	9.4%	303,881	8.1%
Italy	390,290	8.7%	371,254	5.1%	372,316	4.8%
Liechtenstein	6,647	0.1%	3,447	92.9%	3,675	80.9%
Luxembourg	876,552	19.5%	823,936	6.4%	844,508	3.8%
Netherlands	93,200 <sup>(3)</sup>	2.1%	93,200 <sup>(3)</sup>	--	93,200	--
Norway	14,695	0.3%	13,409	9.6%	14,753	-0.4%
Poland	7,035	0.2%	6,038	16.5%	5,528	27.3%
Portugal	25,742	0.6%	24,845	3.6%	24,509	5.0%
Spain	188,143	4.2%	177,980	5.7%	172,913	8.8%
Sweden	62,059	1.4%	54,508	13.9%	56,065	10.7%
Switzerland	80,444	1.8%	75,889	6.0%	86,462	-7.0%
United Kingdom	384,970	8.6%	336,354	14.5%	370,235	4.0%
<b>All Funds</b>	4,487,069	100.0%	4,196,947	6.9%	4,241,421	5.8%
UCITS Assets	3,486,056	77.7%	3,255,634	7.1%	3,288,494	6.0%
Non-UCITS Assets	1,001,014	22.3%	941,314	6.3%	952,929	5.0%

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

<sup>1</sup> 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 increased by 7.1% during the second quarter of 2003 (Table 2). **Equity funds captured EUR 13.3 billion in net new money in the group of countries reported in Table 3, thereby supporting UCITS asset growth. This good performance put an end to a nine-month period of equity outflows, which had been triggered by the sharp fall in equity prices that had been observed during the summer of 2002 (Charts 1 and 2).**

**Strong investor activity in bond funds across all markets also continued to sustain UCITS asset growth, adding over EUR 32.7 billion during the second quarter and EUR 65.8 billion since the beginning of the year.** Inflows into money market funds also remained positive but slowed down considerably across Europe and even turned negative in Germany and Luxembourg, suggesting some transfer of assets from money market funds to equity and bond funds. Reflecting the good results observed for the second quarter, UCITS assets expanded by 6% in the six months through June.

**Table 2. Breakdown of UCITS Assets by Category <sup>(1)</sup>**

Fund types	30/06/2003		31/03/2003		31/12/2002	
	EUR bn	Share	EUR bn	% chg <sup>(2)</sup>	EUR bn	% chg <sup>(3)</sup>
Equity	1,006	31%	884	13.8%	971	3.6%
Balanced	437	14%	413	5.8%	433	0.9%
Total Equity & Balanced	1,442	45%	1,296	11.3%	1,403	2.8%
Bond	1,032	32%	983	5.0%	955	8.0%
Money Market	674	21%	667	1.0%	615	9.6%
Other	78	2%	74	5.4%	77	1.7%
<b>All Funds</b>	<b>3,226</b>	<b>100%</b>	<b>3,020</b>	<b>6.8%</b>	<b>3,050</b>	<b>5.8%</b>
including Ireland	3,486		3,256	7.1%	3,289	6.0%

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

(3) End-June 2003 compared to end-December 2002.

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

**Table 3. Net Sales of UCITS in 2003 <sup>(1)</sup>**

Members	Equity Funds		Bond Funds		Balanced Funds		Money Market Funds	
	Q2	Q1+Q2	Q2	Q1+Q2	Q2	Q1+Q2	Q2	Q1+Q2
Austria	-26	11	159	596	-8	13	718	1,405
Czech Republic	2	3	107	243	-64	-160	85	331
Denmark	10	-383	2,553	4,284	56	64	0	1
Finland	278	387	76	320	31	28	985	2,831
Germany	2,205	1,084	1,433	3,798	-149	-784	-1,863	1,558
Greece	24	-71	522	1,211	-168	-2,673	1,381	4,586
Italy	-383	-5,277	6,054	13,507	-1,581	-6,442	2,894	11,157
Liechtenstein	710	684	1,200	1,184	124	125	928	970
Luxembourg	3,990	-1,863	15,512	29,829	446	2,894	-2,371	-1,561
Norway	240	93	75	292	14	-6	178	567
Portugal	76	4	397	604	-29	-113	-56	-63
Spain	3,668	6,443	1,336	4,576	-801	-3,148	1,353	3,590
Sweden	848	1,887	27	363	300	566	93	548
Switzerland	-566	-677	109	-138	-97	-551	361	2,177
United Kingdom	2,309	2,228	3,147	5,167	242	343	43	120
<b>Total</b>	<b>13,385</b>	<b>4,553</b>	<b>32,707</b>	<b>65,836</b>	<b>-1,684</b>	<b>-9,844</b>	<b>4,729</b>	<b>28,217</b>

(1) In EUR millions for FEFSI members for which data are available; these controlled 62% of total UCITS assets at end June 2003.

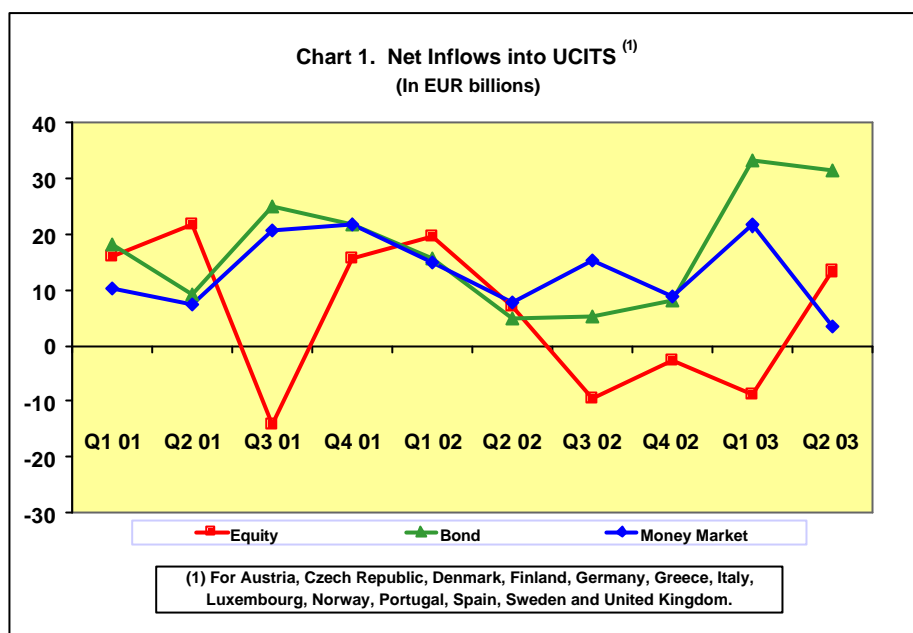


Chart 2 compares the recent pattern of net inflows into equity funds, expressed as a percentage of prior quarter-end assets, with the stock market performance, measured as the quarter-to-quarter percentage change in the Dow Jones Broad Europe STOXX index. The evidence reported here indicates that the strong stock market rebound observed during the second quarter of 2003 played a key role in convincing investors to return to equity funds. The pattern shown in Chart 2 also suggests that **if stock markets manage to keep to the gains recorded in July and August, it is likely that equity funds will again post positive inflows during the third quarter of 2003.**

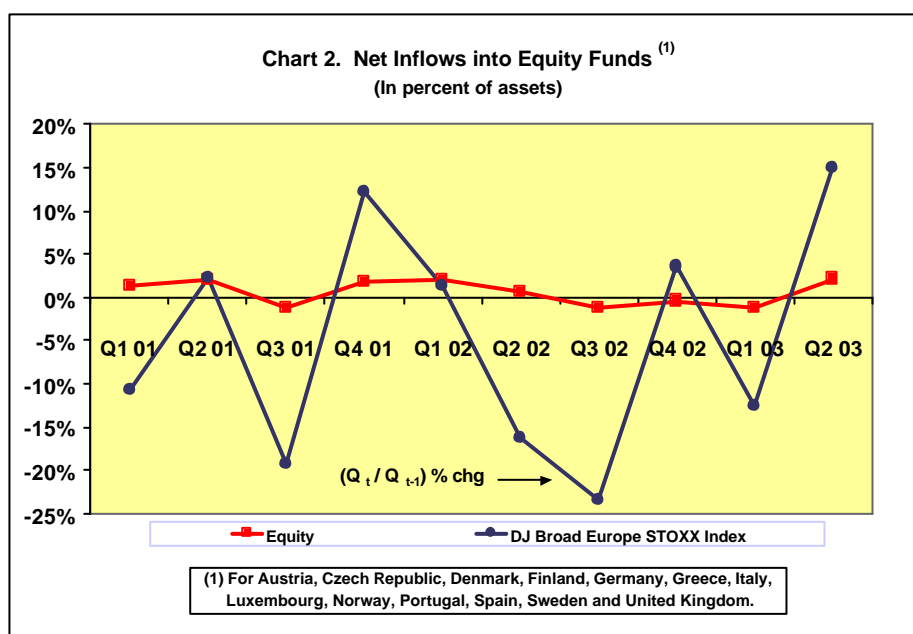


Table 5. Net Assets of the European UCITS Industry						
Members	30/06/2003		31/03/2003		31/12/2002	
	EUR m	Share	EUR m	% chg <sup>(1)</sup>	EUR m	% chg <sup>(2)</sup>
Austria	68,005	2.0%	64,980	4.7%	63,771	6.6%
Belgium	73,259	2.1%	68,894	6.3%	71,501	2.5%
Czech Republic	3,604	0.1%	3,406	5.8%	3,144	14.6%
Denmark	34,891	1.0%	31,601	10.4%	30,702	13.6%
Finland	19,912	0.6%	17,596	13.2%	15,749	26.4%
France	869,400	24.9%	831,800	4.5%	805,900	7.9%
Germany	209,796	6.0%	192,965	8.7%	199,455	5.2%
Greece	29,232	0.8%	26,432	10.6%	25,385	15.2%
Hungary	3,983	0.1%	4,266	-6.6%	3,808	4.6%
Ireland	260,218	7.5%	235,505	10.5%	238,501	9.1%
Italy	378,285	10.9%	360,426	5.0%	360,693	4.9%
Liechtenstein	6,632	0.2%	3,435	93.1%	3,668	80.8%
Luxembourg	798,756	22.9%	749,377	6.6%	766,539	4.2%
Netherlands	80,300 <sup>(3)</sup>	2.3%	80,300 <sup>(3)</sup>	--	80,300	--
Norway	14,695	0.4%	13,409	9.6%	14,753	-0.4%
Poland	6,563	0.19%	5,562	18.0%	5,214	25.9%
Portugal	19,760	0.6%	19,068	3.6%	19,042	3.8%
Spain	185,579	5.3%	175,582	5.7%	170,814	8.6%
Sweden	61,022	1.8%	53,735	13.6%	55,299	10.3%
Switzerland	72,663	2.1%	67,901	7.0%	78,785	-7.8%
United Kingdom	289,504	8.3%	249,394	16.1%	275,471	5.1%
<b>All Funds</b>	<b>3,486,056</b>	<b>100%</b>	<b>3,255,634</b>	<b>7.1%</b>	<b>3,288,494</b>	<b>6.0%</b>

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

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

- Among the fund industry's leading countries, the United Kingdom and Germany benefited the most from the stock market rebound; both countries also benefited from fairly high positive equity fund cash flows. Ireland also recorded particularly strong asset growth in the second quarter. The increase in assets was also considerable in Luxembourg and France, EUR 49 billion and EUR 38 billion, respectively. In Spain, strong demand for guaranteed equity funds strongly contributed to the expansion of the industry assets. In Italy, bond and money market funds saw strong inflows, whereas equity funds experienced positive inflows in June for the first time in many months; this positive development was repeated in July.
- Scandinavian countries also enjoyed above-average growth, with positive cash flows in each segment of the fund market. In Eastern Europe, UCITS assets continued to grow remarkably in Poland thanks to strong inflows into bond fund assets, whereas the asset decline observed in Hungary reflected the depreciation of the currency vis-à-vis the euro as well as macroeconomic slippages that triggered sharp increases in interest rates and heavy losses for bond and money market funds in June.
- Elsewhere in Europe, Liechtenstein recorded an exceptionally high growth rate that can be explained by the decision taken by one of the major local banks to repatriate its funds and distribute them as Liechtenstein-domiciled funds. Growth was also well above European average in Greece thanks to the strength of inflows into bond and money market funds.

## Trends in the non-UCITS industry

The non-UCITS<sup>2</sup> 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.

Helped by the higher stock prices, non-UCITS assets grew by 6.3% during the second quarter to reach EUR 1,001 billion. Strong inflows into German “Spezialfonds” (EUR 7.4 billion) and real estate funds (EUR 4.8 billion) also contributed to boost asset growth in this segment of the industry.

Table 6. Breakdown of Non-UCITS Assets by Category <sup>(1)</sup>						
Fund types	30/06/2003		31/03/2003		31/12/2002	
	EUR bn	Share	EUR bn	% chg <sup>(2)</sup>	EUR bn	% chg <sup>(3)</sup>
Special / Institutional	602	65%	568	6.0%	579	4.0%
German "Spezialfonds"	504	54%	476	6.0%	480	5.0%
Closed-ended	108	12%	101	6.8%	107	1.0%
British investment trusts	74	8%	68	8.5%	74	0.3%
Open-ended	53	6%	47	12.4%	48	9.9%
French employees savings	52	6%	47	11.8%	48	9.5%
Property funds	132	14%	126	5.1%	118	12.2%
Other	38	4%	35	9.2%	36	4.7%
<b>Total</b>	933	100%	876	6.4%	888	5.1%
including Ireland	1,001		941	6.3%	953	5.0%

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

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

(3) End-June 2003 compared to end-December 2002.

<sup>2</sup> “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.