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Trends in the European Investment Fund Industry

in the Fourth Quarter of 2005

and

Results for Full-Year 2005

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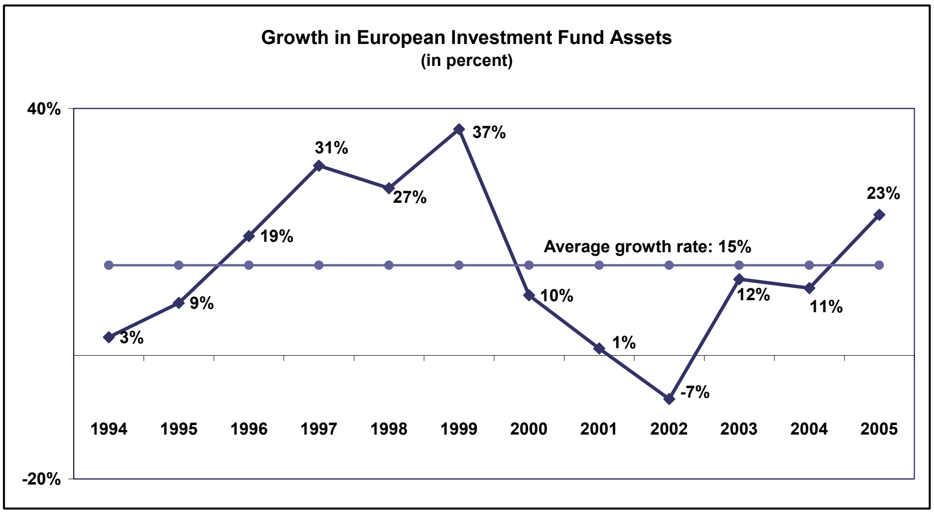
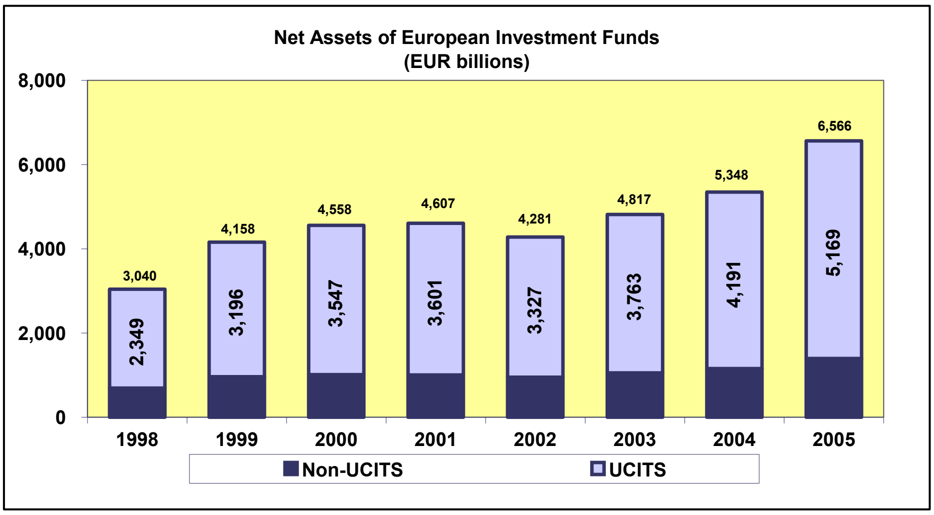
The European Investment Fund Market [1]
Main results for 2005

The year 2005 marked the third consecutive year of firm growth in the European investment fund industry. Total fund assets under management (including UCITS and non-UCITS funds) grew 22.8% – more than twice the growth seen in 2004. Thanks to this outstanding result, European investment fund assets under management grew to EUR 6,566 billion, rising from EUR 5,348 billion in 2004. The growth can be attributed to the excellent performance posted by all fund categories, especially equity funds, and by substantial net inflows highlighting investor trust in investment funds.

Total net assets of UCITS grew 23.3%, or EUR 977 billion, to reach EUR 5,170 billion at year-end 2005. Net flows into UCITS reached EUR 378 billion, compared with EUR 203 billion in 2004. Taking into account Ireland and Belgium for which no net sales data are available, UCITS funds collected positive flows of EUR 430 billion.

The performance delivered by investment funds – an estimated 27% for equity funds and 12% for all UCITS taken together – and the importance of the new money across the whole range of funds confirm that **the year 2005 was very prosperous for investors in European investment funds as well as for fund managers.**





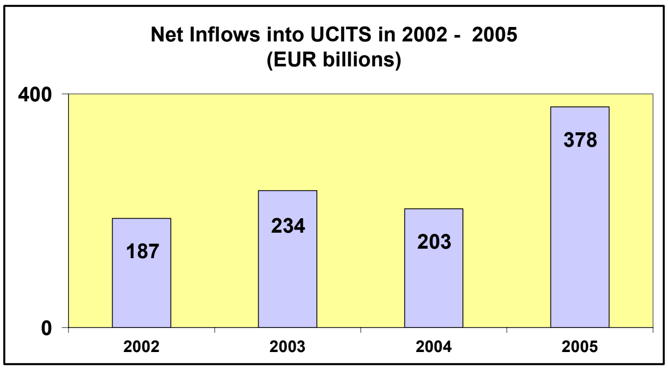
[1] "UCITS" is used in this note in the sense of publicly offered open-end funds investing in transferable securities and money market funds.

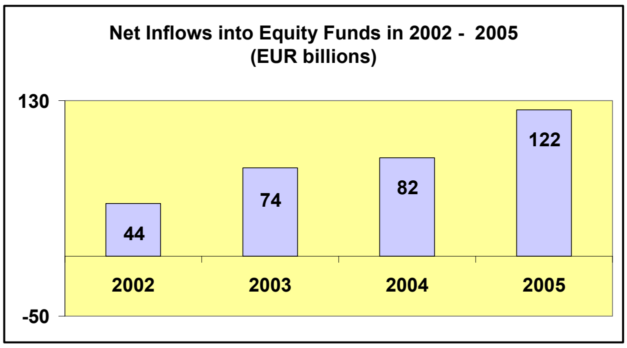
Trends in the UCITS Market [2]
Net Sales by Investment Type

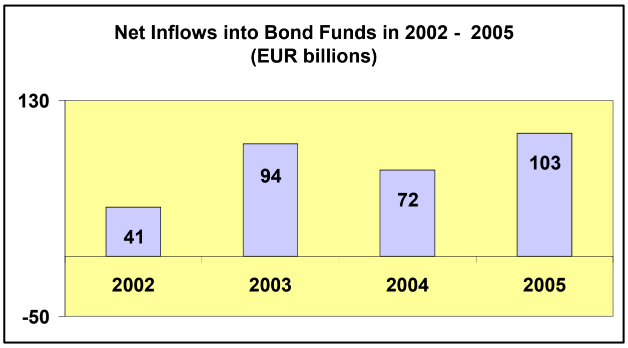
Net flows to UCITS fell to EUR 50 billion in the fourth quarter, from EUR 144 billion in the third. This reflected aggregate outflows from bond funds, reflecting the switch of assets from a dedicated UCITS of EUR 32 billion to an in-house managed portfolio, as part of the launch of the Banque Postale in France. Inflows into money funds also moved into the red, reflecting partly cyclical reasons. On the other hand, inflows into equity-linked funds recorded their largest quarterly inflows in the last five years, thanks to the enduring investor confidence in equity investing.

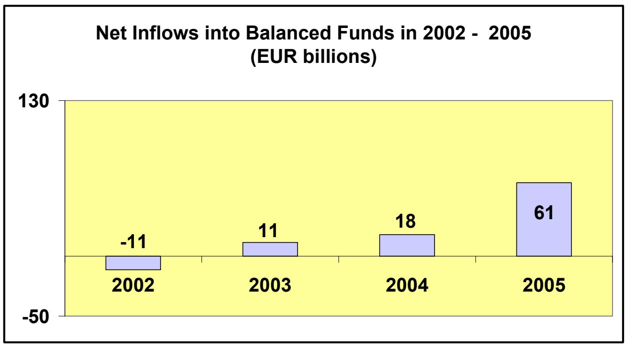
For the year as a whole, UCITS net sales rose by 86% to reach EUR 378 billion. This outcome was driven by rising inflows into equity funds, which totaled EUR 122 billion in 2005. Inflows into balanced funds also surged rising to EUR 61 billion from EUR 18 billion in 2004. Bond funds also had an excellent year, but the outflows experienced in the last quarter of 2005 weighted on their results for the whole year. Finally, it should also be noted that net inflows into "other" funds also increased sharply in 2005, from EUR 25 billion to EUR 73 billion, mostly reflecting net sales of Luxembourg-domiciled UCITS and non-UCITS.

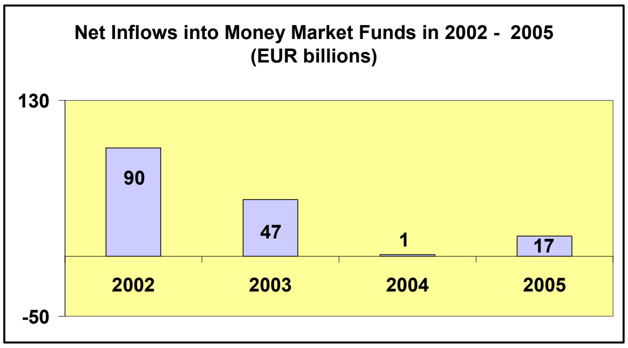
Excluding money market funds, long-term UCITS – equity, balanced and bond funds – collected EUR 360 billion of net flows, compared to EUR 196 billion in 2004.











[2] "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

Net sales of UCITS in the fourth quarter of 2005 reached EUR 50 billion in Europe and EUR 62 billion in Luxembourg. The difference reflects mainly outflows in France and Italy. As discussed earlier in this report, the atypical result of French domiciled funds in the fourth quarter reflected a one-off outflow from bond funds. In Italy, net sales of bond funds turned again negative due to a rebalancing of investor portfolio away from short-term fixed income funds. Elsewhere in Europe, net inflows in equity funds continued to climb in Germany, Spain and the United Kingdom. It is also worth noting the strong inflows into bond funds in Switzerland, the strengthening of net sales of balanced funds in Austria, and the outflows from money market funds observed in most countries, except in Norway where a reduction in wealth tax fuelled large inflows from bank deposits to money market funds.

For the year as a whole, Luxembourg-domiciled funds collected EUR 236 billion in 2005, up from EUR 114 billion in 2004. Adding an estimated EUR 45 billion of net flows to funds domiciled in Dublin, cross-border funds sales represented about 66% of the total industry net inflows in 2005, highlighting the continuing strengthening of the position of Luxembourg and Dublin in the European-wide distribution strategies of many cross-border fund management groups. With total net sales of EUR 59 billion in 2005, France ranked second in terms of net sales, followed by Ireland, Spain, the United Kingdom, Austria, Denmark and Germany.

At the other end of the spectrum, three countries experienced net outflows: Greece (due to outflows from money market funds), the Netherlands (due to the migration of funds to Luxembourg) and Italy (where net outflows slowed down from EUR 25 billion in 2004 to EUR 15 billion). Concerning Italy, it should also be noted that net sales of foreign domiciled funds amounted to EUR 31 billion in 2005 (EUR 18 billion of round-trip funds and EUR 13 billion of funds promoted by foreign companies). Hence, Italian investors contributed EUR 16 billion into UCITS in 2005 (in addition to EUR 6 billion into non-UCITS, mostly hedge funds).

Table 1. Net Sales of UCITS in 2005 (1)

Members	Equity Funds		Bond Funds		Balanced Funds		Money Market Funds		Other Funds (2)		Total	
	Q4	2005	Q4	2005	Q4	2005	Q4	2005	Q4	2005	Q4	2005
Austria	246	1,065	1,906	7,384	1,173	1,694	-351	2,571	458	1,507	3,432	14,221
Czech Republic	25	56	0	119	40	-18	19	358	62	96	146	611
Denmark	1,454	4,186	647	5,469	939	938	0	0	0	0	3,040	10,593
Finland	332	928	449	2,125	126	508	-1,188	1,378	-72	45	-353	4,984
France	8,400	32,900	-37,200	-14,500	2,000	10,700	-8,000	29,700	0	0	-34,800	58,800
Germany	1,741	-900	329	6,626	618	3,404	-3,699	-630	687	1,648	-324	10,148
Greece	-19	-444	68	5,740	281	-1,031	-2,540	-10,587	493	790	-1,717	-5,532
Hungary	31	101	-524	393	-1	39	-12	798	65	221	-441	1,552
Italy	-1,442	-8,748	-6,401	-5,854	3,284	11,062	-2,064	-11,874	0	0	-6,623	-15,414
Liechtenstein	65	-92	153	930	29	109	63	165	30	93	340	1,205
Luxembourg (3)	30,333	77,675	15,499	69,842	4,086	21,085	-2,760	3,078	15,126	64,598	62,284	236,278
Netherlands	154	-3,087	-30	-3,120	-355	-299	191	59	-331	-1,076	-371	-7,523
Norway	456	1,601	913	1,180	228	380	3,081	3,534	28	27	4,706	6,722
Portugal	49	81	-140	599	80	272	27	20	496	1,038	512	2,010
Slovakia	15	33	65	442	24	56	-30	328	60	120	134	979
Spain	3,242	9,831	-1,587	6,759	1,658	7,333	-141	-2,373	0	0	3,172	21,550
Sweden	-270	1,915	262	1,051	512	1,488	260	674	1,141	2,050	1,905	7,178
Switzerland	-49	-575	7,381	9,552	304	-22	-337	-1,119	86	123	7,385	7,959
United Kingdom	3,303	5,785	1,827	8,002	1,146	3,701	108	713	1,370	3,314	7,754	21,515
Total	48,066	122,311	-16,383	102,739	16,172	61,399	-17,373	16,793	19,699	74,594	50,181	377,836

(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 3.5% in the fourth quarter to reach EUR 5,170 billion at end 2005. The UCITS asset growth in the fourth quarter was fuelled by the enduring increase in equity fund assets (8.0 percent) against the backdrop of rising stock prices.

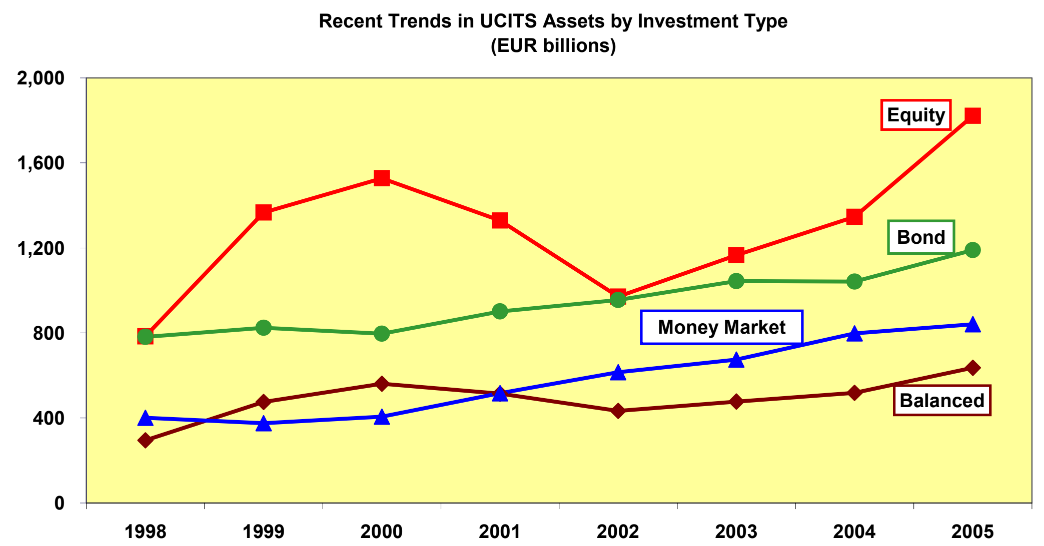
Year-on-year growth in the UCITS market reached 23.3%, or more than double the increase in 2004. The strong gains recorded by equity markets in Europe pushed equity assets 35% up in 2005. This was the largest asset gain since 1999. As a result, equity fund assets reached their highest level ever (EUR 1,822 billion). In the past, equity funds only approached this level at the end of September 2000 with net assets totalling EUR 1,767 billion. It is also worth noting that "other" UCITS experienced a 50% jump in assets, reflecting the growth of Luxembourg-domiciled funds of funds assets.

At end 2005, equity and balanced funds combined accounted for 52 percent of all UCITS assets, compared with 48 percent one year before.

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

UCITS types	31/12/2005 EUR bn	31/12/2005 Share	Change wrt to 30/09/2005 in % [2]	Change wrt to 30/09/2005 in EUR bn	Change wrt to 31/12/2004 % chg [3]	Change wrt to 31/12/2004 in EUR bn
Equity	1,822	39%	8.0%	135	35.3%	476
Balanced	636	14%	3.9%	24	22.5%	117
Total Equity & Balanced	2,458	52%	6.9%	159	31.8%	593
Bond	1,190	25%	-1.6%	-20	14.2%	148
Money Market	842	18%	-1.5%	-13	5.5%	44
Funds of funds [4]	77	2%	8.5%	6	51.1%	26
Other	140	3%	9.8%	13	49.9%	47
All Funds	4,707	100%	3.2%	144	22.3%	857
including Ireland	5,170		3.5%	176	23.3%	978

(1) Excluding Ireland for which no data breakdown is available.
(2) End 2005 compared to end Sept. 2005.
(3) End 2005 compared to end 2004.
(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 market, Luxembourg and Dublin recorded the highest asset growth in 2005 (35%). Reflecting this exceptional growth, the combined market share of Luxembourg and Ireland represented 35.8% at end 2005, rising from 32.7% the prior year. Among the other fund industry's leading countries, the United Kingdom also had a very good year with a growth rate of 31%, followed by Germany (17%), Spain (15%), France (15%) and Italy (2%).

Elsewhere in Europe, asset growth was well above European average in the Nordic countries with Norway recording the highest asset increase (55%), and in Central Europe with Poland and Slovakia recording an asset increase of 70%. 2005 was also an excellent year in most other countries. Greece was the only country to record a fall in UCITS assets due to very large outflows from money market funds (EUR 11 billion).

Table 3. Net Assets of the European UCITS Industry

	31/12/2005		30/09/2005		31/12/2004	
Members	**EUR m**	**Share**	**EUR m**	**% chg (1)**	**EUR m**	**% chg (2)**
Austria	107,961	2.1%	104,270	3.5%	89,046	21.2%
Belgium	107,177 (2)	2.1%	107,177	--	93,431	--
Czech Republic	4,728	0.1%	4,490	5.3%	3,583	32.0%
Denmark	63,744	1.2%	59,054	7.9%	47,573	34.0%
Finland	38,497	0.7%	37,787	1.9%	27,647	39.2%
France	1,155,100	22.3%	1,167,600	-1.1%	1,006,500	14.8%
Germany	262,365	5.1%	258,003	1.7%	224,691	16.8%
Greece	27,944	0.5%	29,101	-4.0%	31,647	-11.7%
Hungary	5,474	0.1%	5,959	-8.1%	3,766	45.4%
Ireland	463,035	9.0%	431,418	7.3%	343,308	34.9%
Italy	381,889	7.4%	384,914	-0.8%	375,694	1.6%
Liechtenstein	12,783	0.2%	12,092	5.7%	9,980	28.1%
Luxembourg	1,386,611	26.8%	1,299,574	6.7%	1,024,984	35.3%
Netherlands	79,984	1.5%	75,824	5.5%	74,620	7.2%
Norway	34,010	0.7%	28,751	18.3%	21,956	54.9%
Poland	15,015	0.29%	12,916	16.3%	8,820	70.2%
Portugal	26,208	0.5%	25,512	2.7%	23,420	11.9%
Slovakia	2,709	0.05%	2,510	8.0%	1,592	70.2%
Spain	268,597	5.2%	262,535	2.3%	233,124	15.2%
Sweden	103,787	2.0%	98,826	5.0%	79,938	29.8%
Switzerland	100,782	1.9%	89,602	12.5%	70,587	42.8%
Turkey	18,436	0.4%	17,267	6.8%	13,392	37.7%
United Kingdom	502,920	9.7%	478,823	5.0%	382,753	31.4%
All Funds	5,169,757	100%	4,994,004	3.5%	4,192,053	23.3%

(1) End 2005 compared to end Sept. 2005; (2) End 2005 compared to end 2004; (2) as of end Sept. 2005.

Trends in the Non-UCITS Market [3]
Net Sales and Assets by Investment Type

The year 2005 was also one of strong growth for non-UCITS assets, which grew 21% to EUR 1,396 billion.

During the fourth quarter, net flows to special funds reserved for institutional investors gathered strength again to reach a record level of EUR 19 billion thanks to a sharp increase in flows into German "Spezialfonds" to EUR 14 billion, up from EUR 8 billion in the third quarter. **For the year as whole, special funds collected EUR 54 billion in new money, compared to EUR 30 billion in 2004.** Inflows were the largest in Germany (EUR 40 bn or EUR 23 bn more than in 2004), Denmark (EUR 8 bn or EUR 1 bn less than in 2004), Luxembourg (EUR 7 bn or EUR 6 bn more than in 2004) and Austria (EUR 6 bn or EUR 4 bn more than in 2004).

The European property funds segment grew 11% in 2005 with very significant increases in the United Kingdom (+262%), Hungary (+252%) and Austria (+137%). In Germany, on the other hand, net assets fell by 2% as a consequence of outflows of EUR 3.4 billion in the fourth quarter in the aftermath of the closing of a real estate fund. Finally, "other" non-UCITS funds domiciled in Luxembourg climbed 135% in 2005 to EUR 66 billion, reflecting net sales of hedge funds and funds of hedge funds and the launch of new funds with Sicav II structures which aim at optimising investments in connection with the EU Savings Tax Directive.

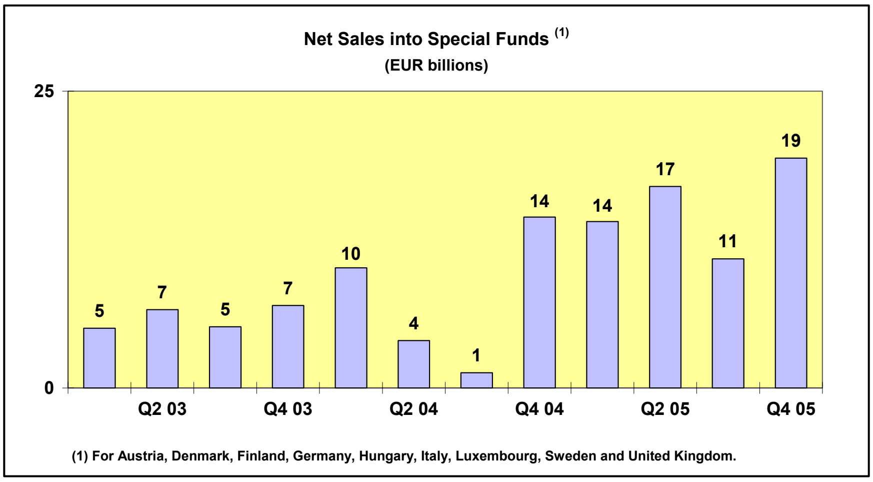


Table 4. Breakdown of Non-UCITS Assets by Category (1)

Fund types	31/12/2005 EUR bn	31/12/2005 Share	30/09/2005 EUR bn	30/09/2005 % chg (2)	31/12/2004 EUR bn	31/12/2004 % chg (3)
Special / Institutional	782	61%	765	2.1%	665	18%
German "Spezialfonds"	618	48%	609	1.4%	543	14%
British investment trusts	99	8%	90	9.6%	86	16%
French employees savings	67	5%	66	1.5%	57	17%
Luxembourg "other" funds	66	5%	58	14.5%	28	135%
Property funds	167	13%	163	2.4%	150	11%
Other	95	7%	94	1.2%	79	20%
Total	1,276	100%	1,236	3.2%	1,065	20%
including Ireland	1,396		1,348	3.5%	1,156	21%

(1) Excluding Ireland for which no data breakdown is available.
(2) End 2005 compared to end Sept. 2005.
(3) End 2005 compared to 2004.

[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 3.5% in the fourth quarter to reach EUR 6,566 billion. **Total net assets at end 2005 were EUR 1,218 billion, or 22.8%, higher than at end 2004.**

Three countries (Luxembourg, France and Germany) had a market share of 57.3% at end 2005. The United Kingdom, Ireland and Italy followed in this ranking.

With EUR 5,170 billion invested in UCITS, this segment of the business accounted for 78.7% of the fund market at end 2005.

Table 5. Net Assets of the European Investment Fund Industry

	31/12/2005		30/09/2005		31/12/2004	
Members	**EUR m**	**Share**	**EUR m**	**% chg (1)**	**EUR m**	**% chg (2)**
Austria	156,697	2.4%	151,047	3.7%	125,289	25.1%
Belgium	112,942 (2)	1.7%	112,942	--	98,785	--
Czech Republic	4,728	0.1%	4,490	5.3%	3,590	31.7%
Denmark	106,434	1.6%	100,990	5.4%	77,179	37.9%
Finland	44,668	0.7%	43,555	2.6%	30,805	45.0%
France	1,270,600	19.4%	1,282,000	-0.9%	1,110,290	14.4%
Germany	965,543	14.7%	955,888	1.0%	855,031	12.9%
Greece	28,299	0.4%	30,730	-7.9%	32,985	-14.2%
Hungary	7,082	0.1%	7,207	-1.7%	4,441	59.5%
Ireland	583,275	8.9%	543,403	7.3%	434,589	34.2%
Italy	410,078	6.2%	411,606	-0.4%	396,886	3.3%
Liechtenstein	13,215	0.2%	12,467	6.0%	10,138	30.4%
Luxembourg	1,525,208	23.2%	1,423,551	7.1%	1,106,222	37.9%
Netherlands	95,768	1.5%	90,912	5.3%	89,102	7.5%
Norway	34,010	0.5%	28,751	18.3%	21,956	54.9%
Poland	15,877	0.2%	13,614	16.6%	9,237	71.9%
Portugal	36,451	0.6%	35,145	3.7%	31,465	15.8%
Slovakia	2,740	0.04%	2,546	7.6%	1,641	67.0%
Spain	275,073	4.2%	268,559	2.4%	237,502	15.8%
Sweden	105,587	1.6%	100,710	4.8%	81,438	29.7%
Switzerland	116,705	1.8%	104,589	11.6%	83,325	40.1%
Turkey	20,200	0.3%	18,837	7.2%	13,392	50.8%
United Kingdom	634,649	9.7%	598,775	6.0%	492,846	28.8%
All Funds	6,565,827	100.0%	6,342,314	3.5%	5,348,135	22.8%
UCITS Assets	5,169,757	78.7%	4,994,004	3.5%	4,192,053	23.3%
Non-UCITS Assets	1,396,070	21.3%	1,348,310	3.5%	1,156,082	20.8%

(1) End 2005 compared to end Sept. 2005; (2) End 2005 compared to end 2004; (2) as of end Sept. 2005.