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Trends in the European Investment Fund Industry

in the Second Quarter of 2006

and

Results for First Half of 2006

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Trends in the UCITS Market [1]
Net Sales by Investment Type

Net flows to UCITS fell to EUR 54 billion in the second quarter, from EUR 186 billion in the first quarter. For the most part, this reflected a sharp fall in net inflows in equity and bond funds. Balanced funds were also affected, albeit to a lesser degree. The swing in net sales of equity funds was triggered by the stock market declines observed in May and June. In a number of countries, concerns about inflationary pressures also led many investors to reduce their exposure to bond price risks. Despite the sudden retraction of risk appetite in the second quarter, the outlook remains good for the rest of the year, as the rise in volatility in global financial markets in the spring does not appear to signal an impending downturn or significant risks to the global economic or financial outlook.

Notwithstanding the sharp slowdown in net inflows in the spring, on a year-to-date basis, UCITS still captured EUR 240 billion in net flows, EUR 64 billion more than in the first half of 2005. This outcome was driven by net inflows into equity and balanced funds, which reached EUR 159 billion year-to-date, compared with EUR 60 billion in the first half of 2005. On the other hand, bond funds gathered in the first months of 2006 EUR 60 billion less than in the first half of 2005.

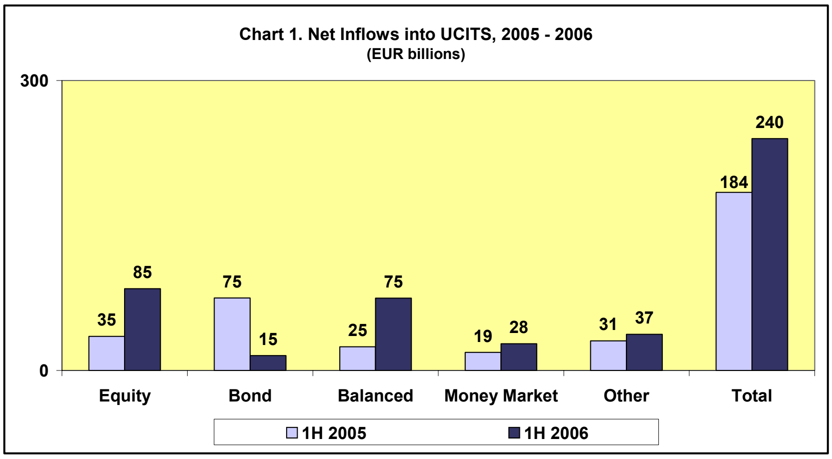


Chart 1. Net Inflows into UCITS, 2005 - 2006
(EUR billions)

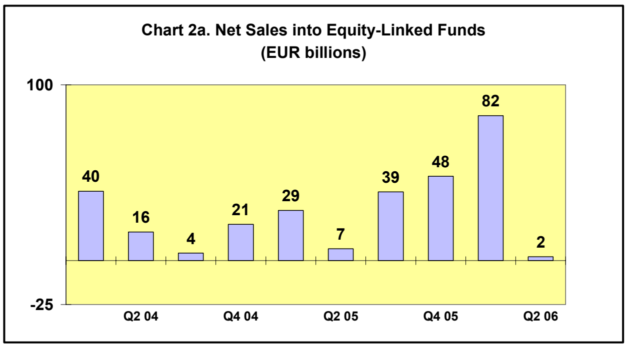


Chart 2a. Net Sales into Equity-Linked Funds
(EUR billions)

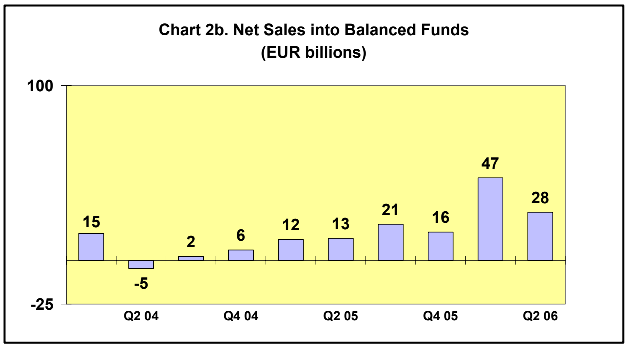


Chart 2b. Net Sales into Balanced Funds
(EUR billions)

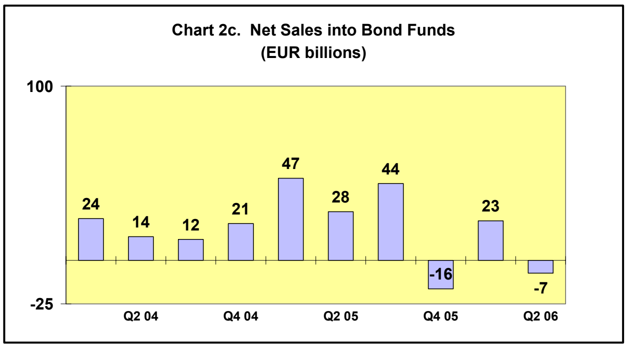


Chart 2c. Net Sales into Bond Funds
(EUR billions)

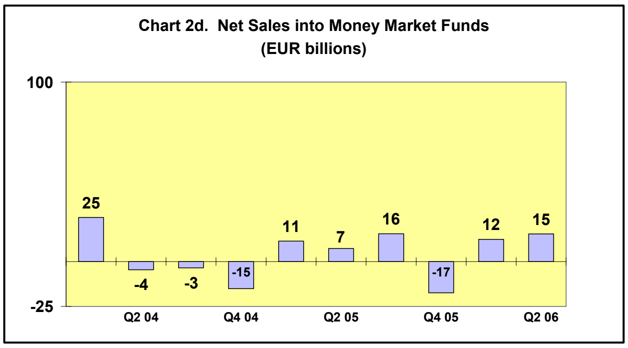


Chart 2d. Net Sales into Money Market Funds
(EUR billions)

[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 87 percent of total net inflows to UCITS in the second quarter. The importance of this market share reflects the continuing rise of Luxembourg for cross-border fund distribution and "round-trip" funds. As documented in the forthcoming EFAMA Fact Book 2006, a significant proportion of net sales of Luxembourg-domiciled funds corresponds to net sales of Luxembourg-based cross-border funds promoted by national and foreign fund managers in Germany, Italy and Switzerland.

The unusually high market share taken by Luxembourg also mirrored the fact that UCITS recorded outflows in nine European countries, with the net redemption activity concentrating mostly in the equity and bond fund markets. Having said this, despite the rise in volatility in the stock markets, equity and balanced funds continued to gather new money in many countries, with French-domiciled funds collecting the highest inflows in the equity fund market in the second quarter (EUR 11.5 billion) and Luxembourg-domiciled funds in the bond fund market (EUR 7.6 billion). Italy, on the other hand, continued to experience large outflows (EUR 6 billion in the equity market and EUR 9 billion in the bond market). In the equity market, outflows were also relatively large compared to recent trends in Austria, Germany, Norway, Spain and Sweden. The same was true in the bond fund market for Austria and Switzerland.

Balanced funds continued to gather robust inflows, highlighting the importance taken by diversification in investor assessment in periods of volatile financial markets. Money market funds also continued to attract new money, reflecting in part the appeal of "enhanced" or "leveraged" money funds offering absolute returns. Luxembourg-based "other" UCITS, in particular funds of funds, also recorded strong inflows.

For the first half of 2006, the top 5 countries in terms of net sales were Luxembourg, France, the United Kingdom, Switzerland and Finland, with net inflows significantly higher than in the same period of last year.

Table 1. Net Sales of UCITS in 2006 (1)

Members	Equity Funds		Bond Funds		Balanced Funds		Money Market Funds		Other Funds (2)		Total	
	Q2	Q1 - Q2	Q2	Q1 - Q2	Q2	Q1 - Q2	Q2	Q1 - Q2	Q2	Q1 - Q2	Q2	Q1 - Q2
Austria	-1,015	-426	-1,049	1,159	538	1,759	-23	-1,111	426	1,099	-1,122	2,480
Czech Republic	44	87	-48	-33	32	95	-62	-78	86	191	51	261
Denmark	1,632	2,744	-159	-388	124	238	0	0	0	0	1,596	2,594
Finland	103	94	586	1,452	71	568	1,355	3,164	102	229	2,217	5,507
France	11,500	22,100	1,100	12,700	1,300	18,100	500	19,000	0	0	14,400	71,900
Germany	-3,276	-4,134	-203	782	-171	1,296	1,353	1,133	343	1,233	-1,954	309
Greece	-308	-337	-2,780	-5,030	-160	-110	569	297	523	1,435	-2,156	-3,745
Hungary	97	136	-427	-635	2	12	9	279	61	249	-258	40
Italy	-5,996	-7,226	-9,285	-25,438	1,303	10,719	-2,579	-7,786	0	0	-16,558	-29,730
Liechtenstein	10	46	371	461	37	142	150	105	23	28	590	782
Luxembourg (3)	4,846	57,344	7,644	33,734	12,804	25,576	10,263	10,651	11,439	26,260	46,996	153,565
Netherlands	244	729	6	-375	-50	83	207	524	-931	-863	-523	97
Norway	-348	60	590	941	47	180	557	-437	5	11	851	756
Portugal	5	303	-513	-936	64	188	-54	-547	190	719	-308	-272
Slovakia	47	81	-244	-347	56	108	-206	-284	295	457	-51	13
Spain	-2,714	6,185	2,022	-2,754	653	2,957	636	-1,003	0	0	596	5,385
Sweden	-3,391	-717	290	544	202	688	2,020	2,118	670	1,192	-209	3,825
Switzerland	-244	43	-7,678	-5,170	9,649	10,047	542	705	0	0	2,269	5,625
United Kingdom	964	7,561	2,441	4,644	1,023	2,126	143	969	3,177	5,213	7,747	20,512
Total	2,200	84,673	-7,336	15,311	27,524	74,772	15,380	27,699	16,409	37,451	54,174	239,902

(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 1.3 percent in the second quarter to reach EUR 5,485 billion at end June 2006, compared to EUR 5,559 billion at end March 2006. The decline in UCITS assets under management reflected a 4.8 percent fall in equity fund assets and a 2 percent fall in bond fund assets. All other fund categories recorded an increase in assets in the second quarter.

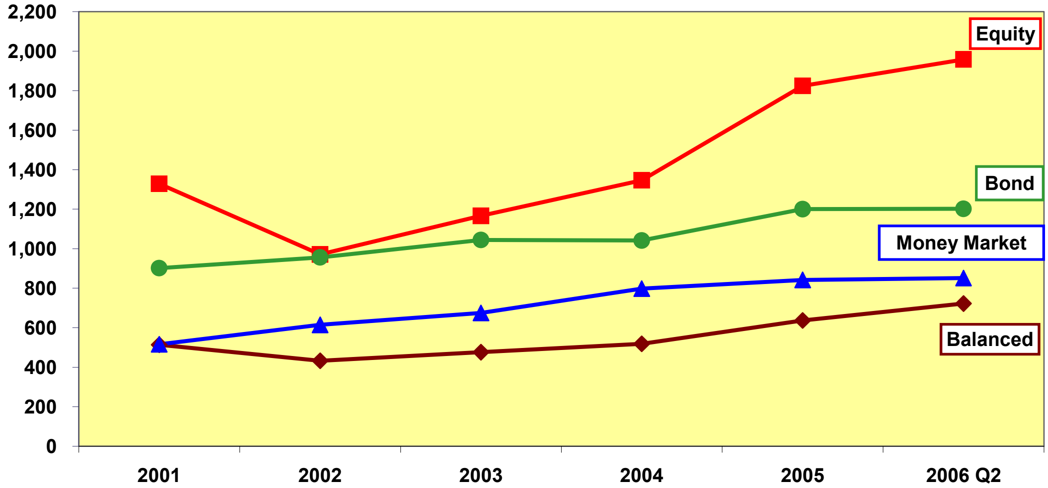
Since the end of 2005, total assets in UCITS rose by 5.8 percent, with balanced funds, funds of funds and other UCITS recording double-digit asset growth.

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

UCITS types	30/06/2006 EUR bn	30/06/2006 Share	Change wrt to 31/03/2006 in % [2]	Change wrt to 31/03/2006 in EUR bn	Change wrt to 31/12/2005 % chg [3]	Change wrt to 31/12/2005 in EUR bn
Equity	1,958	39%	-4.8%	-99	7.4%	135
Balanced	722	14%	2.5%	17	13.5%	86
Total Equity & Balanced	2,680	54%	-2.9%	-81	9.0%	220
Bond	1,202	24%	-2.0%	-24	0.2%	2
Money Market	851	17%	1.7%	14	1.1%	9
Funds of funds [4]	87	2%	2.5%	2	11.9%	9
Other	161	3%	2.7%	4	15.4%	21
All Funds	4,982	100%	-1.7%	-85	5.6%	262
including Ireland	5,485		-1.3%	-74	5.8%	302

(1) Excluding Ireland for which no data breakdown is available.
(2) End June 2006 compared to end March 2006.
(3) End June 2006 compared to end 2005.
(4) Except funds of funds domiciled in France, Luxembourg and Italy which are included in the other types of funds.

Chart 3. Recent Trends in UCITS Assets by Investment Type (EUR billions)



Trends in the UCITS Market
Net Assets by Country of Domiciliation

Looking at the development in the major markets, six countries recorded positive UCITS asset growth in the second quarter: Poland (2.4%), Ireland (2.2%), Finland (1.6%), Liechtenstein (0.5%), the United Kingdom (0.9%) and France (0.3%). Asset growth turned negative in all other countries, with asset losses exceeding 5% in Turkey and Hungary, reflecting currency depreciation, as well as in Greece, Italy and Slovakia. As indicated above, the fall in asset growth reflected a fall in investor risk appetite, which was a normal adjustment to the perceived rising risks in global financial markets in late spring.

For the first half of 2006, the top 5 countries in terms of UCITS growth were Poland (17.8%), Finland (14.8%), Sweden (13.6%), Switzerland (12.8%) and the United Kingdom (9.8%). Asset growth was also above European average in the Czech Republic (7.9%). Reflecting the developments in the second quarter, total UCITS assets at end June fell below their end 2005 level in Germany, Greece, Hungary, Italy, Netherlands, Portugal, Slovakia and Turkey.

Table 3. Net Assets of the European UCITS Industry

	30/06/2006		31/03/2006		31/12/2005	
Members	**EUR m**	**Share**	**EUR m**	**% chg (1)**	**EUR m**	**% chg (2)**
Austria	108,140	2.0%	113,101	-4.4%	107,961	0.2%
Belgium	112,465	2.1%	115,426	-2.6%	109,839	2.4%
Czech Republic	5,030	0.1%	5,054	-0.5%	4,661	7.9%
Denmark	64,731	1.2%	66,792	-3.1%	63,744	1.5%
Finland	44,208	0.8%	43,507	1.6%	38,497	14.8%
France	1,248,400	22.8%	1,244,400	0.3%	1,155,100	8.1%
Germany	260,931	4.8%	272,985	-4.4%	262,365	-0.5%
Greece	24,333	0.4%	27,175	-10.5%	27,944	-12.9%
Hungary	5,044	0.1%	5,627	-10.4%	5,808	-13.1%
Ireland	503,124	9.2%	492,081	2.2%	462,955	8.7%
Italy	350,175	6.4%	372,940	-6.1%	381,889	-8.3%
Liechtenstein	13,462	0.2%	13,392	0.5%	12,783	5.3%
Luxembourg	1,500,436	27.4%	1,526,074	-1.7%	1,386,611	8.2%
Netherlands	78,482	1.4%	82,244	-4.6%	79,984	-1.9%
Norway	35,614	0.6%	35,857	-0.7%	34,006	4.7%
Poland	17,686	0.32%	17,266	2.4%	15,015	17.8%
Portugal	25,997	0.5%	26,589	-2.2%	26,208	-0.8%
Slovakia	2,681	0.05%	2,825	-5.1%	3,264	-17.9%
Spain	277,371	5.1%	278,369	-0.4%	268,597	3.3%
Sweden	117,617	2.1%	123,083	-4.4%	103,512	13.6%
Switzerland	113,676	2.1%	118,883	-4.4%	100,782	12.8%
Turkey	12,628	0.2%	17,826	-29.2%	18,436	-31.5%
United Kingdom	562,747	10.3%	557,708	0.9%	512,734	9.8%
All Funds	5,484,978	100%	5,559,202	-1.3%	5,182,694	5.8%

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

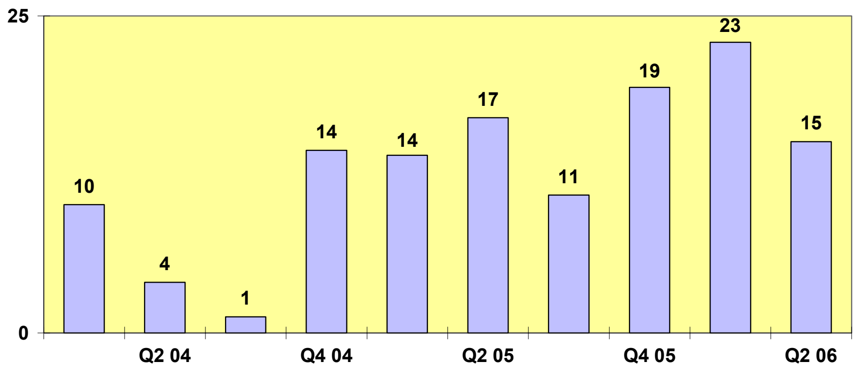
Trends in the Non-UCITS Market [2]
Net Sales and Assets by Investment Type

With total assets reaching EUR 1,459 billion at end June, non-UCITS remained nearly constant in the second quarter.

Despite the increase in risk aversion in global financial markets, net flows to special funds reserved for institutional investors collected a hefty EUR 15 billion in new investment. This was significantly less in the first quarter, but more than the average amount of new money collected by special funds in 2004-2005 (EUR 11 billion). The same observation is valid for German "Spezialfonds", which collected EUR 12 billion in the second quarter, compared to an average of EUR 7 billion in 20004-2005.

Since end 2005, total assets of non-UCITS grew by 4 percent. Asset growth in the first half of 2006 has been driven by robust growth of assets managed in employees' saving funds in France, funds of hedge funds in Italy, and other non-UCITS in Luxembourg and Switzerland.

Chart 4. Net Sales into Special Funds (1)
(EUR billions)



(1) For Austria, Denmark, Finland, Germany, Hungary, Italy, Luxembourg, Sweden and United Kingdom.

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

Fund types	30/3/2006 EUR bn	30/3/2006 Share	31/03/2006 EUR bn	31/03/2006 % chg (2)	31/12/2005 EUR bn	31/12/2005 % chg (3)
Special / Institutional	802	60%	807	-0.6%	783	2%
German "Spezialfonds"	630	47%	633	-0.5%	619	2%
British investment trusts	92	7%	96	-4.5%	99	-7%
French employees savings	76	6%	74	2.9%	69	9%
Luxembourg "other" funds	75	6%	73	2.5%	66	13%
Property funds	169	13%	165	1.9%	171	-1%
Other	116	9%	111	4.5%	95	22%
Total	1,329	100%	1,326	0.2%	1,283	4%
including Ireland	1,459		1,455		1,405	4%

(1) Excluding Ireland for which no data breakdown is available.
(2) End June 2006 compared to end March 2006.
(3) End June 2006 compared to end 2005.

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[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, fell by 1% in the second quarter to reach the EUR 6,944 billion at end June 2006.

Three countries (Luxembourg, France and Germany) had a market share of 57.5% at end June. The United Kingdom, Ireland and Italy followed in this ranking.

With EUR 5,485 billion invested in UCITS, this segment of the business accounted for 79.0% of the fund market at end June.

Table 5. Net Assets of the European Investment Fund Industry

	30/06/2006		31/03/2006		31/12/2005	
Members	**EUR m**	**Share**	**EUR m**	**% chg (1)**	**EUR m**	**% chg (2)**
Austria	159,545	2.3%	164,610	-3.1%	156,703	1.81%
Belgium	118,623	1.7%	122,162	-2.9%	116,239	2.05%
Czech Republic	5,030	0.1%	5,054	-0.5%	4,661	7.91%
Denmark	111,168	1.6%	113,704	-2.2%	106,434	4.45%
Finland	52,035	0.7%	51,252	1.5%	44,668	16.49%
France	1,376,600	19.8%	1,368,500	0.6%	1,271,200	8.29%
Germany	965,686	13.9%	981,547	-1.6%	967,185	-0.16%
Greece	24,695	0.4%	27,563	-10.4%	28,299	-12.73%
Hungary	6,735	0.1%	7,344	-8.3%	7,757	-13.18%
Ireland	633,190	9.1%	621,261	1.9%	584,505	8.33%
Italy	385,615	5.6%	405,654	-4.9%	413,554	-6.76%
Liechtenstein	14,045	0.2%	13,950	0.7%	13,215	6.28%
Luxembourg	1,652,126	23.8%	1,675,260	-1.4%	1,525,213	8.32%
Netherlands	95,704	1.4%	98,907	-3.2%	95,765	-0.06%
Norway	35,614	0.5%	35,857	-0.7%	34,006	4.73%
Poland	19,062	0.3%	18,454	3.3%	15,876	20.07%
Portugal	37,459	0.5%	37,456	0.0%	36,451	2.77%
Slovakia	2,717	0.04%	2,856	-4.9%	3,294	-17.51%
Spain	284,956	4.1%	285,409	-0.2%	275,073	3.59%
Sweden	120,589	1.7%	125,817	-4.2%	105,940	13.83%
Switzerland	139,406	2.0%	143,738	-3.0%	116,705	19.45%
Turkey	13,990	0.2%	19,533	-28.4%	20,200	-30.74%
United Kingdom	689,504	9.9%	688,288	0.2%	644,458	6.99%
All Funds	6,944,095	100.0%	7,014,177	-1.0%	6,587,400	5.4%
UCITS Assets	5,484,978	79.0%	5,559,202	-1.3%	5,182,694	5.8%
Non-UCITS Assets	1,459,116	21.0%	1,454,976	0.3%	1,404,705	3.9%

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