THE EUROPEAN INVESTMENT FUND AND THE EVIDENCE OF THE UNDERTAKINGS FOR COLLECTIVE INVESTMENT IN TRANSFERABLE SECURITIES (UCITS) MARKET

Prof. Ioan TRENCA, PhD
Junior Assist. Cristina CURUȚIU
University of "Babeş-Bolyai", Cluj-Napoca

1. Introduction

The objective of the original UCITS directive, which was adopted in 1985 (the "1985 Directive"), was to allow for open-ended funds investing in transferable securities. Undertakings for Collective Investment in Transferable Securities' are a set of European Union directives that aim to allow collective investment schemes to operate freely throughout the EU on the basis of a single authorization from one member state. In practice many EU member nations have imposed additional regulatory requirements that have impeded free operation with the effect of protecting local asset managers.

A collective investment fund may apply for UCITS status in order to allow EU-wide marketing. The concept is to create a single market in transferable securities across the EU. With a larger market the economies of scale will reduce costs for investment managers which can be passed on to consumers.

Throughout Europe approximately €5 trillion are invested in collective investments. Of these funds about 70% are UCITS.

2. The European Investment Fund Industry

- **Main results for 2006**

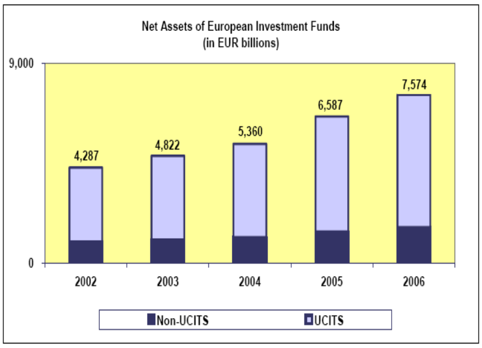
The year 2006 was a good one for the European investment fund industry with a 14.9% asset growth that pushed assets under management to a new record high of EUR 7,574 billion, EUR 980 billion above year-end 2005 level. Total net assets of UCITS[1] grew 15.1% to reach EUR 5,974 billion at year-end 2006.

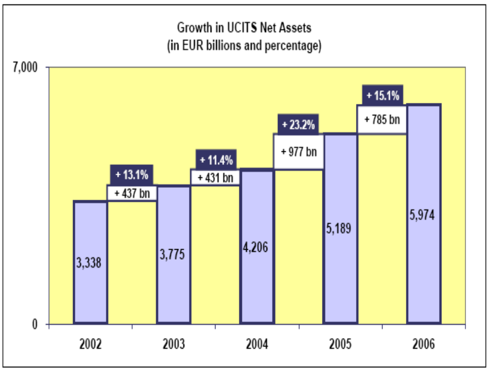
The total asset growth can be decomposed into an 8 percent asset increase fuelled by net inflows and a 7 percent increase attributable to market appreciation. In the countries providing European Fund and Asset Management Association (EFAMA) with net sales data, UCITS captured EUR 357 billion in net flows in 2006, compared with EUR 378 billion in 2005. Using estimates for countries for which no net sales data are available, UCITS funds collected positive flows of about EUR 445 billion. Adding up net sales of real estate funds (EUR 5 billion) and special funds reserved for institutional investors (EUR 68 billion), European funds captured EUR 520 billion in new money in 2006. This result compares with EUR 500 billion in 2005.

Following truly exceptional results in the first quarter of 2006, with net sales close to EUR 190 billion, UCITS were hit by the sharp decline in global stock prices that started around mid-May and came to a halt in July. This development triggered a brutal fall in net

[1] "UCITS" is used in this note in the sense of publicly offered open-end funds investing in transferable securities and money market funds, whereas the "non-UCITS" part of the investment fund market groups' funds that are regulated in accordance with specific national requirements.

sales of equity funds, which recovered in the second half of the year, albeit slowly, reflecting heightened risk aversion among investors.





- **Net Assets by Country of Domiciliation**

As for the trends in the European Investment Fund Industry, from the point of view of the 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 4.2% in the fourth quarter to reach EUR 7,574 billion at end 2006. Compared with end 2005, the total net assets increased by 14.9% or EUR 980 billion.

Three countries (Luxembourg, France and Germany) had a market share of 57.5% at end December 2006. The United Kingdom, Ireland and Italy followed in this ranking.

With EUR 5,974 billion invested in UCITS, this segment of the business accounted for 78.9% of the fund market at end 2006.

Members	31/12/2006 EUR m	31/12/2006 Share	30/09/2006 EUR m	30/09/2006 % chg [1]	31/12/2005 EUR m	31/12/2005 % chg [2]
Austria	168,876	2.2%	164,763	2.5%	156,703	7.77%
Belgium	127,920	1.7%	124,808	2.5%	116,239	10.05%
Czech Republic	5,693	0.1%	5,124	11.1%	4,661	22.14%
Denmark	122,565	1.6%	116,615	5.1%	106,434	15.16%
Finland	60,932	0.8%	55,053	10.7%	44,668	36.41%
France	1,494,400	19.7%	1,451,700	2.9%	1,271,200	17.56%
Germany	1,017,699	13.4%	993,436	2.4%	967,185	5.22%
Greece	24,822	0.3%	24,789	0.1%	28,299	-12.29%
Hungary	9,040	0.1%	8,451	7.0%	7,757	16.54%
Ireland	717,718	9.5%	686,463	4.6%	584,505	22.79%
Italy	383,435	5.1%	388,000	-1.2%	413,554	-7.28%
Liechtenstein	14,920	0.2%	14,579	2.3%	13,215	12.90%
Luxembourg	1,844,850	24.4%	1,733,030	6.5%	1,525,213	20.96%
Netherlands	101,793	1.3%	98,839	3.0%	95,765	6.29%
Norway	41,052	0.5%	35,894	14.4%	34,006	20.72%
Poland	25,800	0.3%	21,332	20.9%	15,876	62.51%
Portugal	38,895	0.5%	37,623	3.4%	36,451	6.71%
Slovakia	3,073	0.04%	2,716	13.1%	3,294	-6.70%
Spain	287,793	3.8%	289,402	-0.6%	275,073	4.62%
Sweden	140,835	1.9%	127,643	10.3%	112,584	25.09%
Switzerland	151,668	2.0%	145,403	4.3%	116,705	29.96%
Turkey	13,430	0.2%	13,833	-2.9%	20,200	-33.51%
United Kingdom	776,650	10.3%	725,809	7.0%	644,458	20.51%
All Funds	7,573,859	100.0%	7,265,303	4.2%	6,594,043	14.9%
UCITS Assets	5,974,126	78.9%	5,726,512	4.3%	5,189,338	15.1%
Non-UCITS Assets	1,599,732	21.1%	1,538,791	4.0%	1,404,705	13.9%

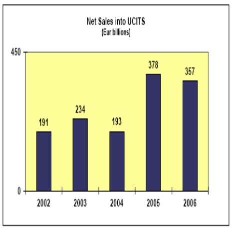
(1) End 2006 compared to end September 2006; (2) End 2006 compared to end 2005.

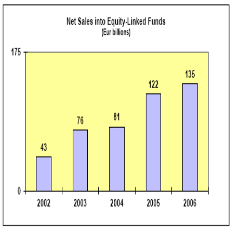
3. Trends in the UCITS Market

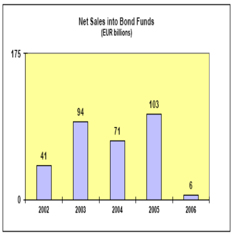
- **Net Sales by Investment Type**

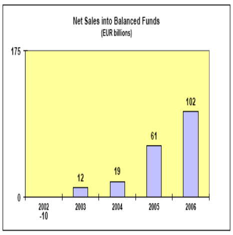
Regarding the trends registered by the UCITS, the net flows to UCITS totaled EUR 57 billion in the fourth quarter of 2006, very close to the average net flows recorded in the two previous quarters. Whereas inflows in equity and balanced funds increased to EUR 28 billion and EUR 18 billion respectively, bond funds continued to experience net outflows, albeit at a slower rate (EUR 2 billion compared to EUR 7 billion in the previous quarter). As often in the last quarter of the year, money market funds experienced outflows totaling EUR 6 billion, reflecting seasonal factors. Finally, the net sales of "other" UCITS remained buoyant reflecting strong inflows.

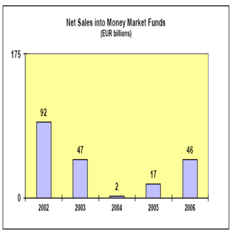
For the year as a whole, UCITS captured EUR 357 billion, from EUR 378 billion in 2005. Inflows to equity funds totaled EUR 135 billion in 2006. Balanced funds also had an excellent year with inflows of EUR 102 billion, up from EUR 61 billion in 2005. Inflows into money market funds increased notably too, in parallel with the rise in money market interest rates, the appeal of "enhanced" or "leveraged" money funds as well as prudent diversification among fund investors. In contrast, inflows to bond funds collapsed to EUR 6 billion in 2006, reflecting investors' uncertainty about bond market developments.

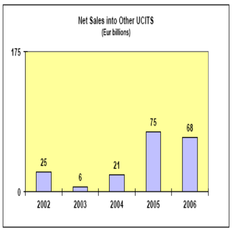












- **Net Sales by Country of Domiciliation**

In the fourth quarter of 2006, net sales were positive in 11 countries, with Luxembourg, France and the United Kingdom recording the strongest inflows. On the other hand, Germany, Italy and Spain continued to experience outflows in almost all segments of the market.

For the year as a whole, Luxembourg-domiciled funds collected EUR 241 billion, slightly above total net sales recorded in 2005 (EUR 236 billion). Adding an estimated EUR 85 billion of net flows to Irish registered funds, cross-border funds sales represented about 72% of the total industry net inflows in 2006, with a portion of net sales being sourced outside Europe, reflecting the success of UCITS as a global brand and the growth of fund business in Asia.

With total net sales of EUR 106 billion in 2006, France ranked second in terms of net sales, followed by Ireland, the United Kingdom, Finland, Switzerland and Sweden. Among these countries, France reported the highest share of net inflows in equity-linked funds. Balanced funds also enjoyed a doubling of their net sales in France in 2006, reflecting a switch from euro-denominated life insurance investments to unit-linked contracts. Balanced funds fared also particularly well in Switzerland. In the United Kingdom, 2006 saw investors returning to investment funds at levels not seen since the record year of 2000, with continued growth of funds of funds sales.

At the other end of the spectrum, five countries experienced outflows: Germany, Greece, Italy, Portugal and Spain. Italian investors disinvested EUR 9.4 billion from investment funds. Significant outflows from short-term bond and money market funds against competition from structured products explained this result. German investors contributed EUR 24.3 billion into UCITS. Finally, in Spain, investors diversified away from bond and money market funds towards bank deposits, as the increased in ECB interest rates affected total returns of fixed-income funds.

Members	Equity-Linked Funds		Bond Funds		Balanced Funds		Money Market Funds		Other Funds (2)		Total	
	Q4	2006	Q4	2006	Q4	2006	Q4	2006	Q4	2006	Q4	2006
Austria	508	358	-6	1,196	142	2,518	284	-1,537	529	1,570	1,458	4,105
Czech Republic	11	110	-21	-80	13	122	20	-100	53	262	75	313
Denmark	595	4,293	278	47	2	271	0	0	0	0	874	4,611
Finland	605	1,634	1,277	3,133	434	1,074	761	3,862	155	461	3,232	10,164
France	12,300	45,500	-3,900	7,800	3,100	22,600	-5,900	29,800	0	0	5,600	105,700
Germany	-2,143	-7,061	-1,207	-1,609	-367	587	476	393	-5	1,444	-3,246	-6,247
Greece	-430	-841	-657	-7,390	57	-310	273	841	-100	2,054	-857	-5,646
Hungary	-17	267	-96	-1,131	1	29	-42	580	-26	717	-180	461
Italy	-3,408	-11,956	-5,137	-36,073	-2,941	6,780	98	-6,495	0	0	-11,389	-47,743
Liechtenstein	46	76	-64	423	55	220	-190	-93	-10	-15	-162	610
Luxembourg (3)	18,413	84,092	7,341	40,319	13,147	47,639	-987	16,868	16,993	52,426	54,907	241,344
Netherlands	-144	509	198	13	-163	17	-240	377	-262	-808	-610	107
Norway	2,283	2,813	55	1,084	138	340	-8	-604	-21	58	2,447	3,692
Portugal	-35	303	-363	-1,533	67	245	51	-732	-125	478	-405	-1,238
Slovakia	-2	71	-53	-417	-16	29	169	-22	20	340	118	1
Spain	-3,493	2,549	-1,632	-5,052	-532	2,036	-97	-914	0	0	-5,755	-1,381
Sweden	1,788	1,647	53	573	394	1,144	149	1,724	251	1,653	2,635	6,741
Switzerland	-447	-190	584	-4,045	2,960	12,871	-323	567	6	275	2,775	9,203
United Kingdom	1,084	10,615	1,721	8,643	1,056	3,844	-272	1,481	1,534	7,259	5,122	31,841
Total	27,514	134,789	-1,629	5,901	17,547	102,056	-5,778	45,996	18,992	68,174	56,639	356,638

(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.

- **Net Assets by Investment Type**

Total net assets of UCITS grew by 4.3% in the fourth quarter to reach EUR 5,974 billion at end December 2006, compared to EUR 5,727 billion at end September 2006. Equity funds recorded the strongest increase, followed by "other" UCITS, balanced funds and funds of funds. Mainly due to outflows, net assets in money market funds dropped by 3.3% in the fourth quarter of 2006.

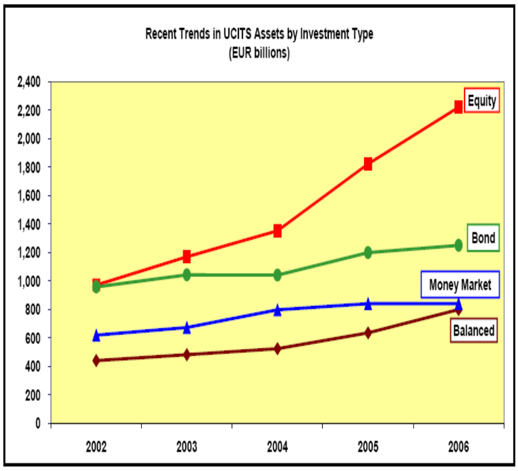
Since the end of 2005, total assets in UCITS rose by 15.1%. UCITS assets growth was stronger in 2005 (21.4%), which had been strongly boosted by strong stock market performance. The development in 2006 compares favorably with the average UCITS asset growth observed in the periods 2000- 2005 (8.8%) and 2003-2005 (15.9%).

Boosted by their strong performance, equity and balanced funds combined accounted for 56% of all UCITS at end 2006, compared with 52% one year before.

UCITS types	31/12/2006 EUR bn	Share	Change wrt to 30/09/2006 in % (2)	in EUR bn	Change wrt to 31/12/2005 % chg (3)	in EUR bn
Equity	2,222	41%	7.9%	163	21.4%	391
Balanced	800	15%	5.0%	38	25.7%	164
Total Equity & Balanced	3,022	56%	7.1%	201	22.5%	555
Bond	1,251	23%	2.0%	25	4.2%	51
Money Market	841	16%	-3.3%	-29	-0.1%	-1
Funds of funds (4)	98	2%	5.0%	5	25.9%	20
Other	179	3%	5.7%	10	28.5%	40
All Funds	5,391	100%	4.1%	212	14.1%	665
including Ireland	5,974		4.3%	248	15.1%	785

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

The equity-linked funds and the bond funds, both start with the same value, and the first ones registered an important increase in comparison with the bond ones which registered a fluctuation, having a lower value in 2006. The money market funds and the balanced ones registered different values at the beginning, and after a period of increase, both reached in 2006 the same value.



- **Net Assets by Country of Domiciliation**

Looking at the development in the leading countries in the UCITS market, Ireland and the United Kingdom recorded the highest asset growth in 2006, 25.9% and 23.9% respectively. Luxembourg, France, Germany and Spain followed in this ranking with positive growth, and Italy with negative growth.

Asset growth was well above the European average in 2006 in Scandinavia, with assets growing by 33.7% in Finland, 25.1% in Sweden and 13.9% in Denmark. Poland enjoyed the highest growth rate (47.6%), reflecting the growing popularity of investment funds, which benefited from transfers of savings from bank deposits. Asset growth was also substantial in Switzerland.

Elsewhere in Europe, Greece, Portugal, Slovakia and Turkey recorded a fall in UCITS assets. Greece-domiciled funds suffered from severe withdrawals from bond funds. In Portugal, the results for 2006 were disappointing in terms of net sales, reflecting increasing competition. Disappointing results in Turkey too, which suffered the strongest setback, due to a sharp depreciation of the Turkish Lira and the ensuing rise of interest rates.

Members	31/12/2006		30/09/2006		31/12/2005	
	EUR m	Share	EUR m	% chg [1]	EUR m	% chg [2]
Austria	114,886	1.9%	111,479	3.1%	107,961	6.4%
Belgium	120,545	2.0%	118,046	2.1%	109,839	9.7%
Czech Republic	5,693	0.1%	5,124	11.1%	4,661	22.1%
Denmark	72,606	1.2%	68,395	6.2%	63,744	13.9%
Finland	51,484	0.9%	46,593	10.5%	38,497	33.7%
France	1,343,400	22.5%	1,310,400	2.5%	1,155,100	16.3%
Germany	271,552	4.5%	266,096	2.1%	262,365	3.5%
Greece	23,910	0.4%	23,877	0.1%	27,944	-14.4%
Hungary	6,371	0.1%	5,919	7.6%	5,808	9.7%
Ireland	582,779	9.8%	547,010	6.5%	462,955	25.9%
Italy	343,810	5.8%	349,689	-1.7%	381,889	-10.0%
Liechtenstein	14,075	0.2%	13,896	1.3%	12,783	10.1%
Luxembourg	1,661,563	27.8%	1,570,431	5.8%	1,386,611	19.8%
Netherlands	82,430	1.4%	80,946	1.8%	79,984	3.1%
Norway	41,052	0.7%	35,894	14.4%	34,006	20.7%
Poland	22,155	0.37%	18,409	20.4%	15,015	47.6%
Portugal	25,762	0.4%	25,787	-0.1%	26,208	-1.7%
Slovakia	2,974	0.05%	2,662	11.7%	3,264	-8.9%
Spain	279,361	4.7%	281,365	-0.7%	268,597	4.0%
Sweden	137,783	2.3%	124,480	10.7%	110,156	25.1%
Switzerland	122,978	2.1%	118,107	4.1%	100,782	22.0%
Turkey	11,741	0.2%	12,247	-4.1%	18,436	-36.3%
United Kingdom	635,217	10.6%	589,659	7.7%	512,734	23.9%
All Funds	5,974,127	100%	5,726,511	4.3%	5,189,338	15.1%

(1) End 2006 compared to end September 2006. (2) End 2006 compared to end 2005.

4. Conclusions

The year 2006 was a good one for the European investment fund industry with a 14.9% asset growth that pushed assets under management to a new record high of EUR 7,574 billion, EUR 980 billion above year-end 2005 level. Total net assets of UCITS grew 15.1% to reach EUR 5,974 billion at year-end 2006.

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Regarding the trends registered by the UCITS, the net flows to UCITS totaled EUR 57 billion in the fourth quarter of 2006, the net sales were positive in 11 countries, with Luxembourg, France and the United Kingdom recording the strongest inflows. On the other hand, Germany, Italy and Spain continued to experience outflows in almost all segments of the market.

Looking at the development in the leading countries in the UCITS market, Ireland and the United Kingdom recorded the highest asset growth in 2006, 25.9% and 23.9% respectively. Luxembourg, France, Germany and Spain followed in this ranking with positive growth, and Italy with negative growth.

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