

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

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

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

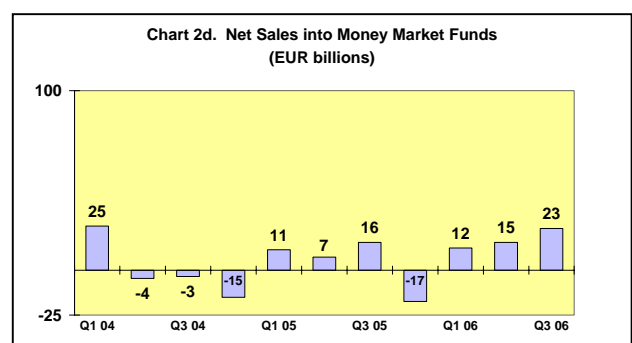
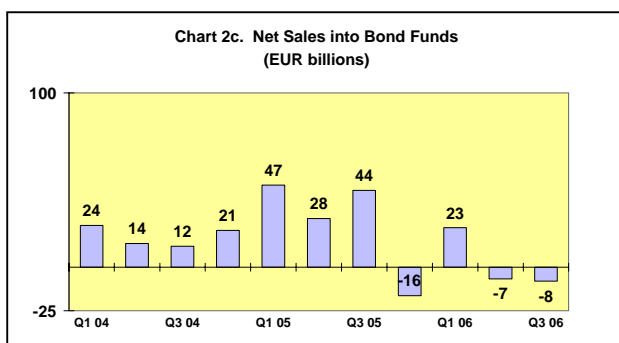
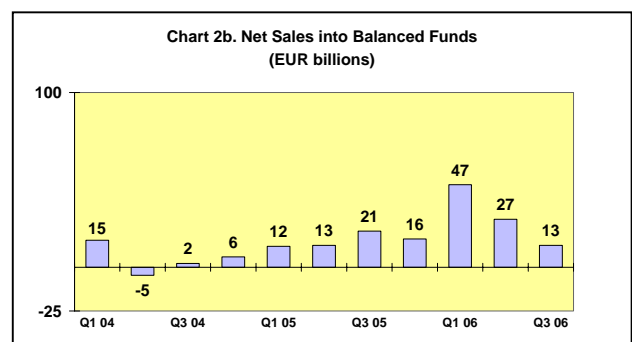
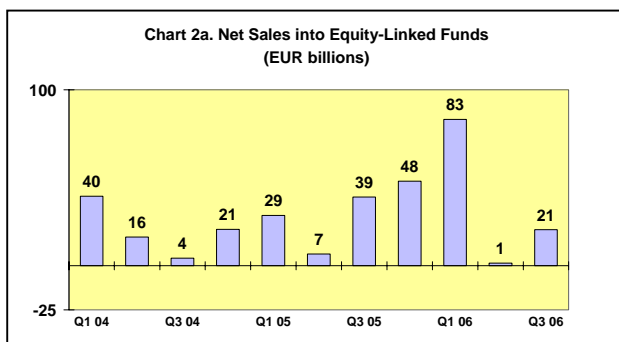
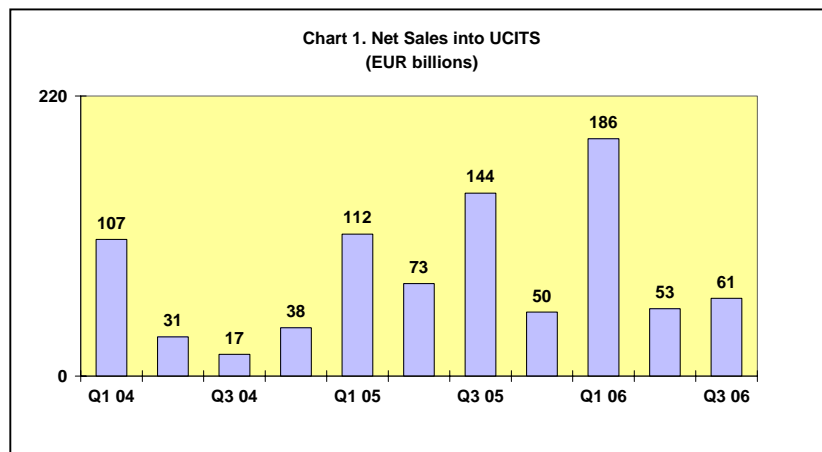
Square de Meeûs, 18 - B-1050 BRUXELLES - Tel. 32-2-513.39.69 Fax: 32-2-513.26.43 - e-mail: info@efama.org

Trends in the UCITS Market ¹

Net Sales by Investment Type

Net flows to UCITS reached EUR 61 billion in the third quarter of 2006, compared to EUR 53 billion in the second quarter. Equity funds collected EUR 21 billion, up from EUR 1 billion in the second quarter. In view of the improvement in global stock markets since their May-June lows, this rebound was modest, confirming investors' cautious expectations regarding the prospect for future rises of stock prices. Balanced funds inflows also slowed down in the third quarter. At the other end, bond funds remained in negative flow territory for a second quarter in a row, reflecting market unease regarding inflationary pressure and rise in interest rates. Finally, money market funds pulled in EUR 23 billion, up from EUR 15 billion in the second quarter.

Net flows to UCITS reached EUR 300 billion during 2006 through September, compared with EUR 328 billion captured in the first three quarters of 2005. Whereas these inflows are comparable in amount, their breakdown between fund-type differs markedly. Inflows to bond funds collapsed to EUR 8 billion in the first three quarters of 2006, compared with total inflows of EUR 119 billion in the same period of last year. On the other hand, equity fund inflows year-to-date through September collected EUR 105 billion, compared with EUR 75 billion of the same period of 2005.



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

Luxembourg-domiciled funds attracted 54 percent of total net inflows to UCITS, slightly above the share taken by French-domiciled funds. Among the other leading markets, Germany and Italy-domiciled funds continued to experience outflows. Worth noting were the outflows recorded by Spain-domiciled funds for the first time since 2002, reflecting marketing efforts by Spanish banks offering bank deposits.

Equity and balanced funds garnered new money in the majority of countries in the third quarter, with France collecting the highest inflows in the equity fund market (EUR 11.2 billion) and Luxembourg in the balanced fund market (EUR 8.9 billion). In general, equity funds recorded stronger inflows in the third quarter than in the second quarter, including in Germany, Italy and Spain – even if net equity fund inflows remained negative in these countries.

With investors staying away from bond funds in many countries, Luxembourg-domiciled bond funds recorded net outflows for the first time in recent years. This development was offset by strong net inflows into money market funds and “other” UCITS. Elsewhere in Europe, money market funds also benefited from robust flows in France. Italy-domiciled money market funds also drew positive net flows, reversing recent trends.

The top 5 countries in terms of net sales in the third quarter were Luxembourg, France, the United Kingdom, Finland and Denmark.

Table 1. Net Sales of UCITS in 2006 Q1-Q3 ⁽¹⁾												
Members	Equity Funds		Bond Funds		Balanced Funds		Money Market Funds		Other Funds ⁽²⁾		Total	
	Q3	Q1 - Q3	Q3	Q1 - Q3	Q3	Q1 - Q3	Q3	Q1 - Q3	Q3	Q1 - Q3	Q3	Q1 - Q3
Austria	277	-149	43	1,202	617	2,376	-710	-1,821	-58	1,041	170	2,649
Czech Republic	13	99	-26	-59	13	108	-41	-119	18	209	-24	237
Denmark	952	3,696	155	-233	40	278	0	0	0	0	1,146	3,741
Finland	682	1,026	408	1,859	84	652	-65	3,099	66	294	1,175	6,930
France	11,200	33,300	-1,000	11,700	4,000	22,100	16,700	35,700	0	0	30,900	102,800
Germany	-786	-4,918	-1,186	-402	-397	910	-1,209	-82	236	1,469	-3,342	-3,024
Greece	-75	-412	-1,700	-6,730	-258	-368	271	568	719	2,154	-1,043	-4,788
Hungary	144	282	-394	-1,033	16	28	332	619	484	739	582	634
Italy	-1,321	-8,547	-5,499	-30,936	-997	9,722	1,191	-6,594	0	0	-6,627	-36,354
Liechtenstein	-17	29	30	489	23	165	-6	99	-33	-6	-4	776
Luxembourg ⁽³⁾	8,335	65,679	-756	32,978	8,916	34,492	7,204	17,855	9,173	35,433	32,872	186,437
Netherlands	-145	591	202	-173	92	181	93	617	315	-546	558	669
Norway	408	473	100	1,037	23	202	-166	-602	6	17	371	1,128
Portugal	35	338	-235	-1,171	-10	178	-236	-783	-116	602	-562	-835
Slovakia	25	73	-118	-362	-11	44	7	-182	-3	317	-99	-112
Spain	-1,377	4,808	-206	-2,960	-226	2,731	-502	-1,505	0	0	-2,312	3,074
Sweden	607	-117	-28	519	62	752	-559	1,571	205	1,399	287	4,124
Switzerland	330	373	509	-4,604	-143	9,869	193	898	3	270	892	6,536
United Kingdom	1,249	8,581	1,724	6,915	663	2,791	776	1,743	1,706	5,664	6,117	25,693
Total	20,536	105,205	-7,977	8,036	12,507	87,211	23,273	51,081	12,721	49,056	61,057	300,315

(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 grew by 4.4 percent in the third quarter to reach EUR 5,727 billion at end September 2006, compared to EUR 5,485 billion at end June 2006. The increase in UCITS assets reflected an increase in all fund categories.

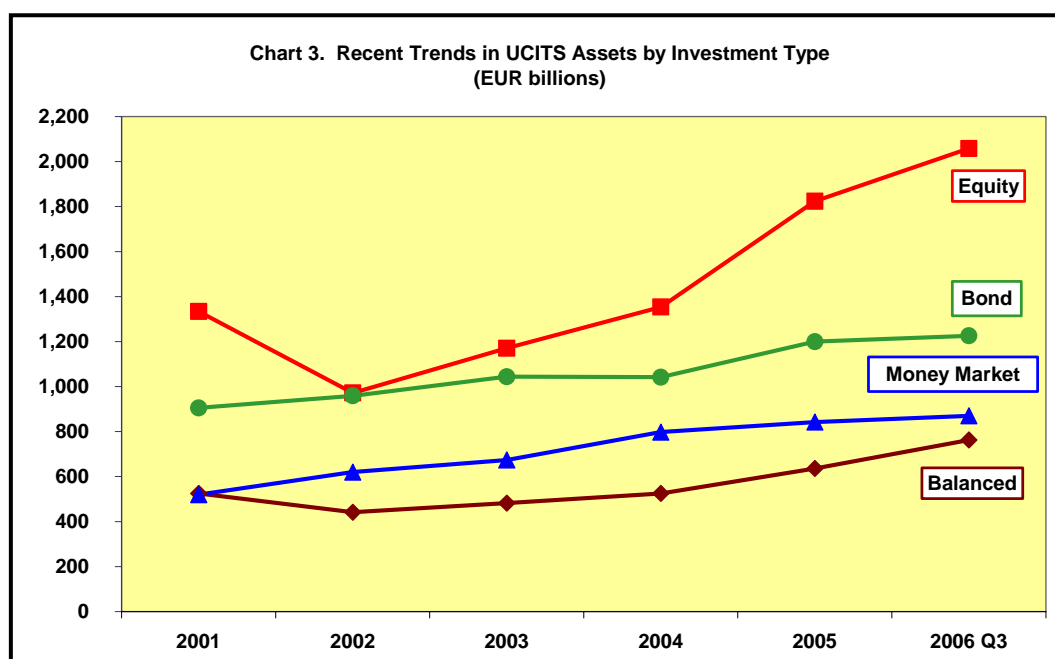
Since the end of 2005, total assets in UCITS rose by 10.5 percent or EUR 544 billion. All fund categories recorded double-digit asset growth, except fixed-income funds.

Table 2. Breakdown of UCITS Assets by Category ⁽¹⁾						
UCITS types	30/09/2006		Change wrt to 30/06/2006		Change wrt to 31/12/2005	
	EUR bn	Share	in % ⁽²⁾	in EUR bn	% chg ⁽³⁾	in EUR bn
Equity	2,058	40%	5.1%	100	12.9%	235
Balanced	762	15%	5.6%	40	19.8%	126
Total Equity & Balanced	2,821	54%	5.2%	140	14.7%	361
Bond	1,226	24%	2.0%	24	2.2%	26
Money Market	870	17%	2.2%	19	3.3%	28
Funds of funds ⁽⁴⁾	94	2%	7.2%	6	19.9%	16
Other	169	3%	5.3%	9	21.5%	30
All Funds	5,180	100%	4.0%	198	9.7%	460
including Ireland	5,727		4.4%	242	10.5%	544

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

(2) End September 2006 compared to end June 2006.

(3) End September 2006 compared to end 2005.



Trends in the UCITS Market

Net Assets by Country of Domiciliation

Looking at the development in the major fund markets, Ireland recorded the highest asset growth in the third quarter (8.7%), followed by France (5.0%), the United Kingdom (4.8%), Luxembourg (3.2%), Germany (2.0%), Spain (1.4%) and Italy (-0.1%). Elsewhere in Europe, asset growth was above average in Hungary (17.3%), Sweden (5.8%), Denmark (5.7%), Finland (5.4%) and Belgium (5.0%), confirming the dynamism of the fund market in the Nordic and Central European countries.

Between January and September 2006, eight countries recorded double-digit asset growth: Poland (23%), Finland (21%), Sweden (20%), Ireland (18%), Switzerland (17%), United Kingdom (15%), France (13%) and Luxembourg (13%). In all other countries, growth was below European average, with asset fall in Greece, Italy, Portugal, Slovakia and Turkey.

In terms of market share at the end of September, Luxembourg was leading with 27.4% of the market, followed by France (22.9%), the United Kingdom (10.3%), Ireland (9.6%) and Italy (6.1%).

Table 3. Net Assets of the European UCITS Industry						
Members	30/09/2006		30/06/2006		31/12/2005	
	EUR m	Share	EUR m	% chg ⁽¹⁾	EUR m	% chg ⁽²⁾
Austria	111,479	1.9%	108,140	3.1%	107,961	3.3%
Belgium	118,046	2.1%	112,465	5.0%	109,839	7.5%
Czech Republic	5,124	0.1%	5,030	1.9%	4,661	9.9%
Denmark	68,395	1.2%	64,731	5.7%	63,744	7.3%
Finland	46,593	0.8%	44,208	5.4%	38,497	21.0%
France	1,310,400	22.9%	1,248,400	5.0%	1,155,100	13.4%
Germany	266,096	4.6%	260,931	2.0%	262,365	1.4%
Greece	23,877	0.4%	24,333	-1.9%	27,944	-14.6%
Hungary	5,919	0.1%	5,044	17.3%	5,808	1.9%
Ireland	547,010	9.6%	503,124	8.7%	462,955	18.2%
Italy	349,689	6.1%	350,175	-0.1%	381,889	-8.4%
Liechtenstein	13,896	0.2%	13,462	3.2%	12,783	8.7%
Luxembourg	1,570,431	27.4%	1,500,436	4.7%	1,386,611	13.3%
Netherlands	80,946	1.4%	78,482	3.1%	79,984	1.2%
Norway	35,894	0.6%	35,614	0.8%	34,006	5.5%
Poland	18,409	0.32%	17,686	4.1%	15,015	22.6%
Portugal	25,787	0.5%	25,997	-0.8%	26,208	-1.6%
Slovakia	2,662	0.05%	2,681	-0.7%	3,264	-18.4%
Spain	281,365	4.9%	277,371	1.4%	268,597	4.8%
Sweden	124,480	2.2%	117,617	5.8%	103,512	20.3%
Switzerland	118,107	2.1%	113,676	3.9%	100,782	17.2%
Turkey	12,247	0.2%	12,628	-3.0%	18,436	-33.6%
United Kingdom	589,659	10.3%	562,747	4.8%	512,734	15.0%
All Funds	5,726,511	100%	5,484,978	4.4%	5,182,694	10.5%
(1) End September 2006 compared to end June 2006; (2) End September 2006 compared to end 2005						

Trends in the Non-UCITS Market ²

Net Sales and Assets by Investment Type

Total assets in the non-UCITS market rose by 5.5 percent in the third quarter to EUR 1,539 billion. This result was driven by on-going robust growth of assets held in France-domiciled open-ended employee saving funds, Luxembourg-domiciled non-UCITS and UK-domiciled real-estate funds.

Assets held by special funds reserved for institutional investors grew by 3.7 percent in the third quarter. These funds collected EUR 7 billion in new investment. This was significantly less than in recent quarters, reflecting a drop in net inflows to German “Spezialfonds” from an average of EUR 15 billion in the first half of 2006 to EUR 7 billion in the third quarter.

Since end 2005, total assets of non-UCITS grew by 9.5 percent or EUR 134 billion.

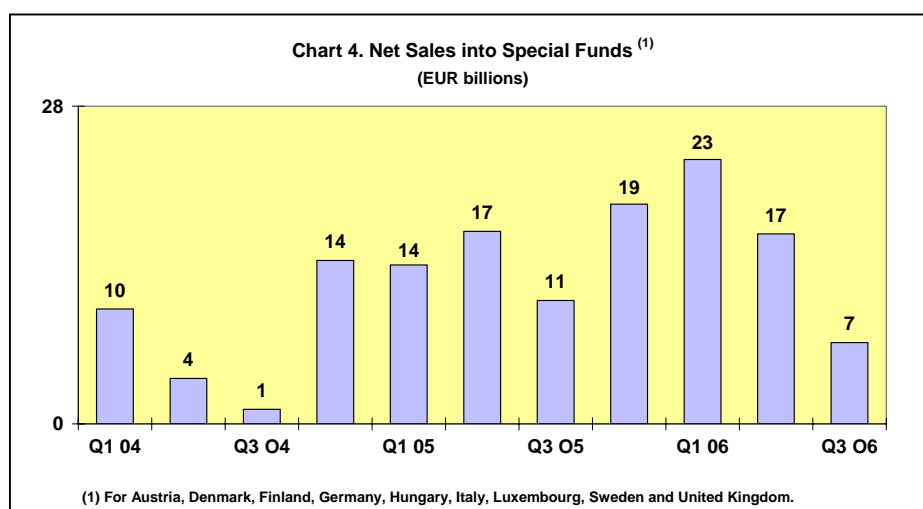


Table 4. Breakdown of Non-UCITS Assets by Category ⁽¹⁾						
Fund types	30/9/2006		30/06/2006		31/12/2005	
	EUR bn	Share	EUR bn	% chg ⁽²⁾	EUR bn	% chg ⁽³⁾
Special / Institutional	831	59%	802	3.7%	783	6.1%
German "Spezialfonds"	652	47%	630	3.6%	619	5.3%
British investment trusts	98	7%	92	6.8%	99	-0.8%
French employees savings	83	6%	76	9.8%	69	20.1%
Luxembourg "other" funds	83	6%	75	10.5%	66	24.8%
Real-estate funds	177	13%	169	4.8%	171	3.6%
Other	127	9%	116	9.7%	95	33.8%
Total	1,399	100%	1,329	5.3%	1,283	9.0%
including Ireland	1,539		1,459	5.5%	1,405	9.5%

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

(2) End September 2006 compared to end June 2006.

(3) End September 2006 compared to end 2005.

² 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 4.6 percent in the third quarter to reach the EUR 7,265 billion at end September 2006.

Three countries (Luxembourg, France and Germany) had a market share of 57.6% at end September. The United Kingdom, Ireland and Italy followed in this ranking.

With EUR 5,727 billion invested in UCITS, this segment of the business accounted for 78.8% of the fund market at end September.

Table 5. Net Assets of the European Investment Fund Industry						
Members	30/09/2006		30/06/2006		31/12/2005	
	EUR m	Share	EUR m	% chg ⁽¹⁾	EUR m	% chg ⁽²⁾
Austria	164,763	2.3%	159,545	3.3%	156,703	5.14%
Belgium	124,808	1.7%	118,623	5.2%	116,239	7.37%
Czech Republic	5,124	0.1%	5,030	1.9%	4,661	9.92%
Denmark	116,615	1.6%	111,168	4.9%	106,434	9.57%
Finland	55,053	0.8%	52,035	5.8%	44,668	23.25%
France	1,451,700	20.0%	1,376,600	5.5%	1,271,200	14.20%
Germany	993,436	13.7%	965,686	2.9%	967,185	2.71%
Greece	24,789	0.3%	24,695	0.4%	28,299	-12.40%
Hungary	8,451	0.1%	6,735	25.5%	7,757	8.95%
Ireland	686,463	9.4%	633,190	8.4%	584,505	17.44%
Italy	388,000	5.3%	385,615	0.6%	413,554	-6.18%
Liechtenstein	14,579	0.2%	14,045	3.8%	13,215	10.32%
Luxembourg	1,733,030	23.9%	1,652,126	4.9%	1,525,213	13.63%
Netherlands	98,839	1.4%	95,704	3.3%	95,765	3.21%
Norway	35,894	0.5%	35,614	0.8%	34,006	5.55%
Poland	21,332	0.3%	19,062	11.9%	15,876	34.37%
Portugal	37,623	0.5%	37,459	0.4%	36,451	3.22%
Slovakia	2,716	0.04%	2,717	0.0%	3,294	-17.54%
Spain	289,402	4.0%	284,956	1.6%	275,073	5.21%
Sweden	127,643	1.8%	120,589	5.8%	105,940	20.49%
Switzerland	145,403	2.0%	139,406	4.3%	116,705	24.59%
Turkey	13,833	0.2%	13,990	-1.1%	20,200	-31.52%
United Kingdom	725,809	10.0%	689,504	5.3%	644,458	12.62%
All Funds	7,265,303	100.0%	6,944,095	4.6%	6,587,400	10.3%
UCITS Assets	5,726,512	78.8%	5,484,978	4.4%	5,182,694	10.5%
Non-UCITS Assets	1,538,791	21.2%	1,459,116	5.5%	1,404,705	9.5%

(1) End September 2006 compared to end June 2006; (2) End September 2006 compared to end 2005

(1) End September 2006 compared to end June 2006; (2) End September 2006 compared to end 2005