

***Trends in the European Investment Fund Industry
in the First Quarter of 2006***

This report was prepared by Bernard Delbecq, Director of Economics and Research

**EFAMA
The European Fund and Asset Management Association**

Square de Meeûs, 18 - B-1050 BRUXELLES - Tel. 32-2-513.39.69 Fax: 32-2-513.26.43 - e-mail: info@efama.org

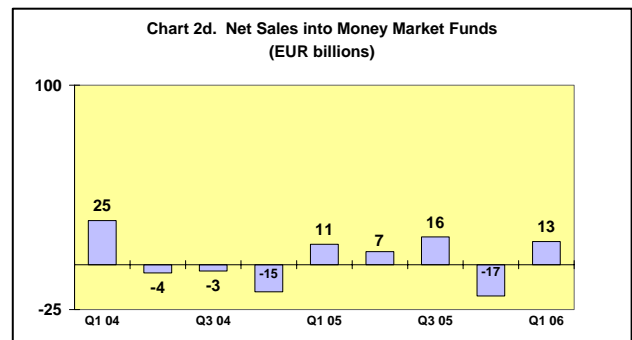
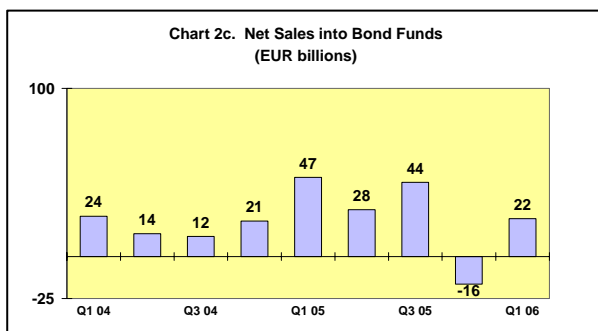
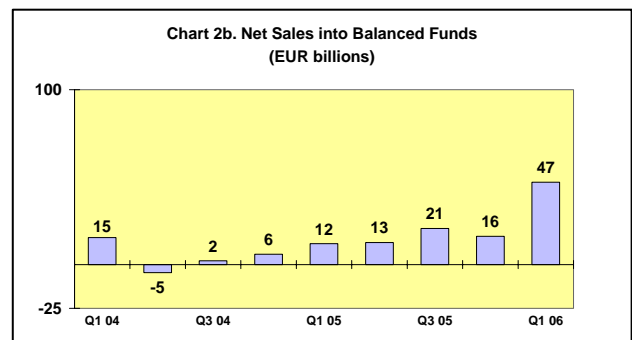
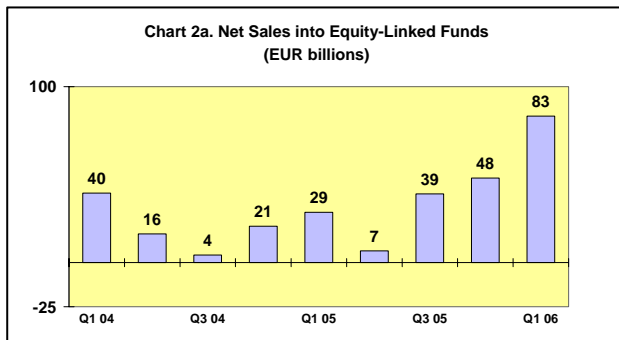
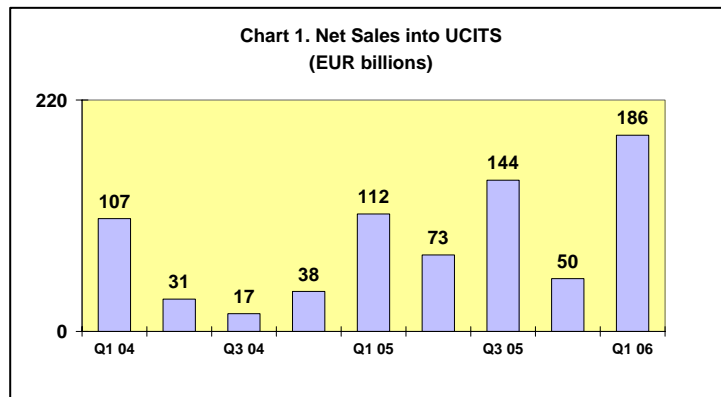
Trends in the UCITS Market ¹

Net Sales by Investment Type

UCITS attracted a record EUR 186 billion in net inflows during the first quarter of 2006, with increasing contributions across all UCITS categories. Net inflows to equity funds accounted for 45% of all flows, reflecting enduring investor confidence in equity investing. With net flows of EUR 83 billion, equity funds had already gathered at end March 68% of last year's overall equity flows. Flows to equity funds are therefore likely to outpace 2005 flows, even if stock markets would remain febrile still for a while.

The excellent performance of balanced funds, which attracted their highest quarterly cash flow ever, also boosted Q1 2006 flows in Europe, signaling investor attraction of mixed asset allocation to take advantage of the stock market potential within limited exposure to stock volatility.

Finally, a turn-around in investor demand for equity fixed-income funds brought additional net contributions to UCITS of EUR 35 billion.



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 Market

Net Sales by Country of Domiciliation

Between January and March, 57% of UCITS net inflows, or EUR 106.6 billion, went to funds domiciled in Luxembourg, up from EUR 62 billion in Q4 2005. With total net sales of EUR 57.5 billion in Q1 2006, France ranked second with a market share of 31%, reflecting a strong rebound of interest for fixed income funds as well as a historically high net sales of balanced funds, reflecting a strong surge in investor demand for unit-linked insurance funds that was triggered by a change in tax treatment of saving for house-purchase.

Net sales were also on the rise in the other top selling fund domiciles, in particular, in the United Kingdom, Sweden, Spain, Finland and Austria.

At the other end of the spectrum, Greece and Italy continued to suffer from outflows. Concerning Italy, it should be noted, however, that net sales of foreign domiciled funds amounted to EUR 21.1 billion in Q1 2006 (EUR 8.7 billion of round-trip funds and EUR 12.4 billion of funds promoted by foreign companies). Hence, Italian investors contributed EUR 7.9 billion into UCITS in Q1 2006.

Looking at the trend in net sales by fund types and domiciles, net inflows in equity funds rose in the majority of countries during the first quarter of 2006, with 63% of equity flows in Europe going to Luxembourg-domiciled funds, highlighting the commanding position of Luxembourg in cross-border sales of European equity funds. France, Spain, Sweden and the United Kingdom also experienced significant increase in equity fund inflows. Only two countries experienced net equity fund outflows: Italy, confirming a trend that has now lasted more than four years, and Germany, where outflows followed two quarters of positive demand, reflecting German investors' ongoing hesitancy about equity investing.

The renewed popularity of balanced funds was confirmed, with positive inflows in all countries, including Italy. On aggregate, bond funds also collected net positive inflows, albeit relatively modest because of net outflows recorded in a number of countries.

Table 1. Net Sales of UCITS ⁽¹⁾												
Members	Equity Funds		Bond Funds		Balanced Funds		Money Market Funds		Other Funds ⁽²⁾		Total	
	2005 Q4	2006 Q1	2005 Q4	2006 Q1	2005 Q4	2006 Q1	2005 Q4	2006 Q1	2005 Q4	2006 Q1	2005 Q4	2006 Q1
Austria	246	589	1,906	2,208	1,173	1,221	-351	-1,088	458	673	3,432	3,603
Czech Republic	25	42	0	15	40	63	19	-17	62	105	146	208
Denmark	1,454	1,118	647	-359	939	114	0	0	0	0	3,040	873
Finland	332	676	449	866	126	497	-1,188	1,809	-72	126	-353	3,974
France	8,400	10,600	-37,200	11,600	2,000	16,800	-8,000	18,500	0	0	-34,800	57,500
Germany	1,741	-916	329	993	618	1,467	-3,699	-200	687	886	-324	2,230
Greece	-19	-29	68	-2,250	281	49	-2,540	-272	493	913	-1,717	-1,589
Hungary	31	37	-524	-203	-1	9	-12	277	65	191	-441	311
Italy	-1,442	-1,230	-6,401	-16,152	3,284	9,384	-2,064	-5,206	0	0	-6,623	-13,204
Liechtenstein	65	36	153	90	29	105	63	-45	30	5	340	191
Luxembourg ⁽³⁾	30,333	52,498	15,499	26,090	4,086	12,772	-2,760	388	15,126	14,821	62,284	106,569
Netherlands	154	485	-30	-381	-355	132	191	318	-331	67	-371	621
Norway	456	505	913	116	228	92	3,081	-736	28	6	4,706	-17
Portugal	49	298	-140	-422	80	124	27	-493	496	528	512	35
Slovakia	15	8	65	171	24	15	-30	202	60	11	134	407
Spain	3,242	8,899	-1,587	-4,776	1,658	2,304	-141	-1,639	0	0	3,172	4,788
Sweden	-270	2,656	262	255	512	485	260	104	1,141	522	1,905	4,022
Switzerland	-49	378	7,381	2,495	304	389	-337	163	86	0	7,385	3,425
United Kingdom	3,303	6,629	1,827	2,127	1,146	1,091	108	827	1,370	1,876	7,754	12,550
Total	48,066	83,279	-16,383	22,483	16,172	47,113	-17,373	12,892	19,699	20,730	50,181	186,497
(1) In EUR millions for EFAMA members for which data are available; (2) including funds of funds, except for France and Italy for which the funds of funds data are included in the other fund categories; (3) net sales of non-UCITS are included in "Other" funds.												

Trends in the UCITS Market

Net Assets by Investment Type

Total net assets of UCITS increased by 7.5% in Q1 2006 to reach EUR 5,559 billion at end March 2006, compared to EUR 5,172 billion at end 2005. The UCITS asset growth in the first quarter was fuelled by the continuing increase in equity fund assets (12.8 percent) against the backdrop of rising stock prices and investor confidence in stock markets. As a result, equity funds passed the EUR 2 trillion of assets under management for the first time ever. Other UCITS continued to record above average growth, mainly thanks to continuing demand for Luxembourg-domiciled funds of funds and the inclusion of a new group of “capital protected funds” in Germany, which used to be classified as bond funds.

Balanced funds experienced double-digit growth in the majority of European countries, reflecting total net inflows representing 8% of balanced fund assets at end 2005.

Investor demand for money market funds continued to be subdued across Europe, with assets falling in 12 countries. France was the only country to experience a noticeable different evolution, mainly reflecting cyclical portfolio shift traditionally recorded at the beginning of each year.

Reflecting strong market performance and net inflows, equity and balanced funds combined accounted for 55 percent of all UCITS assets at end March 2006, compared with 49 percent one year before.

Overall, the UCITS asset growth in Q1 2006 can be decomposed into a 50% asset increase fueled by net inflows and a 50% increase attributable to market appreciation. Equity funds benefited the most from market appreciation (8.1%), with net sales adding another 4.6% to growth.

Table 2. Breakdown of UCITS Assets by Category ⁽¹⁾						
UCITS types	31/03/2006		31/12/2005		Change 2006 Q1 ⁽²⁾	
	EUR bn	Share	EUR bn	Share	% chg ⁽³⁾	in EUR bn
Equity	2,057	41%	1,824	39%	12.8%	234
Balanced	705	14%	636	14%	10.8%	68
Total Equity & Balanced	2,762	55%	2,460	52%	12.3%	302
Bond	1,226	24%	1,189	25%	3.1%	37
Money Market	837	17%	842	18%	-0.6%	-5
Funds of funds ⁽³⁾	85	2%	78	2%	9.1%	7
Other	157	3%	140	3%	11.8%	17
All Funds	5,067	100%	4,709	100%	7.6%	358
including Ireland	5,559		5,172		7.5%	387
<div style="display: flex; justify-content: space-between;"> (1) Excluding Ireland for which no data breakdown is available. (3) Except funds of funds domiciled in France, Luxembourg and Italy which are included in the other types of funds. </div> <div style="display: flex; justify-content: space-between;"> (2) End March 2006 compared to end 2005. </div>						

Trends in the UCITS Market

Net Assets by Country of Domiciliation

In the fund industry's leading countries, the United Kingdom and Luxembourg saw their UCITS assets increase at double-digit growth rates, 11% and 10%, respectively, in the first quarter. The stock market momentum strongly boosted the U.K. domiciled fund assets thanks to their relatively high equity exposure, whereas strong demand from European and international investors played the leading role in supporting asset growth of Luxembourg based funds. Among the other leading domiciles, France and Ireland also recorded hefty asset growth – 8% and 6%, respectively.² German also recorded positive – but more modest – growth, reflecting turn-around in investor demand for equity funds. It should also be mentioned that changes in the long-term investment policy of a number of funds towards mixed or “other” asset allocation, coupled with negative market performance and distributions, led to a 7% fall in bond fund assets, a 20% rise in balanced fund assets, and a rise in “other” UCITS net assets under management.

Elsewhere in Europe, asset growth was well above European average in Sweden (18.6%), Switzerland (18%), Poland (15%) and Finland (13%), whereas three countries experienced fall in UCITS assets: Greece (2.8%), Turkey (2.8%) and Italy (2.3%), largely reflecting a fall in fixed-income fund assets. The strong performance of Switzerland mainly reflected the broadening of the coverage of Swiss-domiciled funds in the database tracking Swiss investment funds (TIF).

Table 3. Net Assets of the European UCITS Industry						
Members	31/03/2006		31/12/2005		31/03/2005	
	EUR m	Share	EUR m	% chg ⁽¹⁾	EUR m	% chg ⁽²⁾
Austria	113,101	2.0%	107,961	4.8%	92,887	21.8%
Belgium	115,426	2.1%	109,839	--	97,769	18.1%
Czech Republic	5,054	0.1%	4,728	6.9%	3,826	32.1%
Denmark	66,792	1.2%	63,744	4.8%	50,432	32.4%
Finland	43,507	0.8%	38,497	13.0%	31,915	36.3%
France	1,244,400	22.4%	1,155,100	7.7%	1,053,700	18.1%
Germany	272,985	4.9%	262,365	4.0%	230,665	18.3%
Greece	27,175	0.5%	27,944	-2.8%	31,155	-12.8%
Hungary	5,627	0.1%	5,474	2.8%	4,627	21.6%
Ireland ⁽³⁾	492,081	8.9%	463,035	6.3%	366,237	34.4%
Italy	372,940	6.7%	381,889	-2.3%	374,840	-0.5%
Liechtenstein	13,392	0.2%	12,783	4.8%	10,400	28.8%
Luxembourg	1,526,074	27.5%	1,386,611	10.1%	1,104,998	38.1%
Netherlands	82,244	1.5%	79,984	2.8%	74,788	10.0%
Norway	35,857	0.6%	34,010	5.4%	23,977	49.5%
Poland	17,266	0.31%	15,015	15.0%	9,551	80.8%
Portugal	26,589	0.5%	26,208	1.5%	24,122	10.2%
Slovakia	2,825	0.05%	2,709	4.3%	2,057	37.3%
Spain	278,369	5.0%	268,597	3.6%	240,553	15.7%
Sweden	123,083	2.2%	103,787	18.6%	84,552	45.6%
Switzerland	118,883	2.1%	100,782	18.0%	72,852	63.2%
Turkey	17,927	0.3%	18,436	-2.8%	14,997	19.5%
United Kingdom	557,708	10.0%	502,920	10.9%	398,662	39.9%
All Funds	5,559,304	100%	5,172,419	7.5%	4,399,562	26.4%

(1) End March 2006 compared to end 2005; (2) End March 2006 compared to end March 2005; (3) as of end February 2005.

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² The growth figure for Ireland relates to the first two months of 2006, as the end March 2006 statistics on Irish funds were not yet available at the time of publication of this report.

Trends in the Non-UCITS Market ³

Net Sales and Assets by Investment Type

Total assets in non-UCITS increased by 4.2% in 2005 in Q1 2006 to reach EUR 1,455 billion at end March.

Net flows to special funds reserved for institutional investors continued to gather strength to reach a record level of EUR 22 billion thanks to the sustained attraction of German “Spezialfonds”, which managed to collect EUR 14 billion for the second quarter in a row, and the good performance of Danish and Austrian special funds, which saw their inflows increase to EUR 3.2 billion and EUR 2.5 billion, respectively.

In the European property funds segment, net assets of German domiciled real estate funds fell by EUR 10 billion to EUR 75 billion at end March 2006 due to net outflows. Elsewhere in Europe, real estate funds recorded positive asset growth.

The good performance of “other” non-UCITS funds domiciled in Luxembourg and of employee savings schemes in France should also be flagged.

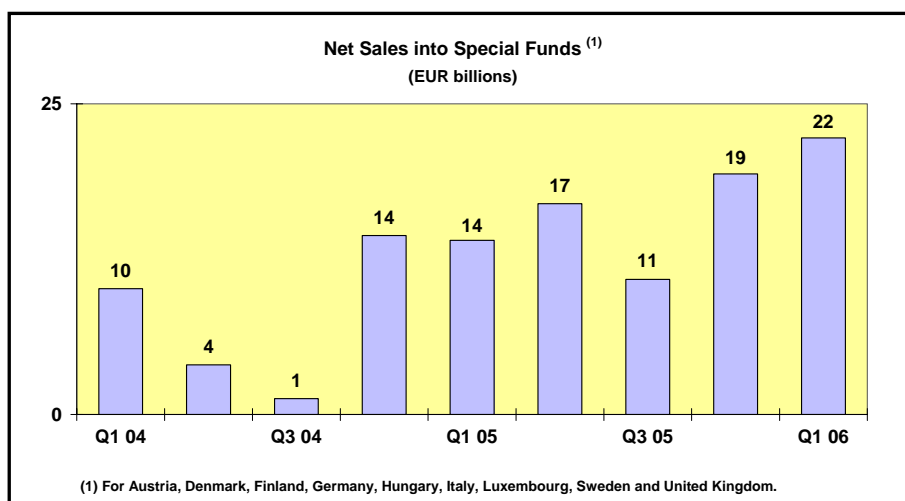


Table 4. Breakdown of Non-UCITS Assets by Category ⁽¹⁾

Fund types	31/3/2006		31/12/2005		Change 2006 Q1 ⁽²⁾	
	EUR bn	Share	EUR bn	Share	% chg	in EUR bn
Special / Institutional	807	61%	782	61%	3.2%	25
German "Spezialfonds"	633	48%	618	48%	2.5%	15
British investment trusts	96	7%	99	8%	-2.7%	0
French employees savings	74	6%	67	5%	9.7%	7
Luxembourg "other" funds	73	6%	66	5%	10.4%	7
Property funds	165	12%	167	13%	-0.9%	-2
Other	111	8%	95	7%	16.9%	16
Total	1,326	100%	1,276	100%	3.9%	50
including Ireland	1,455		1,396		4.2%	59

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

(2) End March 2006 compared to end 2005.

³ The “Non-UCITS” part of the investment fund market groups funds that are regulated in accordance with specific national requirements. The non-UCITS market is dominated by five types of products: the German “Spezialfonds” reserved for institutional investors, the British closed-ended investment trusts, the property funds, the French open-ended employees saving funds and more recently “other” Luxembourg non-UCITS funds.

Trends in the European Investment Fund Industry

Net Assets by Country of Domiciliation

The combined assets of the investment fund market in Europe, i.e. the market for UCITS and non-UCITS, increased by 6.8% in the first quarter to reach the EUR 7.0 trillion threshold for the first time.

Three countries (Luxembourg, France and Germany) had a market share of 57.4% at end March 2006. The United Kingdom, Ireland and Italy followed in this ranking.

With EUR 5,559 billion invested in UCITS, this segment of the business accounted for 79.3% of the fund market at end March 2006.

Table 5. Net Assets of the European Investment Fund Industry						
Members	31/03/2006		31/12/2005		31/03/2005	
	EUR m	Share	EUR m	% chg ⁽¹⁾	EUR m	% chg ⁽²⁾
Austria	164,610	2.3%	156,697	5.0%	132,032	24.7%
Belgium	122,162	1.7%	116,239	5.1%	103,171	18.4%
Czech Republic	5,054	0.1%	4,728	6.9%	3,827	32.1%
Denmark	113,704	1.6%	106,434	6.8%	81,394	39.7%
Finland	51,252	0.7%	44,668	14.7%	36,197	41.6%
France	1,368,500	19.5%	1,270,600	7.7%	1,159,900	18.0%
Germany	981,547	14.0%	965,543	1.7%	878,958	11.7%
Greece	27,563	0.4%	28,299	-2.6%	32,441	-15.0%
Hungary	7,344	0.1%	7,082	3.7%	5,308	38.4%
Ireland ⁽³⁾	621,261	8.9%	583,275	6.5%	463,106	34.2%
Italy	405,654	5.8%	410,078	-1.1%	398,167	1.9%
Liechtenstein	13,950	0.2%	13,215	5.6%	10,601	31.6%
Luxembourg	1,675,260	23.9%	1,525,208	9.8%	1,194,010	40.3%
Netherlands	98,907	1.4%	95,768	3.3%	89,234	10.8%
Norway	35,857	0.5%	34,010	5.4%	23,977	49.5%
Poland	18,454	0.3%	15,877	16.2%	9,993	84.7%
Portugal	37,456	0.5%	36,451	2.8%	32,504	15.2%
Slovakia	2,856	0.04%	2,740	4.2%	2,108	35.5%
Spain	285,409	4.1%	275,073	3.8%	245,677	16.2%
Sweden	125,817	1.8%	105,587	19.2%	86,178	46.0%
Switzerland	143,738	2.0%	116,705	23.2%	86,062	67.0%
Turkey	19,635	0.3%	20,200	-2.8%	15,084	30.2%
United Kingdom	688,288	9.8%	634,649	8.5%	513,923	33.9%
All Funds	7,014,279	100.0%	6,569,124	6.8%	5,603,851	25.2%
UCITS Assets	5,559,304	79.3%	5,172,419	7.5%	4,399,562	26.4%
Non-UCITS Assets	1,454,976	20.7%	1,396,706	4.2%	1,204,289	20.8%

(1) End March 2006 compared to end 2005; (2) End March 2006 compared to end March 2005; (3) as of end February 2005.