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# *Trends in the European Investment Fund Industry in the Second Quarter of 2004 and Results for First Half of 2004*

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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, rose by 0.8% during the second quarter of 2004 to reach EUR 5,158 billion (Table 1). Compared to the situation at end 2003, total net assets increased by 7.1%, or EUR 340 billion.

Three countries (France, Luxembourg and Germany) had a market share of 57.8% at end June 2004, with funds domiciled in France and Luxembourg managing more than one trillion in assets. The United Kingdom, Ireland and Italy follow in this ranking. It should also be noted that for the first time in our Statistical Releases, asset data include statistics for Slovakia and Turkey.

With EUR 4,058 billion invested in UCITS, this segment of the business accounted for 78.7% of the fund market at end June.

Table 1. Net Assets of the European Investment Fund Industry						
	30/06/2004		31/03/2004		31/12/2003	
Members	EUR m	Share	EUR m	% chg <sup>(1)</sup>	EUR m	% chg <sup>(2)</sup>
Austria	118,502	2.3%	117,548	0.8%	110,996	6.8%
Belgium	94,385	1.8%	93,684	0.7%	89,537	5.4%
Czech Republic	3,535	0.1%	3,408	3.7%	3,350	5.5%
Denmark	59,276	1.1%	59,368	-0.2%	48,934	21.1%
Finland	27,789	0.5%	25,876	7.4%	23,727	17.1%
France	1,087,850	21.1%	1,073,400	1.3%	1,008,000	7.9%
Germany	845,628	16.4%	849,615	-0.5%	828,568	2.1%
Greece	32,196	0.6%	32,220	-0.1%	31,813	1.2%
Hungary	3,463	0.1%	3,338	3.7%	3,515	-1.5%
Ireland	413,838	8.0%	402,248	2.9%	361,760	14.4%
Italy	400,867	7.8%	405,975	-1.3%	401,143	-0.1%
Liechtenstein	9,313	0.2%	8,436	10.4%	7,701	20.9%
Luxembourg	1,046,820	20.3%	1,032,772	1.4%	953,302	9.8%
Netherlands	91,126 <sup>(3)</sup>	1.8%	91,126	--	87,182	--
Norway	19,950	0.4%	19,489	2.4%	18,102	10.2%
Poland	7,732	0.1%	7,478	3.4%	7,076	9.3%
Portugal	30,014	0.6%	29,162	2.9%	28,708	4.5%
Slovakia	1,168	0.02%	1,030	13.4%	887	31.8%
Spain	220,128	4.3%	219,555	0.3%	207,465	6.1%
Sweden	78,530	1.5%	76,789	2.3%	71,213	10.3%
Switzerland	83,743	1.6%	83,467	0.3%	79,637	5.2%
Turkey	13,980	0.3%	14,409	-3.0%	11,209	24.7%
United Kingdom	468,482	9.1%	468,533	0.0%	434,601	7.8%
All Funds	5,158,313	100.0%	5,118,925	0.8%	4,818,425	7.1%
UCITS Assets	4,057,578	78.7%	4,026,287	0.8%	3,768,244	7.7%
Non-UCITS Assets	1,100,736	21.3%	1,092,637	0.7%	1,048,608	5.0%

(1) End-June 2004 compared to end-March 2004.

(2) End-June 2004 compared to end-December 2003.

(3) Figure at end March 2004.

<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 0.8% during the second quarter to EUR 4,058 billion** (Table 2). This total includes assets of funds-of-funds as they are increasingly treated as any other funds in national statistics. **The overall result for the first half of 2004 is a 7.6% increase in total UCITS assets.**

Equity fund assets increased by 1.5% to EUR 1,288 billion, whereas fixed income fund assets saw little change in the second quarter. The strong rise in market fund assets observed since end 2003 reflects the reclassification of some bond funds in Luxembourg into money market funds.

<b>Table 2. Breakdown of UCITS Assets by Category <sup>(1)</sup></b>						
<b>Fund types</b>	<b>30/06/2004</b>		<b>31/03/2004</b>		<b>31/12/2003</b>	
	<b>EUR bn</b>	<b>Share</b>	<b>EUR bn</b>	<b>% chg <sup>(2)</sup></b>	<b>EUR bn</b>	<b>% chg <sup>(3)</sup></b>
Equity	1,288	35%	1,269	1.5%	1,167	10.4%
Balanced	487	13%	490	-0.5%	470	3.6%
Total Equity & Balanced	1,775	48%	1,758	0.9%	1,637	8.4%
Bond	979	26%	980	-0.1%	1,041	-6.0%
Money Market	826	22%	825	0.1%	676	22.2%
Funds of funds <sup>(4)</sup>	69	2%	69	0.7%	60	15.1%
Other	84	2%	78	7.9%	71	18.1%
<b>All Funds</b>	<b>3,732</b>	<b>100%</b>	<b>3,710</b>	<b>0.6%</b>	<b>3,485</b>	<b>7.1%</b>
including Ireland	4,058		4,026	0.8%	3,770	7.6%

(1) Excluding Ireland for which no data breakdown is available. (4) Except funds of funds domiciled in France and Luxembourg, which are included in the other types of funds.

(2) End-June 2004 compared to end-March 2004.

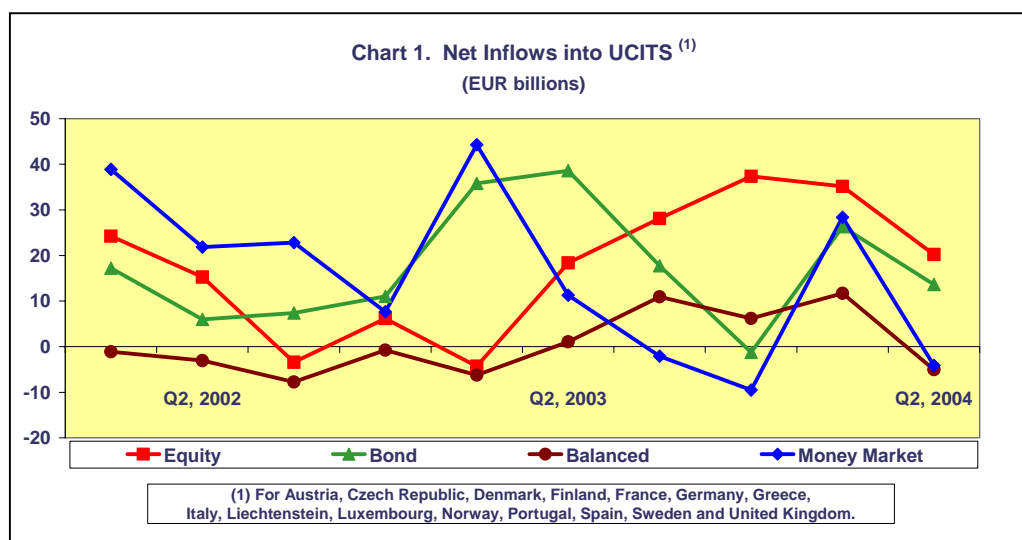
(3) End-June 2004 compared to end-December 2003.

<b>Table 3. Net Sales of UCITS in 2004 <sup>(1)</sup></b>								
<b>Members</b>	<b>Equity Funds</b>		<b>Bond Funds</b>		<b>Balanced Funds</b>		<b>Money Market Funds</b>	
	<b>Q2</b>	<b>Q1+Q2</b>	<b>Q2</b>	<b>Q1+Q2</b>	<b>Q2</b>	<b>Q1+Q2</b>	<b>Q2</b>	<b>Q1+Q2</b>
Austria	121	485	202	1,444	-60	-56	745	1,111
Czech Republic	4	26	-54	-123	-67	-69	92	202
Denmark	273	684	996	2,729	2	1	1	3
Finland	487	1,218	489	876	133	334	1,113	2,013
France	5,320	14,420	7,040	12,240	-5,250	2,050	-3,010	23,790
Germany	-1,518	-1,143	-452	3,141	-211	-233	-82	-2,413
Greece	-142	64	95	49	22	4	52	-111
Italy	-672	-1,484	-5,115	-8,419	-306	-196	-1,811	-4,358
Liechtenstein	164	271	478	574	8	4	1	237
Luxembourg <sup>(2)</sup>	11,297	11,297	6,295	6,295	270	270	-1,726	-1,726
Norway	218	362	54	356	23	88	11	350
Portugal	44	53	271	393	57	69	-359	-333
Slovakia	3	4	13	30	6	9	95	211
Spain	2,225	10,454	1,264	2,772	-433	-204	825	-1,032
Sweden	434	2,395	167	154	394	916	460	440
Switzerland	-352	-288	-128	-296	-344	-409	83	224
United Kingdom	1,946	1,181	1,921	2,479	395	700	-446	-416
<b>Total <sup>(2)</sup></b>	<b>19,852</b>	<b>39,999</b>	<b>13,536</b>	<b>24,694</b>	<b>-5,361</b>	<b>3,278</b>	<b>-3,956</b>	<b>18,192</b>

(1) In EUR millions for FEFSI members for which data are available.

(2) For Luxembourg, cumulated sales (Q1 + Q2) do not include net sales in 2004:Q1 for which the breakdown by UCITS types is not available. Total net sales of UCITS and non-UCITS reached in Luxembourg EUR 39.5 billion in 2004:Q1.

The noticeable slowdown in UCITS asset growth in the second quarter of 2004 reflected uncertainty over growth in the global economy following the strong increase in oil prices, as well as the decline in stock price indices observed between early March and early June. This uncertainty reduced investors' interest in equity and balanced funds. The increase in nominal bond yields in the second quarter also contributed to reduce the pace of inflows into bond funds. Finally, the total net outflow experienced by money market funds in the second quarter reflected an outflow from money market funds in France, following the strong surge of inflows recorded during the first quarter. Given that these inflows had a strong cyclical component, the outflow from money market funds recorded in the second quarter of 2004 can be regarded as evidence of a reduced interest on the part of investors for this type of funds, probably reflecting greater investor confidence in future financial developments.



Comparing developments in the UCITS market during the first half of this year with developments in the two previous years, it appears that net inflows in the group of countries reported in Chart 1 reached EUR 126 billion, compared to EUR 119 billion and EUR 139 billion in the first half of 2002 and 2003, respectively. **One of the main differences between the developments in the first six months of 2003 and 2004 was a surge of inflows into equity and balanced funds from EUR 9 billion in 2003 to EUR 62 billion this year.** Meanwhile, fixed-income funds only benefited from EUR 64 billion in flows through June 2004, compared to EUR 130 billion in the first half of 2003.

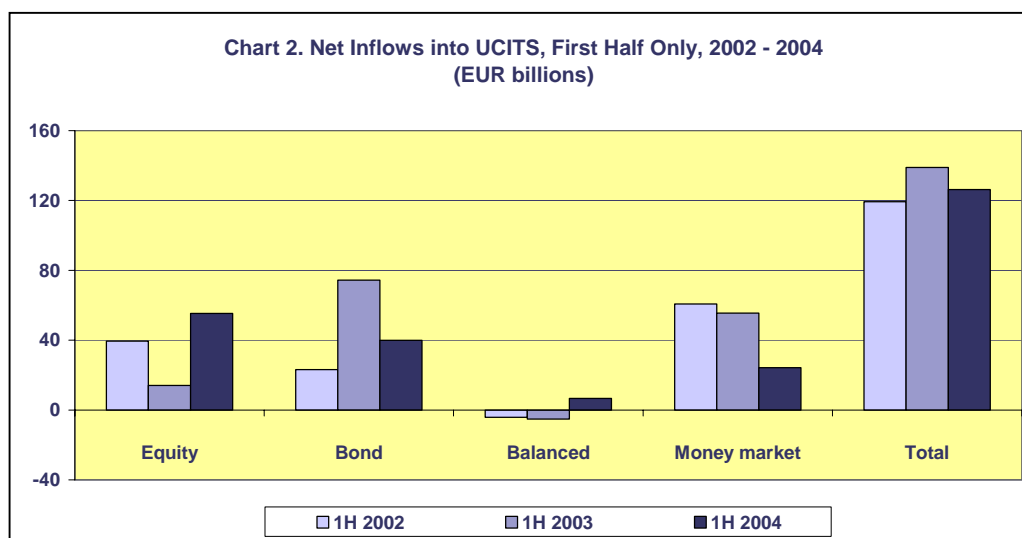


Table 4. Net Assets of the European UCITS Industry						
Members	30/06/2004		31/03/2004		31/12/2003	
	EUR m	Share	EUR m	% chg <sup>(1)</sup>	EUR m	% chg <sup>(2)</sup>
Austria	94,276	2.3%	94,071	0.2%	88,542	6.5%
Belgium	89,126	2.2%	88,239	1.0%	84,200	5.9%
Czech Republic	3,427	0.1%	3,304	3.7%	3,245	5.6%
Denmark	42,300	1.0%	42,537	-0.6%	39,219	7.9%
Finland	27,789	0.7%	25,876	7.4%	23,727	17.1%
France	982,600	24.2%	970,900	1.2%	909,300	8.1%
Germany	228,600	5.6%	230,579	-0.9%	225,248	1.5%
Greece	30,882	0.8%	30,904	-0.1%	30,399	1.6%
Hungary	2,975	0.1%	2,916	2.0%	3,164	-6.0%
Ireland	325,365	8.0%	316,345	2.9%	285,372	14.0%
Italy	381,832	9.4%	388,923	-1.8%	386,759	-1.3%
Liechtenstein	9,237	0.2%	8,354	10.6%	7,639	20.9%
Luxembourg	970,000	23.9%	958,840	1.2%	874,198	11.0%
Netherlands	77,051 <sup>(3)</sup>	1.9%	77,051	--	73,358	--
Norway	19,950	0.5%	19,489	2.4%	18,102	10.2%
Poland	7,500	0.18%	7,253	3.4%	6,799	10.3%
Portugal	22,851	0.6%	22,557	1.3%	22,311	2.4%
Slovakia	1,121	0.03%	983	14.0%	840	33.4%
Spain	216,508	5.3%	216,371	0.1%	204,649	5.8%
Sweden	77,170	1.9%	75,240	2.6%	69,975	10.3%
Switzerland	71,558	1.8%	72,650	-1.5%	71,870	-0.4%
Turkey	13,980	0.3%	14,409	-3.0%	11,209	24.7%
United Kingdom	361,480	8.9%	358,494	0.8%	329,694	9.6%
<b>All Funds</b>	4,057,578	100%	4,026,287	0.8%	3,769,818	7.6%
(1) End-June 2004 compared to end-March 2004; (2) End-June 2004 compared to end 2003; (3) Figure at end March 2004.						

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

- Among the leading countries in the UCITS market, growth was slightly positive in France, Ireland, Luxembourg and the United Kingdom, whereas it was slightly negative in Germany and Italy, as both countries recorded negative net sales in each of the four main types of UCITS. It should be noted, however, that funds of funds domiciled in Italy recorded inflows of EUR 754 million in the second quarter of 2004 and of EUR 3.4 billion in the first half of 2004.
- Finland continued to enjoy strong growth thanks to strong inflows into equity, bond and money market funds. Growth remained positive in Norway and Sweden thanks to relatively strong inflows, whereas Denmark experienced slightly negative growth reflecting a fall in bond fund assets.
- Growth was above average in Eastern Europe, with Slovakia leading the group with a growth rate of 14% in the second quarter and 33% in the first half of this year.
- The first quarter was also very good for Liechtenstein, which recorded a 11% percent increase in UCITS assets thanks to strong inflows in bond funds.

## Trends in the non-UCITS industry

The non-UCITS<sup>2</sup> 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 0.7% during the second quarter to reach EUR 1,100 billion (Table 5). Since the beginning of the year, total non-UCITS assets increased by 4.9%.

Growth was pulled by the strong performance of the French open-ended employees saving funds and a positive, albeit small, increase in property fund assets.

Table 5. Breakdown of Non-UCITS Assets by Category <sup>(1)</sup>						
Fund types	30/06/2004		31/03/2004		31/12/2003	
	EUR bn	Share	EUR bn	% chg <sup>(2)</sup>	EUR bn	% chg <sup>(3)</sup>
Special / Institutional	644	64%	644	0.0%	621	3.7%
German "Spezialfonds"	530	52%	532	-0.5%	621	-14.6%
Closed-ended	111	11%	113	-2.4%	115	-4.0%
British investment trusts	84	8%	87	-4.1%	82	2.0%
Open-ended	68	7%	65	3.8%	58	17.2%
French employees savings	62	6%	60	3.0%	57	9.2%
Property funds	142	14%	139	1.6%	136	3.9%
Other	48	5%	45	7.7%	42	14.2%
<b>Total</b>	1,012	100%	1,007	0.5%	972	4.1%
including Ireland	1,100		1,093	0.7%	1,049	4.9%

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

(2) End-June 2004 compared to end-March 2004.

(3) End-June 2004 compared to end-December 2003.

<sup>2</sup> “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.