

*Trends in the European Investment Fund Industry*  
*in the Fourth Quarter of 2008*  
*and*  
*Results for the Full Year 2008*

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](mailto:info@efama.org)

## Highlights

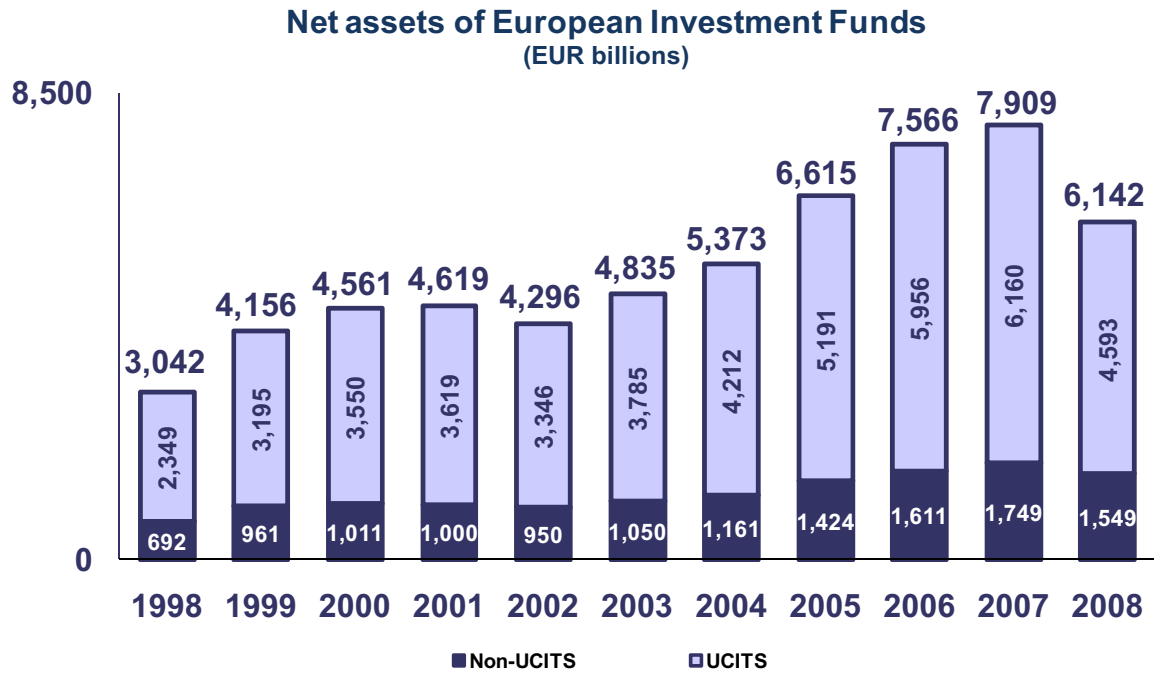
**2008 has been a very difficult year for European investors and fund managers.** The global financial crisis, which started in the United States in the summer of 2007 to become one of the most serious financial market crises in history, had a severe impact on investment funds in Europe and other regions. The full-blown repercussion of the crisis from the financial markets on the banking sector and the real economy explains why investment funds were severely hit:

- **Crisis in financial markets:** the massive losses recorded in stock markets across the globe led many investors to pull out record amounts, thereby accelerating the decline in stock prices and equity fund assets. In parallel, the liquidity crisis and the fear of credit and counterparty losses following the bankruptcy of Lehman Brothers led to a breakdown of credit and money markets, which accelerated outflows from bond funds. The difficulties experienced by some money market funds, which were best illustrated by the suspension of redemptions by the Reserve Primary Fund – one of America’s oldest money market funds – also led many investors in money market funds to redeem their shares in the autumn of 2008.
- **Competition from banks:** investment funds continued to suffer from competition from structured products and bank deposits, especially in countries where banks are main distribution channels for savings products. The solvency crisis among banks intensified the war for deposits, escalating further when European governments decided to provide guarantees for all bank deposits.
- **Fear of recession:** the worsening of growth prospects for Europe in the second half of 2008 put downward pressure on investor demand for investment funds. This development is in line with our research findings that confirm the importance of stable economic conditions for household demand for investment funds.

The direct implications of this vicious spiral for the European fund industry can be summarized by the following figures: total investment fund assets fell by 22 percent in 2008, or EUR 1,768 billion, with UCITS recording total net outflows of EUR 335 billion, or 6 percent of UCITS assets at end 2007. It is important to note that this percentage would have been lower if UCITS would play the same role as U.S. mutual funds in retirement saving.

Even if the European investment fund industry is suffering seriously from the crisis, it remains an essential and vital part of the European financial system. It is also important to put the crisis into perspective.

- **Investment fund assets in Europe have doubled in size over the last decade, from EUR 3,042 billion at end 1998 to EUR 6,142 billion at end 2008.** Over the last five years, European investment fund assets have grown by more than 30 percent. And in relation to aggregate European GDP, total investment fund assets represented half of the European Union’s GDP.
- **Market losses were responsible for 77 percent of the decline in UCITS assets.** For equity funds, this percentage represented 84 percent.
- **Almost 40 percent of the total outflows from UCITS in 2008 were recorded in the single month of October.** Knowing that the financial crisis brought the financial system on the brink of disaster after Lehman Brothers’ bankruptcy, it is not too difficult to understand that investors tried to protect their remaining financial wealth by hoarding cash.
- **The run on funds stopped in November** when governments and central banks stepped in with bold bailout plans and stimulus packages to prevent a financial meltdown. The situation continued to improve in December with equity and balanced funds attracting positive flows (see page 5 of this report).
- **Taking into account net inflows in special funds reserved to institutional investors (EUR 51 billion), net outflows from European investment funds were EUR 284 billion in 2008.**



## Outlook

Notwithstanding the encouraging signs from the figures released for November and December, the demand for investment funds is likely to remain subdued until the uncertainties surrounding financial markets and economic growth have subsided. When this will happen, we are confident that UCITS – thanks to their qualities in terms of product transparency, asset diversification, liquidity and fiduciary responsibility – will again attract strong inflows. A combination of other factors will help strengthen investor demand in the coming months and years:

- **Low short-term interest rates:** central banks are likely to keep short-term interest rates very low for a prolonged period of time to support the real economy. This should convince investors to seek alternative investments to bank deposits to secure higher returns.
- **Low stock valuations:** the collapse in stock prices in 2008 and the resulting low price-to-earnings ratios have increased the attractiveness of equity funds. Whilst many investors remain concerned for what they regard as risky investments, others are ready to switch investment back towards equity funds to benefit from positive earnings rebounds.
- **Growth perspectives in Asia:** while China and other rapidly developing countries could not isolate themselves from the global economic turmoil, they will continue to enjoy significantly higher GDP growth than Europe and the United States. We trust therefore that these countries will remain an important source of demand for UCITS in the short and long term.

To benefit fully from these factors and leverage further the value proposition of UCITS, it is important to achieve progress in the following areas:

- **UCITS IV:** the new regulatory framework, known as UCITS IV, will allow UCITS managers to develop their cross-border activities and operate investment funds at lower costs. The Key Investor Information will also ensure that investors receive clear and easily understandable information in order to assist them in their investment decision. Quick and effective implementation of these provisions is essential to take advantage, as quickly as possible, of the expected benefits of the package.
- **Level playing field:** closing the gap between UCITS and other retail investment products in terms of information disclosure will increase transparency, thereby strengthening investor confidence in the financial services industry. EFAMA looks forward to the White Paper announced by the European Commission and trusts that the proposals will be sufficiently ambitious.
- **Retirement saving:** one of the many unfortunate consequences of the financial crisis is its adverse impact on public finances. Consequently, further comprehensive pension reforms will be needed in many Member States to prepare for ageing populations and avoid an explosion of public debt. This means that households should save “more and better” to ensure adequate retirement income. To achieve this goal, as recently requested by the European Parliament, the European Commission should prepare a regulatory framework for pan-European pension products to stimulate competition and reduce the cost of saving for retirement, and Member States should encourage higher participation and contribution levels of employees in pension schemes.

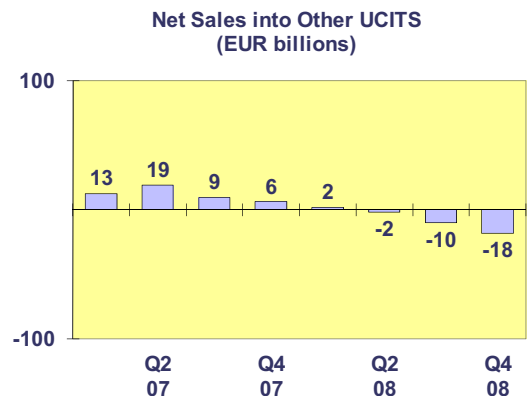
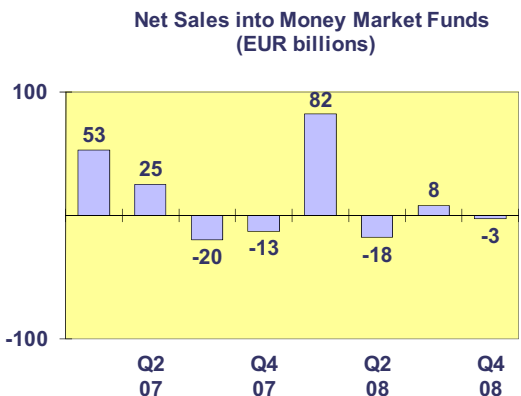
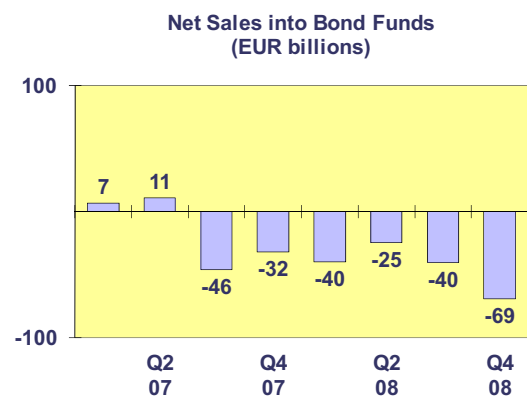
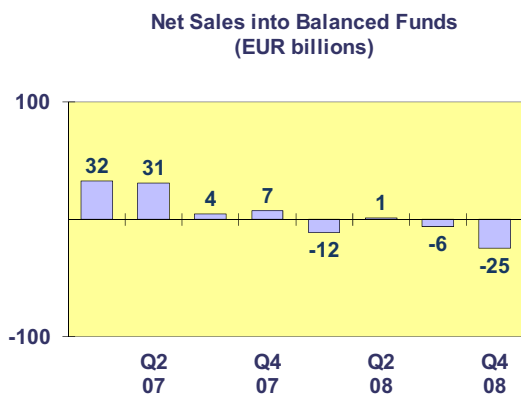
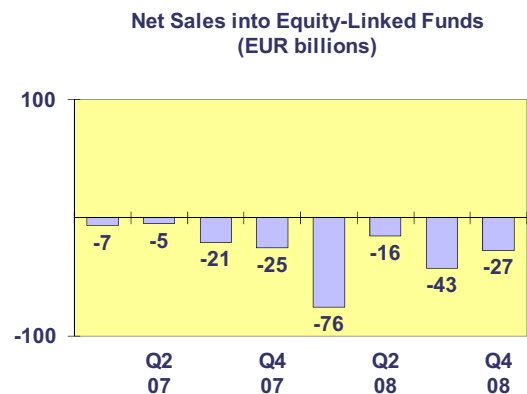
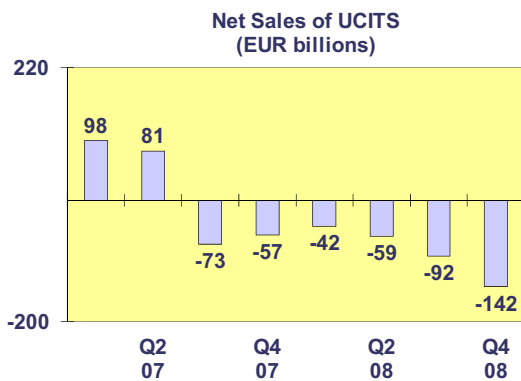
The realization of these objectives will strengthen the competitive advantage of UCITS, thereby increasing further the role of the UCITS industry in the management of long-term savings and the creation of jobs in Europe.

## Trends in the UCITS Market

### *Net Sales by Investment Type*

**Outflows from UCITS<sup>1</sup> increased in the fourth quarter of 2008 to EUR 142 billion.** The fund industry had never experienced such a setback in a single quarter in its history. Outflows rose in the midst of a financial crisis that brought the financial system on the edge of collapse in October 2008.

Bond funds suffered the strongest outflows (EUR 69 billion) in the fourth quarter of 2008, as well as in the whole year, highlighting the state of disruption and volatility in fixed-income markets after Lehman Brothers' bankruptcy. Despite their traditional role as safe-heaven investment, money market funds also suffered from the worsening of the crisis in money markets. On the other hand, outflows from equity funds slowed down in the fourth quarter.

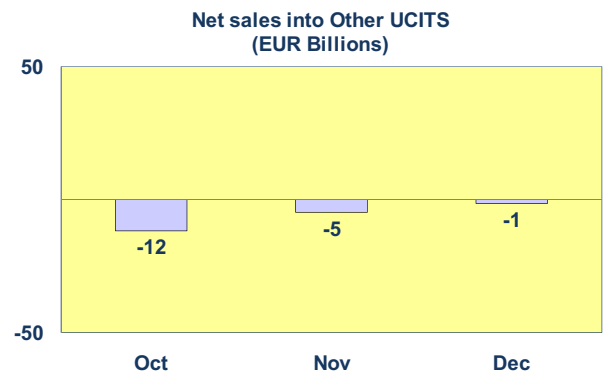
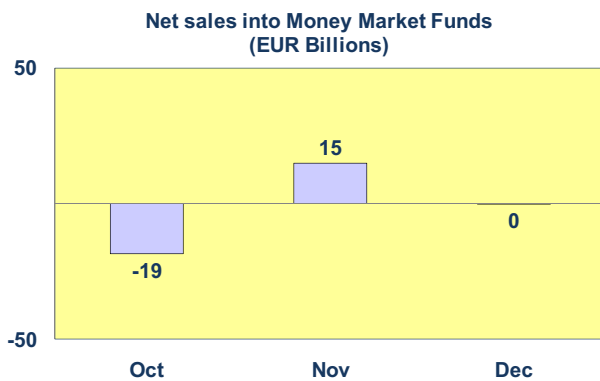
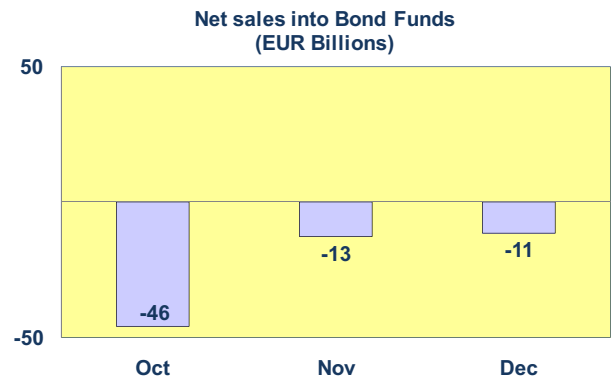
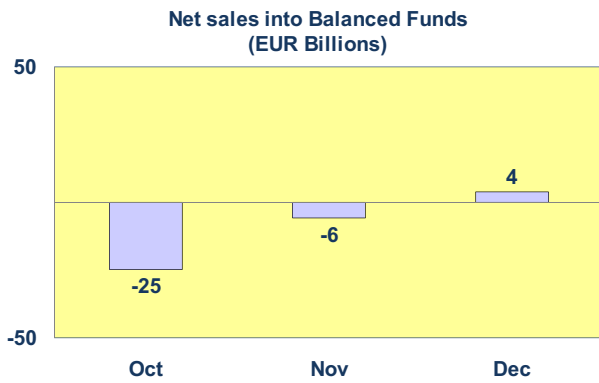
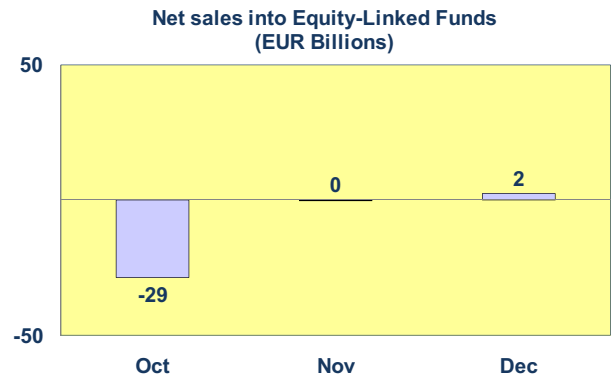
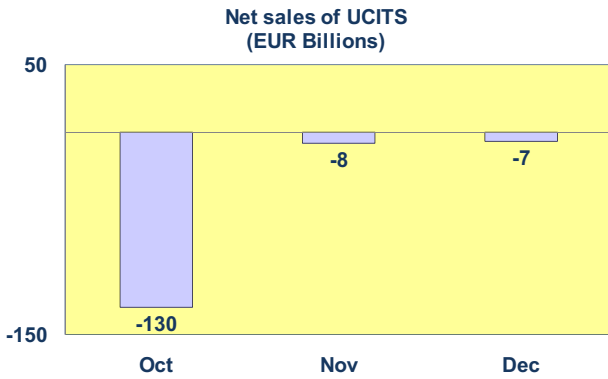


<sup>1</sup> "UCITS" is used in this note in the sense of publicly offered open-end funds investing in transferable securities and money market funds, whereas "non-UCITS" group funds that are regulated in accordance with specific national requirements.

## Trends in the UCITS Market

### *Dramatic Outflows in October*

**Close to 40 percent of the total outflows from UCITS in 2008 were recorded in October.** The run on funds stopped in November and the situation continued to improve in December with equity and balanced funds attracting positive flows. Net inflows in money market funds fell in December due to year-end tax reasons and investor payment obligations.



## Trends in the UCITS Market

### *Net Sales by Country of Domiciliation*

In the fourth quarter of 2008, Luxembourg-domiciled funds were severely hit by the financial market crisis, especially bond funds. Italy and Spain also continued to record strong outflows in relation to their asset base. The outflows were significantly lower in France and Germany, whereas U.K. domiciled UCITS managed to post positive net inflows in the fourth quarter.

In absolute terms, 90 percent of total net outflows in 2008 originated from five countries: Luxembourg (EUR 106 billion), Italy (EUR 73 billion), Spain (EUR 57 billion), France (45 billion) and Germany (EUR 19 billion). In relation to UCITS assets at end 2007, outflows remained negligible in the United Kingdom (less than 1 percent), and relatively small in France (3 percent), Luxembourg (6 percent) and Germany (7 percent). In Spain and Italy, net outflows reached considerable levels (21 percent and 26 percent, respectively), reflecting strong competition from bank deposits at the distribution level.

Elsewhere, outflows reached dramatic proportions in Greece (40 percent) and Portugal (38 percent). It is also worth noting that Norway, Romania, Sweden and Switzerland recorded positive inflows in 2008.

Members	Equity Funds		Bond Funds		Balanced Funds		Money Market Funds		Other Funds <sup>(2)</sup>		Total	
	Q4	2008	Q4	2008	Q4	2008	Q4	2008	Q4	2008	Q4	2008
Austria	-553	-2,817	-2,273	-8,156	-361	-442	-29	-1,037	-798	-1,901	-4,014	-14,354
Bulgaria	-13	-75	-3	-3	-13	-43	2	18	0	0	-27	-103
Czech Republic	3	5	-70	-269	-47	-87	-525	-763	-67	-65	-705	-1,179
Denmark	-1146	-1690	-765	-1234	-62	-408	-1	-1	0	0	-1974	-3332
Finland	-217	-1,048	184	289	-137	-514	-2,930	-6,469	8	-146	-3,092	-7,889
France	1,500	-10,700	-6,400	-22,200	-11,200	-42,200	17,200	41,700	-5,600	-11,500	-4,500	-44,900
Germany	52	-5,336	-3,620	-12,899	2,898	7,352	-6,061	-11,653	233	3,971	-6,499	-18,564
Greece	-55	-443	-610	-1,211	-437	-841	-3,664	-5,631	-86	-658	-4,852	-8,784
Hungary	55	272	-195	-651	-17	-52	-837	-812	-129	-466	-1,124	-1,708
Italy	-1,025	-12,955	-5,724	-23,466	-6,274	-26,008	-6,137	-10,906	0	0	-19,161	-73,334
Liechtenstein <sup>(4)</sup>	n.a.	-259	n.a.	-99	n.a.	59	n.a.	1,795	n.a.	40	n.a.	1,536
Luxembourg <sup>(3)</sup>	-22,762	-86,194	-48,492	-93,675	-7,744	28,163	1,816	65,629	-11,474	-19,963	-88,656	-106,040
Netherlands <sup>(4)</sup>	n.a.	452	n.a.	-2,343	n.a.	-529	n.a.	-267	n.a.	122	n.a.	-2,565
Norway	266	-93	136	562	6	-205	-361	-266	8	51	54	47
Poland	-42	-613	668	662	-53	-1,239	-5	-99	-57	-63	511	-1,352
Portugal	-183	-923	-891	-3,731	-140	-378	-1,138	-3,113	31	-94	-2,320	-8,239
Romania	-3	-5	1	43	-2	-6	31	55	0	0	27	86
Slovakia	-28	-5	-40	-138	-73	-92	-681	-520	-99	-124	-921	-879
Slovenia	-53	-196	-5	-5	-57	-105	-1	6	0	-4	-116	-304
Spain	-7,087	-33,836	-3,753	-9,346	-1,590	-7,108	-2,227	-6,888	0	0	-14,657	-57,179
Sweden	1,263	-1,137	1,306	2,182	1,139	1,366	698	1,403	-229	-875	4,177	2,939
Switzerland	1,327	2,326	-307	-1,074	-957	1,130	4,648	10,045	0	0	4,710	12,427
United Kingdom	1,390	-5,672	1,644	2,420	153	1,206	-2,586	-2,777	93	3,164	694	-1,659
<b>Total</b>	<b>-27,312</b>	<b>-160,943</b>	<b>-69,209</b>	<b>-174,342</b>	<b>-24,970</b>	<b>-40,980</b>	<b>-2,785</b>	<b>69,449</b>	<b>-18,166</b>	<b>-28,511</b>	<b>-142,442</b>	<b>-335,328</b>

(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, except net sales of special funds, which are shown in Table 5; (4) 2008 net sales refer to Q1-Q3.

## Trends in the UCITS Market

### *Net Assets by Investment Type*

**Total net assets of UCITS fell by 11.3 percent in the fourth quarter to reach EUR 4,593 billion at end December 2008.**

**Total assets in UCITS decreased by 25.4 percent in 2008.** Close to 70 percent of the fall reflected a decline in equity fund assets, with stock price losses causing 58 percent of the overall decline of UCITS assets.

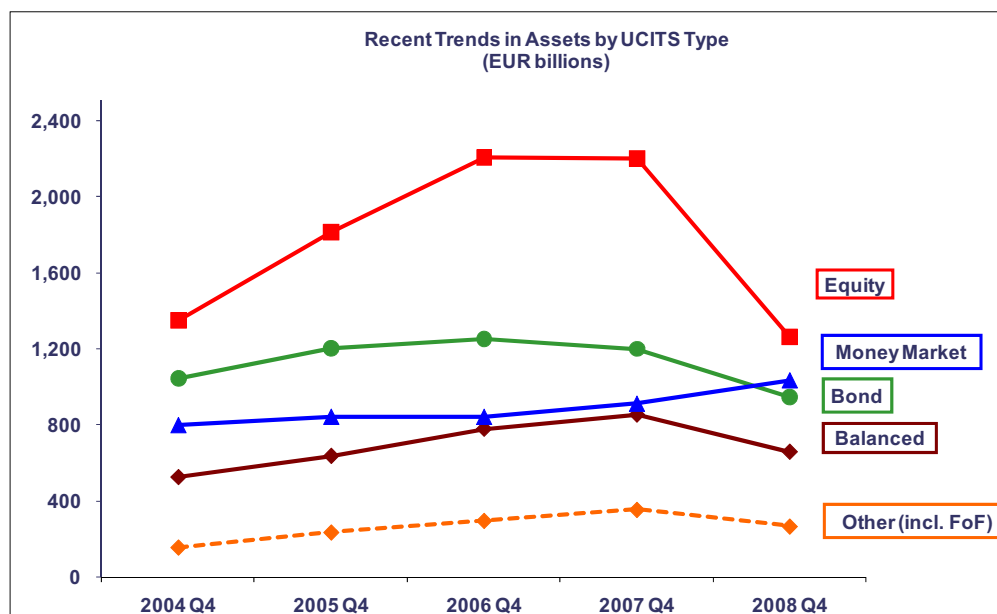
Reflecting this evolution, the share of equity fund assets in total UCITS assets fell to 30 percent at end 2008 from 40 percent at end 2007. Money market funds made up for the difference with a share of assets totalling 25 percent at end of 2008, compared to 16 percent at end 2007. This means that money market funds held the second largest market share in the UCITS market at end 2008.

UCITS types	31/12/2008		Change wrt to 30/09/2008		Change wrt to 31/12/2007	
	EUR bn	Share	in % <sup>(2)</sup>	in EUR bn	% chg <sup>(3)</sup>	in EUR bn
Equity	1,208	30%	-19.3%	-289	-45.1%	-991
Balanced	651	16%	-11.3%	-83	-23.7%	-202
Total Equity & Balanced	1,860	46%	-16.7%	-373	-39.1%	-1,193
Bond	926	23%	-9.7%	-100	-22.7%	-272
Money Market	1,031	25%	-0.9%	-10	13.2%	120
Funds of funds <sup>(4)</sup>	63	2%	-11.4%	-8	-37.4%	-37
Other	197	5%	-13.7%	-31	-22.1%	-56
<b>All Funds</b>	<b>4,075</b>	<b>100%</b>	<b>-11.3%</b>	<b>-521</b>	<b>-26.1%</b>	<b>-1,438</b>
including Ireland	4,593		-11.3%	-583	-25.4%	-1,567

(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 of December 2008 compared to end September 2008.

(3) End of December 2008 compared to end 2007.





## Trends in the UCITS Market

### *Net Assets by Country of Domiciliation*

Looking at developments in the UCITS market in the leading countries in 2008, five countries lost more than 25 percent of UCITS assets in 2008 (Germany, Luxembourg, Italy, Spain and the United Kingdom). In France and Ireland, the fall of UCITS was limited to 15 percent and 20 percent, respectively, thanks to the importance of the money market fund industry in these countries. By way of illustration, French-domiciled money market funds saw their assets increase by EUR 58 billion in 2008, or 13 percent.

2008 was also a very difficult year in the Nordic countries, which endured asset decline in the range of 34 to 42 percent. Interestingly, Norway and Sweden were the two most severely hit countries, even though these countries did not record net outflows. The exposure of these countries to stock markets, which was reflected in the share of equity fund assets (56 and 67 percent, respectively), explained this development.

In Central Europe, Bulgaria, Poland and Slovenia suffered a fall in net assets ranging from 48 to 63 percent, which reflected the high proportion of their balanced and equity funds that characterizes the investment fund industry in these countries. Although the Czech Republic and Hungary had recorded an asset decline of only 5 percent in January-September 2008, these countries were severely hit by the worsening of the economic crisis in October 2008. Elsewhere, the drain from UCITS to banking products badly affected the fund industry in Portugal and Greece, which saw their UCITS assets fall to around EUR 10 billion.

Members	31/12/2008		30/09/2008		31/12/2007	
	EUR m	Share	EUR m	% chg <sup>(1)</sup>	EUR m	% chg <sup>(2)</sup>
Austria	79,701	1.7%	90,023	-11.5%	111,386	-28.4%
Belgium <sup>(3)</sup>	97,768	2.1%	97,768	--	120,196	--
Bulgaria	162	0.0%	237	-31.6%	436	-62.8%
Czech Republic	4,433	0.1%	6,047	-26.7%	6,426	-31.0%
Denmark	46,836	1.0%	57,326	-18.3%	70,680	-33.7%
Finland	35,029	0.8%	42,355	-17.3%	55,116	-36.4%
France	1,143,265	24.9%	1,204,400	-5.1%	1,351,600	-15.4%
Germany	184,921	4.0%	213,419	-13.4%	266,062	-30.5%
Greece	9,259	0.2%	15,470	-40.1%	21,685	-57.3%
Hungary	7,165	0.2%	9,325	-23.2%	9,826	-27.1%
Ireland	517,702	11.3%	578,819	-10.6%	646,392	-19.9%
Italy	189,400	4.1%	214,529	-11.7%	285,094	-33.6%
Liechtenstein <sup>(3)</sup>	17,225	0.4%	17,225	--	18,633	--
Luxembourg	1,337,043	29.1%	1,558,850	-14.2%	1,823,969	-26.7%
Netherlands <sup>(3)</sup>	59,126	1.3%	59,126	--	77,271	--
Norway	29,573	0.6%	39,972	-26.0%	50,599	-41.6%
Poland	12,794	0.3%	19,167	-33.3%	30,975	-58.7%
Portugal	10,892	0.2%	14,232	-23.5%	21,703	-49.8%
Romania	234	0.0%	245	-4.4%	266	-11.9%
Slovakia	3,107	0.1%	4,164	-25.4%	3,819	-18.6%
Slovenia	1,505	0.0%	2,072	-27.4%	2,918	-48.4%
Spain	194,714	4.2%	215,353	-9.6%	269,366	-27.7%
Sweden	84,662	1.8%	102,701	-17.6%	136,429	-37.9%
Switzerland	119,069	2.6%	119,329	-0.2%	119,132	-0.1%
Turkey	11,073	0.2%	13,638	-18.8%	15,365	-27.9%
United Kingdom	396,422	8.6%	480,812	-17.6%	644,985	-38.5%
<b>All Funds</b>	<b>4,593,081</b>	<b>100%</b>	<b>5,176,603</b>	<b>-11.3%</b>	<b>6,160,328</b>	<b>-25.4%</b>

(1) End December compared to September 2008; (2) end December 2008 compared to end 2007; (3) data as of end September 2008.

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

**Total assets in the non-UCITS market decreased by 6.9 percent to EUR 1,549 billion in the fourth quarter. Compared with end 2007, total net assets fell by 11.5 percent in 2008.**

The strong resilience of special/institutional funds to the financial crisis limited the impact of stock market losses on fund assets. Overall, special funds attracted EUR 51 billion of new cash in 2008, with Luxembourg and German funds collecting 98 percent of the new money. This development is in marked contrast to most of the rest of the industry. Low-risk institutional funds accounted for most of the positive flows.

Fund types	31/12/2008		30/09/2008		31/12/2007	
	EUR bn	Share	EUR bn	% chg <sup>(2)</sup>	EUR bn	% chg <sup>(3)</sup>
Special / Institutional	879	62%	914	-3.8%	945	-7.0%
German "Spezialfonds"	642	45%	662	-3.0%	692	-7.2%
British investment trusts	36	3%	55	-33.7%	79	-54.2%
French employees savings	67	5%	76	-11.8%	85	-21.2%
Luxembourg "other" funds	77	5%	84	-8.3%	102	-24.6%
Real-estate funds	210	15%	213	-1.4%	208	1.2%
Other	150	11%	166	-9.7%	170	-12.1%
<b>Total</b>	<b>1,419</b>	<b>100%</b>	<b>1,508</b>	<b>-5.9%</b>	<b>1,589</b>	<b>-10.7%</b>
including Ireland	1,549		1,663	-6.9%	1,749	-11.5%

(1) Excluding Ireland for which no data breakdown is available. (2) End of December 2008 compared to end September 2008. (3) End of December 2008 compared to end 2007.

Members	2007				2008			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Austria	-88	963	-518	-152	-196	-445	306	-332
Denmark	1,014	1,750	2,738	512	995	2,600	-2,199	-140
Finland	725	831	-612	-255	-126	-287	-251	-641
Germany	15,019	-270	21	12,698	3,705	4,861	8,983	3,629
Hungary	-4	19	61	35	8	92	436	194
Italy	-327	243	-63	-368	-133	-156	-101	-156
Liechtenstein					100	195	124	n.a.
Luxembourg	3,133	4,598	12,870	17,359	11,408	6,982	8,022	2,437
Sweden	11	-21	-2	-13	26	-30	9	20
United Kingdom	674	2,191	649	695	292	207	236	151
<b>Total</b>	<b>20,156</b>	<b>10,302</b>	<b>15,144</b>	<b>30,511</b>	<b>16,079</b>	<b>14,019</b>	<b>15,565</b>	<b>5,162</b>

(1) In EUR millions for EFAMA members for which data are available.

## 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 10.2 percent in the fourth quarter to reach EUR 6,142 billion. Compared with end 2007, the European investment fund industry has seen its assets fall by 22.3 percent.

With EUR 4,593 billion invested in UCITS, this segment of the business accounted for 74.8 percent of the fund market at end 2008.

Table 6. Net Assets of the European Investment Fund Industry						
Members	31/12/2008		30/09/2008		31/12/2007	
	EUR m	Share	EUR m	% chg <sup>(1)</sup>	EUR m	% chg <sup>(2)</sup>
Austria	127,729	2.1%	140,576	-9.1%	165,584	-22.9%
Belgium <sup>(3)</sup>	103,633	1.7%	103,633	--	126,536	--
Bulgaria	164	0.0%	237	-30.6%	436	-62.3%
Czech Republic	4,495	0.1%	6,116	-26.5%	6,471	-30.5%
Denmark	97,788	1.6%	112,324	-12.9%	131,424	-25.6%
Finland	41,338	0.7%	50,559	-18.2%	66,000	-37.4%
France	1,293,265	21.1%	1,350,800	-4.3%	1,508,300	-14.3%
Germany	911,330	14.8%	964,606	-5.5%	1,041,869	-12.5%
Greece	10,324	0.2%	16,579	-37.7%	22,912	-54.9%
Hungary	9,473	0.2%	12,487	-24.1%	12,590	-24.8%
Ireland	647,054	10.5%	733,832	-11.8%	805,989	-19.7%
Italy	246,981	4.0%	282,530	-12.6%	357,947	-31.0%
Liechtenstein <sup>(3)</sup>	19,292	0.3%	19,292	--	20,399	--
Luxembourg	1,559,653	25.4%	1,796,696	-13.2%	2,059,395	-24.3%
Netherlands <sup>(3)</sup>	71,689	1.2%	71,689	--	90,951	--
Norway	29,573	0.5%	39,972	-26.0%	50,599	-41.6%
Poland	17,446	0.3%	25,189	-30.7%	37,558	-53.5%
Portugal	25,053	0.4%	28,387	-11.7%	36,212	-30.8%
Romania	1,701	0.0%	2,744	-38.0%	3,517	-51.6%
Slovakia	3,278	0.1%	4,335	-24.4%	3,969	-17.4%
Slovenia	1,872	0.0%	2,616	-28.4%	4,148	-54.9%
Spain	203,498	3.3%	224,887	-9.5%	278,796	-27.0%
Sweden	86,624	1.4%	105,077	-17.6%	139,380	-37.9%
Switzerland	157,040	2.6%	159,021	-1.2%	168,895	-7.0%
Turkey	13,294	0.2%	16,286	-18.4%	18,108	-26.6%
United Kingdom	458,116	7.5%	569,135	-19.5%	751,346	-39.0%
<b>All Funds</b>	<b>6,141,704</b>	<b>100.0%</b>	<b>6,839,604</b>	<b>-10.2%</b>	<b>7,909,330</b>	<b>-22.3%</b>
UCITS	4,593,081	74.8%	5,176,603	-11.3%	6,160,328	-25.4%
Non-UCITS	1,548,623	33.7%	1,663,001	-6.9%	1,749,002	-11.5%

(1) End December compared to September 2008; (2) end December 2008 compared to end 2007; (3) data as of end September 2008.