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Trends in the European Investment Fund Industry

in the Third Quarter of 2007

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Trends in the UCITS Market
Net Sales by Investment Type

UCITS recorded net outflows of EUR 61 billion in the third quarter of 2007. This is the first time we have seen aggregate net outflows in the UCITS market. Bond funds recorded the highest level of net outflows (EUR 46 billion), followed by equity and money market funds (EUR 22 billion and EUR 20 billion, respectively). An exceptional combination of adverse circumstances led to this outcome, i.e. the prolonged volatility in stock markets, against the background of relatively high valuation and increased risk of global economic slowdown, growing inflationary pressures, which contributed to dampen investor demand for bond funds, and difficult credit and funding markets following the collapse of the US subprime mortgage market, which affected both bond and money market funds.

For the year as a whole, total net sales reached EUR 131 billion. This was significantly less than in January-September 2005 and 2006 (EUR 328 billion and EUR 320 billion, respectively). In recent years, total net sales of UCITS fell only twice under the 200 billion threshold during the first nine months of the year, in 2002 and 2004 (to reach EUR 155 billion).

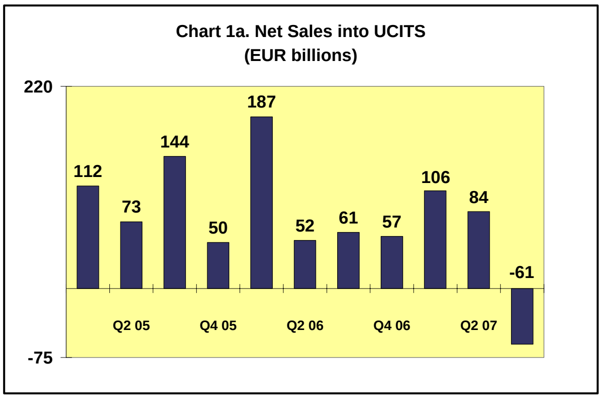


Chart 1a. Net Sales into UCITS (EUR billions)

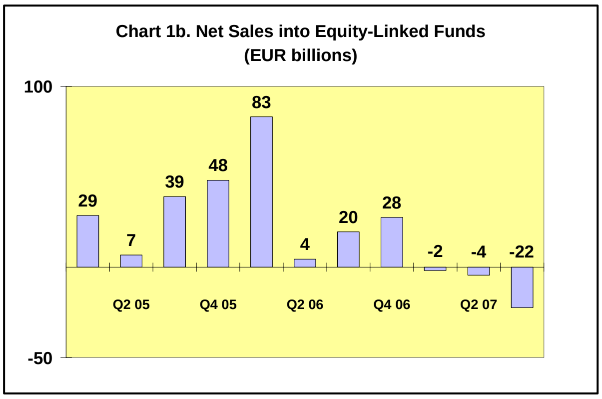


Chart 1b. Net Sales into Equity-Linked Funds (EUR billions)

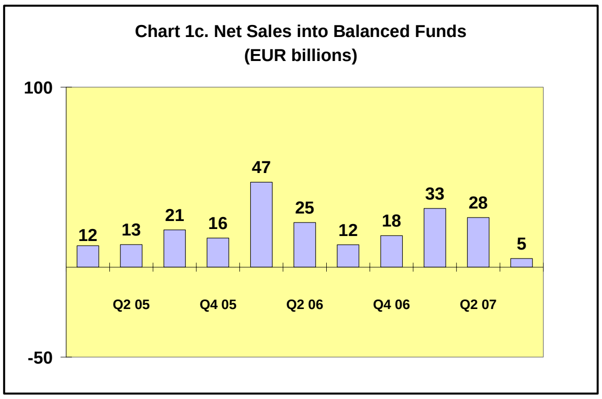


Chart 1c. Net Sales into Balanced Funds (EUR billions)

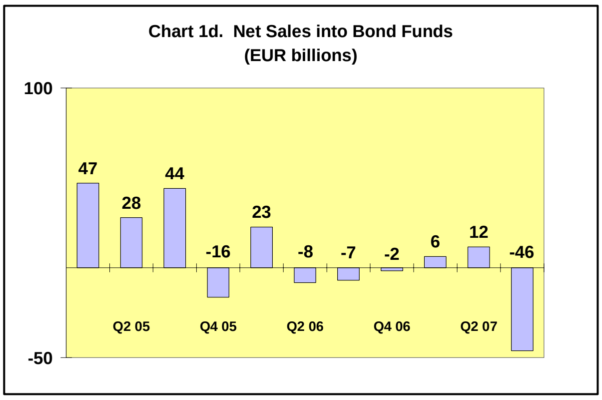


Chart 1d. Net Sales into Bond Funds (EUR billions)

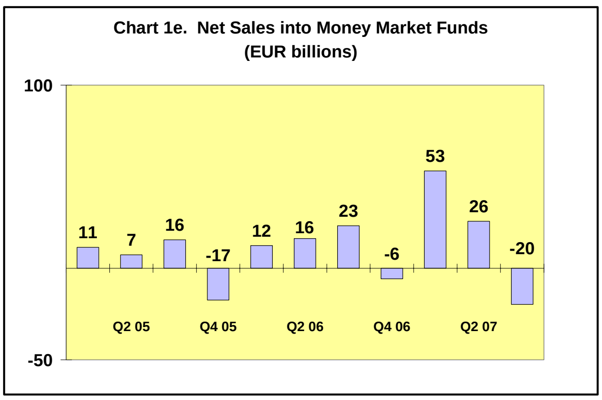


Chart 1e. Net Sales into Money Market Funds (EUR billions)

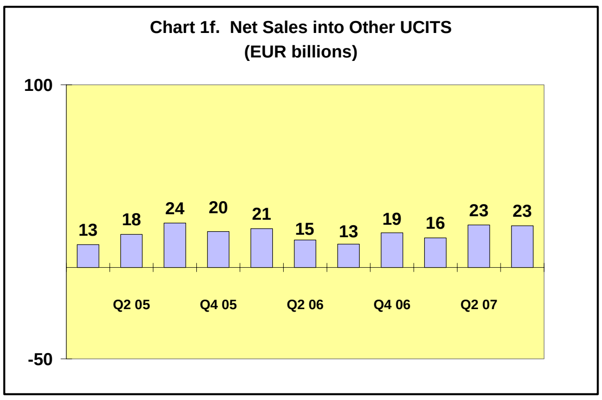


Chart 1f. Net Sales into Other UCITS (EUR billions)

The charts below put the developments in the third quarter into perspective. Chart 2 shows the evolution of net sales of UCITS since 2001. It can be observed that fixed-income funds have tended to attract stronger inflows than equity and balanced in periods of uncertainty in stock markets – as from July 2002 until June 2003 – and stronger inflows in periods of confidence in stock markets – as from September 2005 until December 2006. Since early 2007, the increase in stock market volatility has triggered a reassessment of equity risk among investors, resulting in three consecutive quarters of outflows from equity funds. As in recent years, during the first half of 2007, this adverse development was offset by stronger inflows into fixed-income funds. In contrast, **the current credit crisis led to an unprecedented disruption in the supportive role of fixed income funds in periods of stock market uncertainty.**

Available information for October show a resumption of net inflows in Finland, France, Germany and Sweden, with net sales turning positive in October for the first time in recent months in France, Germany and Sweden. Net sales remained positive in Denmark, Hungary, Norway, Slovakia and the United Kingdom, albeit somewhat lower in all countries except Norway. Conversely, Greece, Italy and Portugal did not see any upturn in net sales. Looking forward, renewed tensions in the debt markets in November and continued uncertainty about the risks to economic growth are likely to weight down the results for November and possibly December.

Compared to the asset level at end June, net outflows in the third quarter represented 1.0 percent for equity funds, 3.7 percent for bond funds and 2.2 percent for money market funds.

Chart 2. Net Sales into UCITS in 2001-2007
(EUR Billions)

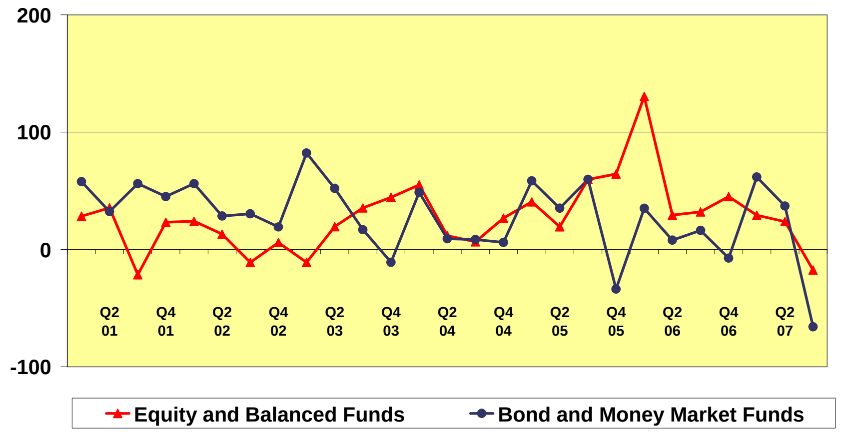
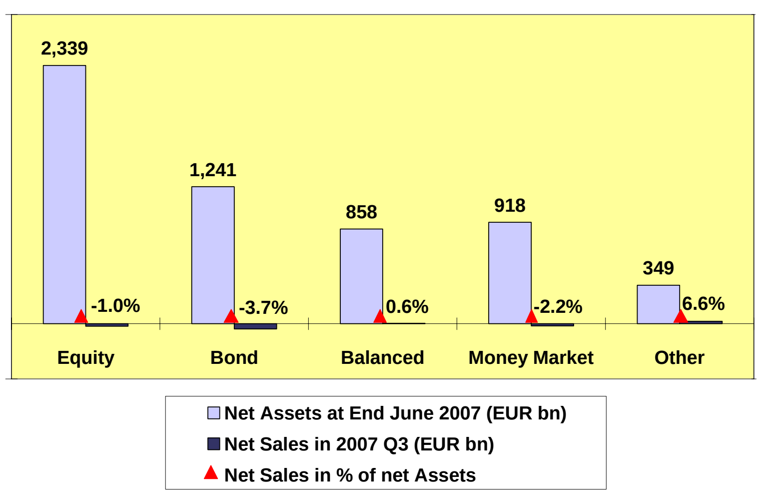


Chart 3. Trends in the UCITS Market in 2007 Q3



Trends in the UCITS Market
Net Sales by Country of Domiciliation

With net outflows totaling EUR 57 billion, France was impacted the most by the turmoil in debt markets in the third quarter. More specifically, dynamic and enhanced short-term funds, which are particularly developed in France, suffered from the increased apprehension of investors with respect to the risk exposure of these funds to asset backed securities. As these funds are classified as bond or balanced funds, the outflows are reported under these fund categories. Regarding regular money market funds, their outflows resulted from contagion effects and even more so from enhanced competition from banks issuing debt securities at higher rates than money market fund returns in order to cope with their liquidity crisis.

Luxembourg-domiciled funds continued to attract positive inflows in the third quarter, reflecting sustained buoyant Asian investors' demand for UCITS. Inflows were also positive in the Czech Republic, Denmark, Hungary, Norway, Slovakia, Switzerland and the United Kingdom.

All other countries reported net outflows in the third quarter. In Germany, the EUR 8.6 billion outflows from local funds were nearly offset by net inflows into "round-trip" funds domiciled in Luxembourg, which totaled EUR 7.3 billion in the third quarter (EUR 3.3 billion benefiting money market funds and EUR 3.9 billion guaranteed and other funds using derivatives). For the first nine months, net inflows into "round-trip" funds domiciled in Luxembourg totaled EUR 41.6 billion (EUR 28.7 billion benefiting money market funds and EUR 16.9 billion guaranteed and other funds using derivatives). In contrast, in Italy, net sales of round-trip funds remained low (EUR 1.4 billion) and were offset by net outflows from funds promoted by foreign companies, which totaled EUR 1.4 billion. The positive news is that inflows into non-UCITS (mostly hedge funds) remained positive (EUR 2.1 billion). For January-September 2007, net sales of round-trip funds and funds promoted by foreign companies amounted to EUR 2.1 billion and EUR 9.8 billion, respectively. Taking into account positive flows into non-UCITS (EUR 5.0 billion) Italian investors disinvested EUR 28.5 billion from investment funds.

Table 1. Net Sales of UCITS in 2007 (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	-484	-1,018	-926	-3,045	308	703	-456	2,426	-365	308	-1,923	-626
Czech Republic	79	106	-30	-65	54	128	-28	53	102	183	177	404
Denmark	277	2,402	-84	-28	-71	94	0	0	0	0	122	2,468
Finland	-7	-285	276	1,434	-131	149	-495	2,542	-107	-74	-464	3,766
France	-500	4,600	-15,400	-7,500	-7,500	6,800	-34,900	5,400	1,200	9,700	-57,100	19,000
Germany	-2,080	-7,712	-1,865	-4,558	353	1,164	-5,105	-3,243	137	160	-8,561	-14,189
Greece	-358	-1,358	-171	-1,128	1	147	289	1,851	-268	-1,219	-506	-1,706
Hungary	412	594	33	216	17	33	214	542	184	285	859	1,669
Italy	-4,161	-13,618	-9,612	-25,625	-4,698	-10,275	3,499	2,173	0	0	-14,972	-47,345
Liechtenstein	-147	81	-98	-26	27	158	-242	-181	321	361	-139	393
Luxembourg (3)	-7,310	-741	-18,718	9,722	12,690	53,522	16,660	45,201	20,008	46,245	23,330	153,949
Netherlands	-1,258	-1,531	-443	-1,095	-73	801	-112	-552	67	-11	-1,819	-2,389
Norway	238	1,526	-94	646	-26	88	417	1,768	-19	-29	516	4,000
Portugal	-93	186	-975	-1,108	5	49	-810	-1,175	-79	-196	-1,953	-2,245
Slovakia	30	44	-19	-99	-3	-35	99	267	58	272	165	448
Spain	-5,796	-7,390	334	2,428	-8	505	0	0	0	0	-5,470	-4,457
Sweden	-1,554	-2,380	59	-99	-70	346	718	505	-6	1,177	-852	-451
Switzerland	-500	-2,795	418	1,690	2,856	7,841	-312	415	0	0	2,462	7,150
United Kingdom	807	-954	1,163	2,061	1,110	3,396	809	982	1,671	5,188	5,560	10,673
Total	-22,404	-30,243	-46,153	-26,180	4,841	65,614	-19,755	58,973	22,904	62,349	-60,567	130,513

(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

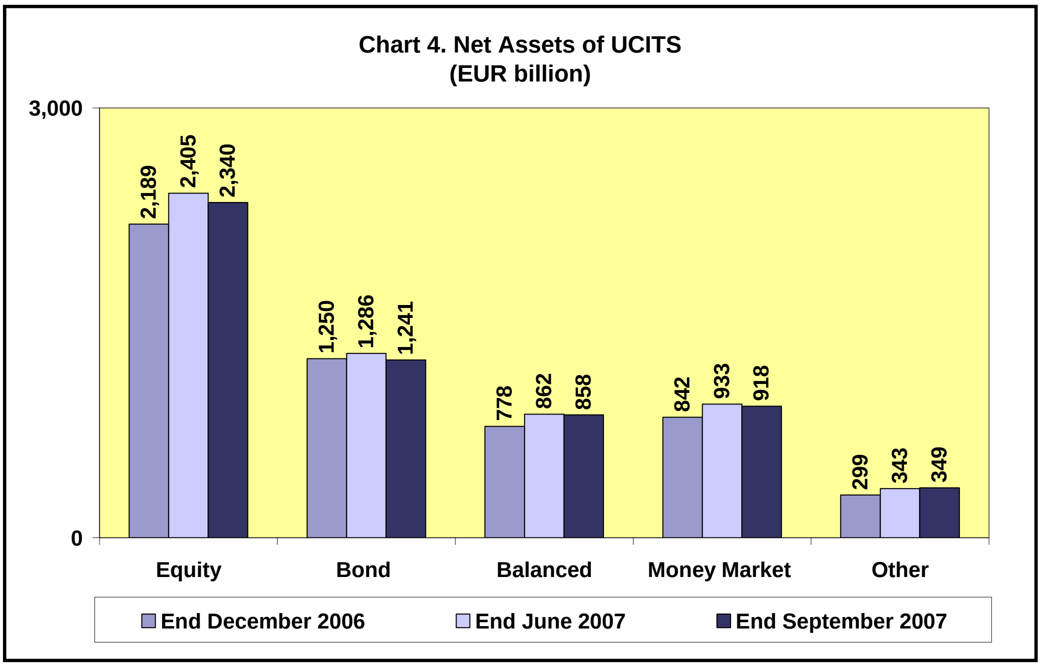
Total net assets of UCITS fell by 2.0 percent in the third quarter to reach EUR 6,355 billion at end September 2007. All fund categories except "other" UCITS, experienced a fall in assets.

Since the end of 2006, total assets in UCITS rose by 7 percent, or EUR 414 billion. New money invested in UCITS represented slightly less than 2 percent of UCITS assets at end 2006. Equity funds enjoyed the strongest increase in assets (EUR 151 billion), followed by balanced funds (EUR 80 billion) and money market funds (EUR 76 billion). Only bond funds saw a fall in assets under management, from EUR 1,250 billion at end 2006 to EUR 1,241 billion at end September.

Table 2. Breakdown of UCITS Assets by Category [(1)]

UCITS types	30/9/2007 EUR bn	Share	Change wrt to 30/06/2007 in % [(2)]	in EUR bn	Change wrt to 31/12/2006 % chg [(3)]	in EUR bn
Equity	2,340	41%	-2.7%	-65	6.9%	151
Balanced	858	15%	-0.6%	-5	10.2%	80
Total Equity & Balanced	3,198	56%	-2.1%	-70	7.8%	230
Bond	1,241	22%	-3.5%	-45	-0.7%	-9
Money Market	918	16%	-1.6%	-15	9.1%	76
Funds of funds [(4)]	105	2%	-3.0%	-3	6.4%	6
Other	244	4%	4.0%	10	21.9%	44
All Funds	5,706	100%	-2.1%	-123	6.5%	348
including Ireland	6,355		-2.0%	-128	7.0%	414

(1) Excluding Ireland for which no data breakdown is available.
(2) End Sept 2007 compared to end June 2007.
(3) End Sept 2007 compared to end 2006.
(4) Except funds of funds domiciled in France, Luxembourg and Italy which are included in the other types of funds.



Trends in the UCITS Market
Net Assets by Country of Domiciliation

Looking at the development in the major fund markets, Italy, France and Germany suffered the sharpest decline in assets in the third quarter. UCITS assets also fell in Spain, the United Kingdom and Ireland, albeit less severely. Only Luxembourg avoided a drain on its UCITS assets.

In the Nordic countries, the credit turmoil affected mostly Sweden and Finland, whereas Norway managed to record a hefty asset growth of 3 percent. In Central Europe, all countries continued to enjoy high growth in the third quarter, except Poland.

UCITS asset growth was positive in the Czech Republic, Hungary, Liechtenstein, Norway, Slovakia and Turkey.

The top five countries in terms of asset growth in January-September 2007 were: Poland (43.2 percent), Hungary (30.0 percent), Liechtenstein (25.3 percent), Turkey (23.7 percent) and Slovakia (22.1 percent).

Table 3. Net Assets of the European UCITS Industry

	30/9/2007		30/06/2007		31/12/2006	
Members	**EUR m**	**Share**	**EUR m**	**% chg (1)**	**EUR m**	**% chg (2)**
Austria	115,953	1.8%	118,487	-2.1%	114,886	0.9%
Belgium (3)	124,457	2.0%	124,457	--	120,545	--
Czech Republic	5,818	0.1%	5,495	5.9%	5,523	5.3%
Denmark	72,608	1.1%	72,656	-0.1%	73,055	-0.6%
Finland	57,184	0.9%	58,332	-2.0%	51,484	11.1%
France	1,407,000	22.1%	1,473,000	-4.5%	1,343,400	4.7%
Germany	270,276	4.3%	281,543	-4.0%	271,552	-0.5%
Greece	23,440	0.4%	23,629	-0.8%	23,910	-2.0%
Hungary	9,646	0.2%	8,779	9.9%	7,420	30.0%
Ireland	649,211	10.2%	654,014	-0.7%	582,747	11.4%
Italy	299,432	4.7%	315,384	-5.1%	343,810	-12.9%
Liechtenstein	17,624	0.3%	16,876	4.4%	14,065	25.3%
Luxembourg	1,840,279	29.0%	1,839,131	0.1%	1,661,563	10.8%
Netherlands	83,448	1.3%	85,678	-2.6%	82,490	1.2%
Norway	50,315	0.8%	48,736	3.2%	41,616	20.9%
Poland	31,726	0.50%	31,894	-0.5%	22,155	43.2%
Portugal	24,010	0.4%	26,304	-8.7%	25,763	-6.8%
Slovakia	3,664	0.06%	3,494	4.9%	3,002	22.1%
Spain	279,010	4.4%	285,730	-2.4%	279,361	-0.1%
Sweden	143,410	2.3%	146,713	-2.3%	137,757	4.1%
Switzerland	119,356	1.9%	120,048	-0.6%	121,057	-1.4%
Turkey	14,526	0.2%	13,853	4.9%	11,741	23.7%
United Kingdom	712,669	11.2%	729,004	-2.2%	602,051	18.4%
All Funds	6,355,063	100%	6,483,237	-2.0%	5,940,954	7.0%

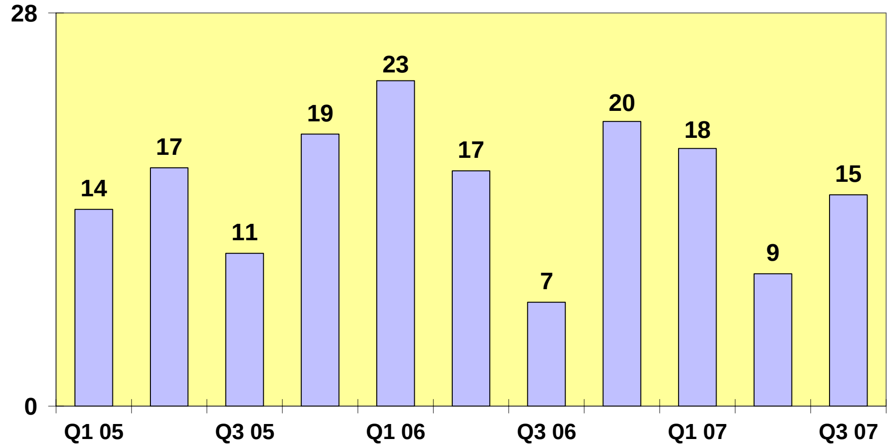
(1) End Sept 2007 compared to end June 2007; (2) End Sept 2007 compared to end 2006; (3) Data for Q3 2007 are as of end June 2007.

Trends in the Non-UCITS Market
Net Sales and Assets by Investment Type

Total assets in the non-UCITS market rose by 1.1 percent in the third quarter to EUR 1,760 billion. This increase was driven by growth in "other" non-UCITS, especially alternative management funds domiciled in Luxembourg, Switzerland and Italy, and real estate funds. Growth in institutional fund assets also remained positive thanks to a sharp increase in net inflows in institutional funds domiciled in Luxembourg (from EUR 4.6 billion in the second quarter to EUR 12.9 billion in the third quarter) and in Denmark (from EUR 1.2 billion to EUR 2.7 billion).

Since end 2006, total assets of non-UCITS grew by 9 percent, or EUR 145 billion.

Chart 3. Net Sales into Special Funds [1]
(EUR billions)



(1) For Austria, Denmark, Finland, Germany, Hungary, Italy, Liechtenstein, Luxembourg, Slovakia, Sweden and UK.

Table 4. Breakdown of Non-UCITS Assets by Category [1]

Fund types	30/9/2007 EUR bn	30/9/2007 Share	30/06/2007 EUR bn	30/06/2007 % chg [2]	12/31/2006 EUR bn	12/31/2006 % chg [3]
Special / Institutional	967	61%	954	1.4%	880	9.9%
German "Spezialfonds"	696	44%	697	0.0%	670	4.0%
British investment trusts	87	5%	92	-6.0%	105	-17.5%
French employees savings	89	6%	96	-7.3%	82	7.4%
Luxembourg "other" funds	103	6%	105	-1.9%	93	10.4%
Real-estate funds	202	13%	198	1.8%	190	6.0%
Other	143	9%	137	4.5%	118	21.9%
Total	1,590	100%	1,582	0.5%	1,469	8.3%
including Ireland	1,760		1,741	1.1%	1,615	9.0%

(1) Excluding Ireland for which no data breakdown is available.
(2) End Sept 2007 compared to end June 2007.
(3) End Sept 2007 compared to end 2006.

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, fell by 1.3 percent in the third quarter to reach EUR 8,115 billion at end September 2007.

Interestingly, the fall in non-UCITS assets was smaller than that of UCITS in most countries. In Denmark, Ireland, Poland and Switzerland, this development led to an overall increase in fund assets in the third quarter, despite a fall in UCITS assets.

Since end 2006, the European investment fund industry saw its assets rise by 7.4 percent, or EUR 559 billion. Eleven countries enjoyed greater-than-average asset growth: Denmark, Finland, Hungary, Ireland, Lichtenstein, Luxembourg, Norway, Poland, Slovakia, Turkey and the United Kingdom.

With EUR 6,355 billion invested in UCITS, this segment of the business accounted for 78.3 percent of the fund market at end September 2007.

Table 5. Net Assets of the European Investment Fund Industry

	30/9/2007		30/06/2007		31/12/2006	
Members	**EUR m**	**Share**	**EUR m**	**% chg [(1)]**	**EUR m**	**% chg [(2)]**
Austria	171,262	2.1%	174,342	-1.8%	168,876	1.4%
Belgium [(3)]	131,559	1.6%	131,559	--	127,920	--
Czech Republic	5,842	0.1%	5,512	6.0%	5,523	5.8%
Denmark	133,647	1.6%	130,460	2.4%	123,466	8.2%
Finland	68,534	0.8%	69,849	-1.9%	60,932	12.5%
France	1,566,000	19.3%	1,637,500	-4.4%	1,491,800	5.0%
Germany	1,050,982	13.0%	1,059,892	-0.8%	1,017,699	3.3%
Greece	24,341	0.3%	24,514	-0.7%	24,822	-1.9%
Hungary	12,340	0.2%	11,473	7.6%	10,089	22.3%
Ireland	819,211	10.1%	813,044	0.8%	729,553	12.3%
Italy	353,501	4.4%	365,854	-3.4%	388,368	-9.0%
Liechtenstein	19,125	0.2%	18,274	4.7%	14,911	28.3%
Luxembourg	2,059,144	25.4%	2,047,022	0.6%	1,844,850	11.6%
Netherlands	96,778	1.2%	99,419	-2.7%	101,881	-5.0%
Norway	50,315	0.6%	48,736	3.2%	41,616	20.9%
Poland	36,682	0.5%	36,568	0.3%	25,800	42.2%
Portugal	38,224	0.5%	40,248	-5.0%	38,896	-1.7%
Slovakia	3,811	0.0%	3,619	5.3%	3,071	24.1%
Spain	288,416	3.6%	294,899	-2.2%	287,793	0.2%
Sweden	147,860	1.8%	150,379	-1.7%	140,809	5.0%
Switzerland	155,861	1.9%	155,425	0.3%	149,734	4.1%
Turkey	16,965	0.2%	16,238	4.5%	13,430	26.3%
United Kingdom	864,963	10.7%	889,572	-2.8%	744,558	16.2%
All Funds	8,115,363	100.0%	8,224,399	-1.3%	7,556,397	7.4%
UCITS Assets	6,355,063	78.3%	6,483,237	-2.0%	5,940,954	7.0%
Non-UCITS Assets	1,760,300	21.7%	1,741,161	1.1%	1,615,443	9.0%

(1) End Sept 2007 compared to end June 2007; (2) End Sept 2007 compared to end 2006; (3) Data for Q3 2007 are as of end June 2007.