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Trends in the European Investment Fund Industry in the Fourth Quarter of 2003 and Results for Full-Year 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, increased by 3.1% during the fourth quarter of 2003 (Table 1). **The overall result for 2003 was an increase of 12.0% (or EUR 511 billion) in total fund assets. This increase was driven by investments into bond, money market and property funds during the first half of 2003, and by the resumption of demand for equity-based funds in the second half of the year, following the powerful rebound in world stock markets. Clearly, the strong performance of the industry in 2003 underlines investors' ongoing trust in investment funds. If the stock market recovery proves sustainable, the growth in fund assets should continue into 2004.**

Three countries (France, Luxembourg and Germany) continue to dominate the industry with a global market share of 59%, with French fund domiciled crossing for the first time the one trillion threshold of assets under management. The United Kingdom and Italy follow in this ranking.

With EUR 3,705 billion invested in UCITS, this segment of the business accounted for 78% of the fund market at end 2003.

Table 1. Net Assets of the European Investment Fund Industry						
Members	31/12/2003		30/09/2003		31/12/2002	
	EUR m	Share	EUR m	% chg ⁽¹⁾	EUR m	% chg ⁽²⁾
Austria	92,115	1.9%	91,417	0.8%	85,821	7.3%
Belgium	83,503	1.8%	79,516	5.0%	77,181	8.2%
Czech Republic	3,338	0.1%	3,406	-2.0%	3,304	1.0%
Denmark	48,934	1.0%	45,545	7.4%	38,288	27.8%
Finland	23,727	0.5%	20,968	13.2%	15,749	50.7%
France	1,008,000	21.2%	981,820	2.7%	891,000	13.1%
Germany	822,099	17.3%	811,635	1.3%	750,964	9.5%
Greece	31,813	0.7%	31,811	0.0%	27,096	17.4%
Hungary	3,467	0.1%	4,224	-17.9%	3,974	-12.8%
Ireland	361,760	7.6%	337,306	7.2%	303,881	19.0%
Italy	393,429	8.3%	394,736	-0.3%	372,316	5.7%
Liechtenstein	7,137	0.2%	6,980	2.3%	3,675	94.2%
Luxembourg	953,302	20.1%	916,417	4.0%	844,508	12.9%
Netherlands	93,200 ⁽³⁾	2.0%	93,200 ⁽³⁾	--	93,200	--
Norway	17,414	0.4%	15,680	11.1%	14,753	18.0%
Poland	7,068	0.1%	7,638	-7.5%	5,528	27.9%
Portugal	27,763	0.6%	26,757	3.8%	24,509	13.3%
Spain	204,989	4.3%	199,672	2.7%	172,913	18.6%
Sweden	70,713	1.5%	66,644	6.1%	56,065	26.1%
Switzerland	79,637	1.7%	80,106	-0.6%	86,462	-7.9%
United Kingdom	418,861	8.8%	393,199	6.5%	370,235	13.1%
All Funds	4,752,268	100.0%	4,608,679	3.1%	4,241,421	12.0%
UCITS Assets	3,704,631	78.0%	3,581,273	3.4%	3,288,494	12.7%
Non-UCITS Assets	1,047,638	22.0%	1,027,407	2.0%	952,929	9.9%

(1) End 2003 compared to end-September 2003.
 (2) End 2003 compared to end 2002.
 (3) Figure at end 2002.

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 increased by 3.4% during the fourth quarter of 2003 to reach EUR 3,705 billion at end 2003 (Table 2). **Inflows into equity funds accelerated to reach EUR 37 billion in net new money, the highest quarterly amount in three years (Table 3). The investors' demand for equity funds, coupled with rising stock prices, boosted equity fund assets to EUR 1,163 billion at the end of 2003, up 9.4% for the quarter.** Balanced funds also performed well with an increase of 4.8% for the quarter.

Meanwhile, flows to bond funds have dried up in the fourth quarter and the outflow from money market funds peaked at EUR 10 billion from EUR 1.6 billion in the third quarter.

Table 2. Breakdown of UCITS Assets by Category ⁽¹⁾						
Fund types	31/12/2003		30/09/2003		31/12/2002	
	EUR bn	Share	EUR bn	% chg ⁽²⁾	EUR bn	% chg ⁽³⁾
Equity	1,163	34%	1,063	9.4%	971	19.8%
Balanced	470	14%	448	4.8%	433	8.6%
Total Equity & Balanced	1,633	48%	1,511	8.0%	1,403	16.4%
Bond	1,034	30%	1,045	-1.1%	955	8.3%
Money Market	668	20%	678	-1.4%	615	8.7%
Other	84	2%	81	3.4%	77	9.3%
All Funds	3,419	100%	3,316	3.1%	3,050	12.1%
including Ireland	3,705		3,581	3.4%	3,289	12.7%

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

(2) End 2003 compared to end-September 2003.

(3) End 2003 compared to end 2002.

Table 3. Net Sales of UCITS in the Fourth Quarter of 2003 ⁽¹⁾					
Members	Equity Funds	Bond Funds	Balanced Funds	Money Market Funds	Total
Austria	143	-163	-23	727	684
Czech Republic	23	-69	-43	29	-60
Denmark	516	1,424	2	0	1,942
Finland	632	160	119	-441	470
France	6,500	-1,500	2,500	-4,800	2,700
Germany	1,216	-321	-195	-903	-203
Greece	167	-177	-131	-75	-216
Italy	867	-8,443	531	-489	-7,535
Liechtenstein	528	-290	51	54	342
Luxembourg	17,341	7,084	2,482	-2,576	24,331
Norway	321	644	140	-94	1,012
Portugal	-3	374	80	16	467
Spain	7,492	-1,305	-1	-1,063	5,123
Sweden	579	-80	117	70	686
Switzerland	146	93	411	-458	192
United Kingdom	473	1,524	367	-41	2,323
Total	36,941	-1,045	6,407	-10,044	32,258

(1) In EUR millions for FEFSI members for which data are available; these controlled 88 of total UCITS assets at end 2003.

Table 4. Net Sales of UCITS in 2003 ⁽¹⁾

Members	Equity Funds	Bond Funds	Balanced Funds	Money Market Funds	Total
Austria	195	1,110	-221	2,484	3,568
Czech Republic	32	203	-233	72	74
Denmark	378	6,369	-22	1	6,726
Finland	1,294	414	204	2,626	4,538
France	22,842	10,800	11,363	21,229	66,234
Germany	2,379	4,884	-1,130	-513	5,620
Greece	297	1,286	-2,782	4,755	3,556
Italy	-4,661	3,662	-5,774	13,374	6,601
Liechtenstein	1,275	806	140	1,147	3,368
Luxembourg	29,080	46,351	7,728	-6,323	76,836
Norway	534	978	280	439	2,231
Portugal	-46	1,496	-18	204	1,636
Spain	17,763	3,551	303	3,442	25,059
Sweden	3,236	201	949	819	5,205
Switzerland	-2,963	418	31	2,176	-338
United Kingdom	4,484	8,890	995	83	14,452
Total 2003	76,119	91,419	11,813	46,015	225,366
Total 2002	42,240	41,640	-12,693	91,184	162,371

(1) In EUR millions for FEFSI members for which data are available; these controlled 88% of total UCITS assets at end 2003.

Looking at the year as a whole, the UCITS market grew by 12.7% in 2003, reversing an asset decline of 7.3% in 2002. In the group of countries reported in Table 4, UCITS recorded positive net sales of EUR 225 billion in 2003, up from EUR 162 billion in 2002. Net sales accounted for about 64% of the increase in assets. With total inflows totalling EUR 168 billion, equity and bond funds doubled the amount of investment compared to 2002.

A close look at the net sales data shows a turnaround in the pattern of net sales in the course of 2003 (Chart 1). During the first half of the year, fixed income funds attracted about 85% of new cash flow, whereas 95% of new investment flowed into equity-based funds during the second half of 2003. The shift in demand was driven by the recovery in stock market prices, which started at the end of the first quarter of 2003 and has carried on almost constantly since then.

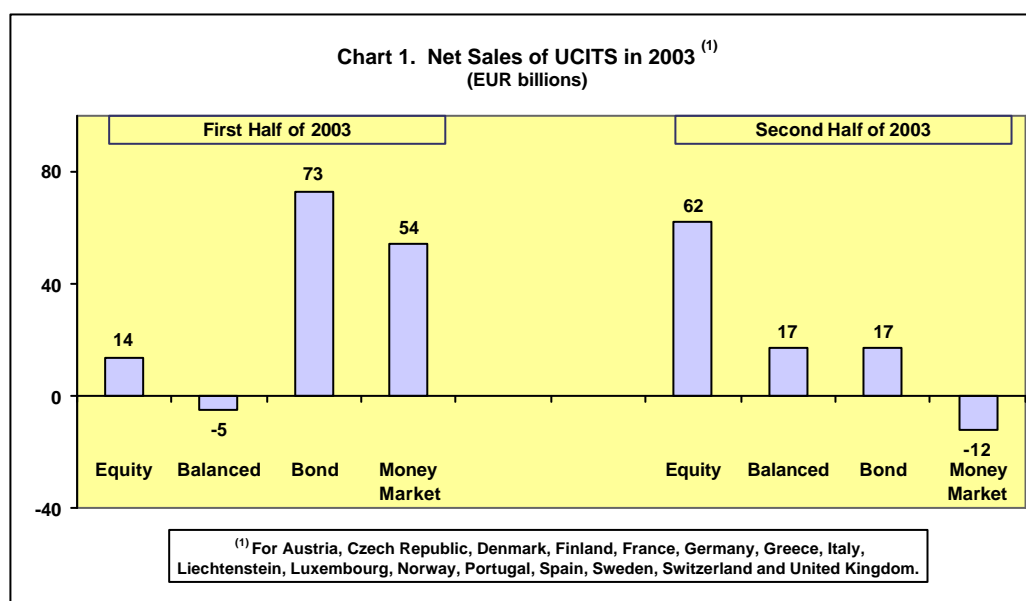


Table 5. Net Assets of the European UCITS Industry

Members	31/12/2003		30/09/2003		31/12/2002	
	EUR m	Share	EUR m	% chg ⁽¹⁾	EUR m	% chg ⁽²⁾
Austria	69,661	1.9%	69,297	0.5%	63,771	9.2%
Belgium	78,166	2.1%	74,225	5.3%	71,501	9.3%
Czech Republic	3,233	0.1%	3,314	-2.4%	3,144	2.8%
Denmark	39,219	1.1%	36,656	7.0%	30,702	27.7%
Finland	23,727	0.6%	20,968	13.2%	15,749	50.7%
France	909,300	24.5%	886,400	2.6%	805,900	12.8%
Germany	218,780	5.9%	212,538	2.9%	199,455	9.7%
Greece	30,399	0.8%	29,970	1.4%	25,385	19.8%
Hungary	3,116	0.1%	3,886	-19.8%	3,808	-18.2%
Ireland	285,372	7.7%	265,601	7.4%	238,501	19.7%
Italy	379,045	10.2%	381,826	-0.7%	360,693	5.1%
Liechtenstein	7,075	0.2%	6,932	2.1%	3,668	92.9%
Luxembourg	874,198	23.6%	837,891	4.3%	766,539	14.0%
Netherlands	80,300 ⁽³⁾	2.2%	80,300 ⁽³⁾	--	80,300	--
Norway	17,414	0.5%	15,680	11.1%	14,753	18.0%
Poland	6,790	0.18%	7,175	-5.4%	5,214	30.2%
Portugal	21,366	0.6%	20,598	3.7%	19,042	12.2%
Spain	202,173	5.5%	196,925	2.7%	170,814	18.4%
Sweden	69,474	1.9%	65,336	6.3%	55,299	25.6%
Switzerland	71,870	1.9%	72,233	-0.5%	78,785	-8.8%
United Kingdom	313,953	8.5%	293,520	7.0%	275,471	14.0%
All Funds	3,704,631	100%	3,581,273	3.4%	3,288,494	12.7%

(1) End 2003 compared to end-September 2003; (2) End 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, Luxembourg enjoyed above-average growth in the fourth quarter thanks to rising stock prices and strong demand for equity funds. The United Kingdom benefited even more from the rise in stock markets, as the proportion of equity fund assets is the highest in Europe. In Italy, total assets declined slightly as the outflow from bond funds accelerated in the fourth quarter. For the year as a whole, all countries posted a growth close to the European average (13%), except in Ireland where UCITS assets grew by 20% in 2003. Spain also recorded particularly strong asset growth thanks to the strong demand for guaranteed equity funds, which captured EUR 14 billion in new flows in 2003.
- Scandinavian countries also benefited strongly from the stock market recovery and posted above-average growth in the fourth quarter and in 2003. Strong investor demand for bond funds was also a powerful driver of asset growth in Denmark. In Eastern Europe, UCITS assets ended 2003 with negative growth as bond funds recorded heavy losses, in particular in Hungary because of a growing concern over the volatility of the Forint.
- Elsewhere in Europe, Liechtenstein recorded an exceptionally high growth rate as one of the major local banks decided to distribute its funds under the Liechtenstein flag. Greece also recorded an above-average rise in UCITS assets (+20%) thanks to strong net flow into money market funds in the first half of 2003.

Trends in the non-UCITS industry

The non-UCITS² market is dominated by four types of products: the German “Spezialfonds” reserved for institutional investors, the British closed-ended investment trusts, the property funds and the French open-ended employees saving funds. Non-UCITS assets grew by 2.0% during the fourth quarter to reach EUR 1,048 billion (Table 6). Growth was particularly strong in investment trusts. On the other hand, property fund assets recorded their first quarterly decline in 2003.

Looking at the year as whole, total assets in the non-UCITS market rose by almost 10%. French employees savings and property funds recorded the highest growth rate. Inflows into German “Spezialfonds” and property funds also played a key role in the growth of non-UCITS assets (Table 7).

Table 6. Breakdown of Non-UCITS Assets by Category ⁽¹⁾						
Fund types	31/12/2003		30/09/2003		31/12/2002	
	EUR bn	Share	EUR bn	% chg ⁽²⁾	EUR bn	% chg ⁽³⁾
Special / Institutional	620	64%	614	1.1%	579	7.1%
German "Spezialfonds"	518	53%	513	1.0%	480	7.9%
Closed-ended	115	12%	110	4.5%	107	8.0%
British investment trusts	82	8%	77	6.2%	74	11.7%
Open-ended	58	6%	56	3.2%	48	20.5%
French employees savings	57	6%	55	3.3%	48	19.6%
Property funds	136	14%	136	-0.3%	118	15.2%
Other	42	4%	40	6.0%	36	17.1%
Total	971	100%	956	1.6%	888	9.4%
including Ireland	1,048		1,027	2.0%	953	9.9%

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

(2) End 2003 compared to end-September 2003.

(3) End 2003 compared to end 2002.

Table 7. Net Sales of Property and Institutional Funds in 2003 ⁽¹⁾			
Members	Property Funds	Institutional Funds	Total
Austria		1,143	1,143
Denmark		1,305	1,305
Germany	13,720	24,348	38,068
Italy		-117	-117
Luxembourg		-2,072	-2,072
Sweden		-76	-76
Switzerland	263		263
United Kingdom	-33	-651	-684
Total	13,950	23,880	37,830

(1) Based on available sales data.

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