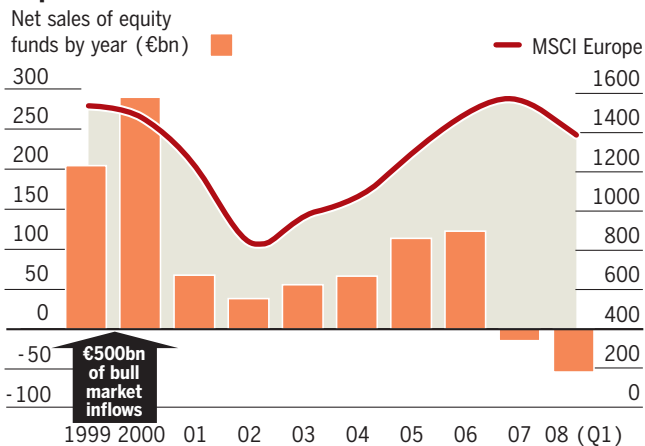
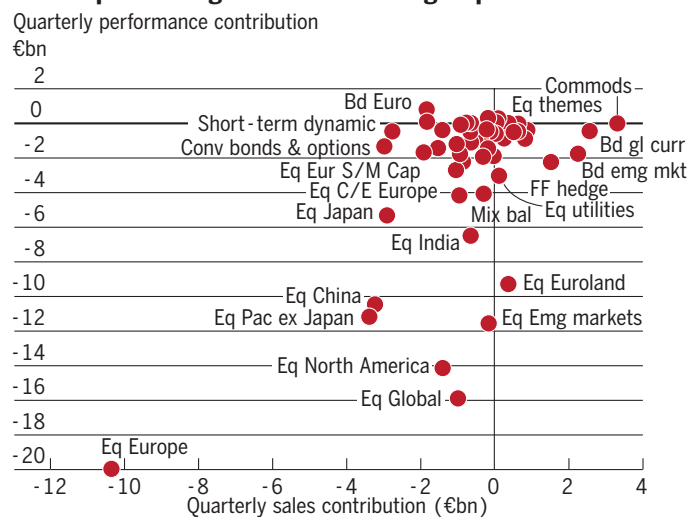


FTfm Quarterly Industry Review

Impact of millenium bulls



Sector positioning for international groups



1. Data includes retail investment funds only
2. Data excludes money market funds because of distortions from institutional liquidity funds.
3. 'International' includes all European funds that derive less than 80% of their assets from any one country.

Money fund losses increase turmoil

Aug 2007

Credit crisis drives investor exodus

Nov 2007

European outflows may be worst ever

Nov 2007

Fortunes polarising across Europe

May 2007

No end to outflow from Europe's funds

Feb 2008

Core sector performance

Value of €1000 invested in Jan 2003*

	2003	2004	2005	2006	2007	2008
Bond Euro growth	1,000.0	1,035.1	1,086.0	1,119.3	1,117.5	1,124.6
Eq Eur/Euroland growth	1,000.0	1,162.2	1,274.5	1,569.4	1,853.6	1,903.7
Eq global growth	1,000.0	1,158.7	1,233.6	1,500.3	1,654.9	1,707.9
Eq Japan growth	1,000.0	1,210.8	1,301.0	1,856.7	1,770.4	1,535.1
Eq North American growth	1,000.0	1,188.3	1,250.2	1,378.4	1,476.8	1,511.0
Value of €1000 invested in Jan 2005*		2005	2006	2007	2008	
Bond Euro growth		1,000.0	1,030.7	1,029.0	1,035.5	
Eq Eur/Euroland growth		1,000.0	1,231.4	1,454.4	1,493.6	
Eq global growth		1,000.0	1,216.2	1,341.5	1,384.5	
Eq Japan growth		1,000.0	1,427.2	1,360.9	1,179.9	
Eq North American growth		1,000.0	1,102.5	1,181.3	1,208.7	

* Figs at start of each year

Source: Lipper Feri

Outflows surge to record levels

OVERVIEW

European investors are turning against both bond and equity funds, but the expectation is that they will be back when the time is right, writes **Steve Johnson**

The flood of money being withdrawn from Europe's equity and bond funds turned into a tidal wave in the first quarter of 2008, easily surpassing the level of redemptions seen after the bursting of the dotcom bubble.

Investors withdrew a net €75bn (£60bn, \$116bn) from equity funds in the first three months of the year, extending the net outflow of €7bn witnessed in 2007, according to data from Lipper Feri.

Even during the depths of the post-dotcom depression, flows into equity funds never turned negative on a calendar year basis. Net inflows slowed to €41bn in 2002, which was the nadir.

And, unlike any other period in the past decade, investors are turning against both equity and bond funds simultaneously, withdrawing a net €30.7bn from the latter in the first quarter of 2008.

Stripping out low-margin money market funds, net outflows from

the European fund industry surged to €137bn in the first three months of the year, more than double the €62bn witnessed in the final quarter of 2007, with only the Czech Republic, Hungary and Romania reporting positive flows. Factoring in market movements, the assets of the European industry fell by an eighth, or €530bn, to €3,624bn in just three months.

However, Diana Mackay, managing director of Lipper Feri, says there are rays of hope in the data. Firstly, outflows have slowed since January, when they reached €56bn for equity funds alone.

Early indications suggest April data may show positive flows, although this is largely due to the new-found popularity of money market funds.

German investors are also expected to start buying equity and balanced funds in the second half of the year, with capital gains tax due to be imposed on investment funds from January 2009.

But more importantly, Ms Mackay believes the wave of redemptions is being driven more by profit-taking than by investors fleeing losses, a potentially vital distinction.

"If investors are running from losses we could be talking about a real depression in the investment industry for a generation," she says.

"But on the whole people are taking profits or coming out even, so

there is an expectation that they will come back into the market when the time is right and there is a potential wall of money they have built up."

Ms Mackay bases her upbeat conclusion on two factors. Firstly €500bn, a quarter of the continent's equity fund assets, was put to work in the bull market of 1999 and 2000. Feri data point to this money starting to be redeemed in the summer of 2006, well before the credit

'If investors are running from losses we could be talking about a real depression in the investment industry for a generation'

squeeze took hold, when equity markets broadly returned to the previous peaks, allowing investors to break even.

Secondly, the equity sectors now suffering the steepest redemptions are the core global, Europe and North American sectors, the arenas that post-2003 investors were largely steered into by professional fund buyers such as fund of fund managers, Ms Mackay argues. Those who bought in 2003-05 and sold recently will, in the majority of cases, have banked profits.

Bond funds are unlikely to see a return to popularity until the credit squeeze is over, Ms Mackay believes.

The relative attractions of the sector have been dented by bank deposit rates, which have risen to 3.5 to 4 per cent on the continent and 5-6 per cent in the UK as banks have relied more heavily on retail savers as wholesale lending markets have ground to a halt.

In contrast, the average eurozone bond fund returned just 2.7 per cent in 2007 and actually lost 1 per cent in the first quarter of 2008.

"There is no appetite whatsoever for traditional bond funds. Deposits can give a better return," says Ms Mackay, who believes the fate of the sector lies largely with the banks themselves, which are also major distributors of investment products.

"They will decide when their reserves are robust enough that they don't need to be pouring money into deposits," she says.

"I think, generally speaking, banks would prefer their clients to be in more profitable products. A time will come when we will see a move towards long-term investing."

However, while retail investors are increasingly switching from mutual funds to bank deposits, institutional investors appear to be moving in the opposite direction, although triple A rated money market funds appear to be the lim-

its of their ambition. These funds sucked in a net €118bn in the first quarter, an acceleration of the record €138bn attracted in the whole of 2007, with French and German investors leading the way.

European legislation giving institutions greater freedom to invest in money market funds are believed to be partly behind the trend.

The Lipper Feri data also highlight the growing appetite for low-cost exchange traded funds. Although investors have withdrawn €113bn from equity funds since June 2007, they have bought a net €16bn of equity-based ETFs during this period.

Ms Mackay believes Mifid, the European Union's Markets in Financial Instruments Directive, is playing a role here, particularly in Italy where distributors are no longer allowed to take a slice of the management fee from their clients' investments, reducing the incentive to sell more expensive products.

The appetite for ETFs shows up starkly in the list of investment groups that have witnessed the largest net inflows (excluding money market funds) so far this year.

The top three; Société Générale (which owns Lxyor), Barclays and Deutsche/DWS, all have sizeable ETF arms. Vanguard, another passive investment house, also makes a rare appearance in the top 10.

Lipper Feri's market progress barometer

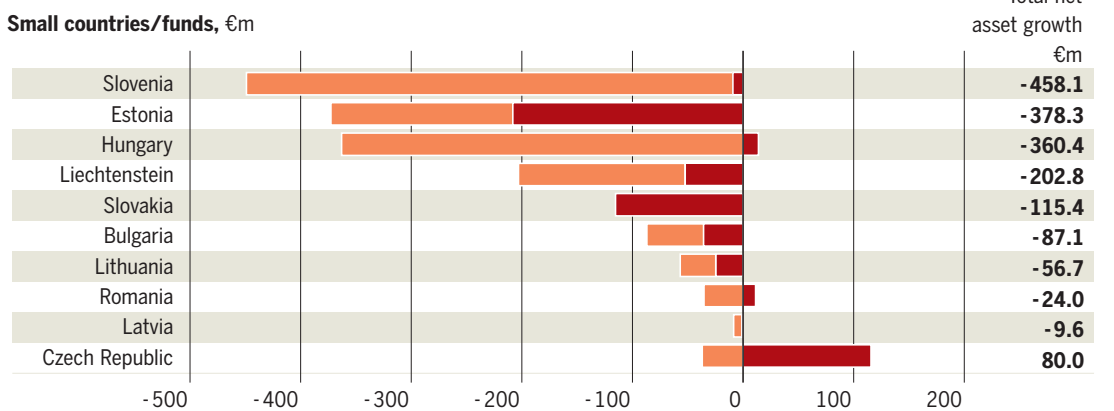
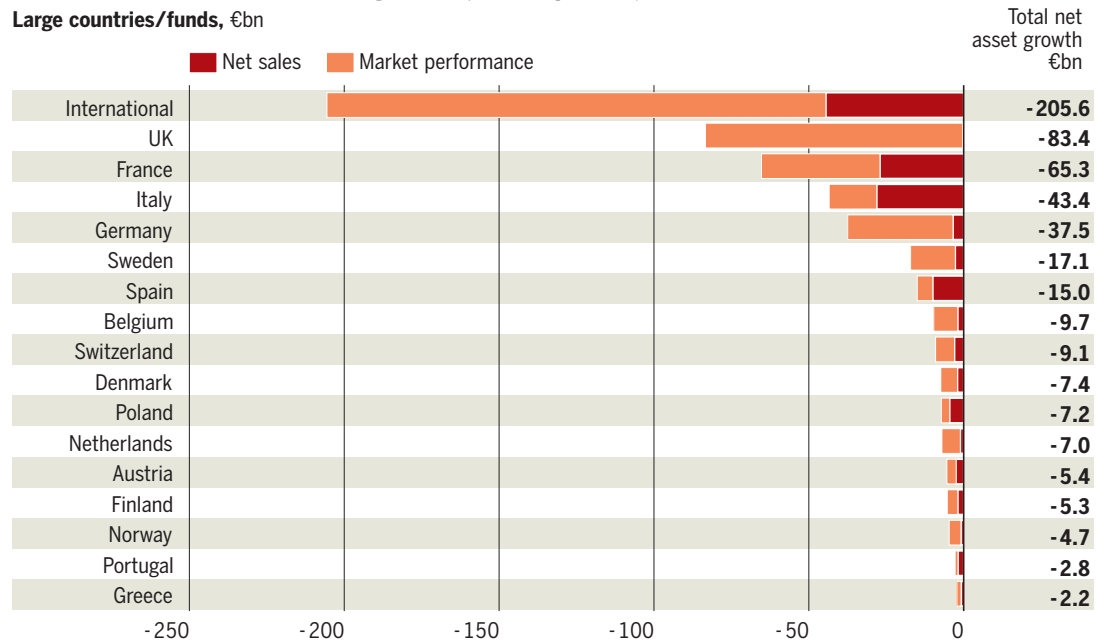
Business development in Europe's mutual fund markets

Market	Fund assets (Mar 2008) €m	Asset growth (latest quarter) €m	Net sales (latest quarter) €m	Net sales (Q4 2007) €m
International	1,146,518.2	-205,576.5	-44,496.6	-10,482.3
UK	451,978.4	-83,368.9	-368.7	857.1
Germany	434,603.7	-37,451.8	-3,438.4	5,205.8
France	385,965.1	-65,291.8	-27,039.5	-22,705.4
Italy	338,102.7	-43,427.4	-28,069.1	-16,650.6
Spain	206,399.8	-14,991.1	-9,982.5	-9,868.1
Sweden	123,870.8	-17,139.4	-2,703.3	-1,026.8
Belgium	117,442.0	-9,666.8	-1,914.2	771.7
Switzerland	111,798.4	-9,074.0	-2,951.8	-2,321.5
Denmark	58,880.6	-7,393.3	-1,993.6	-891.3
Austria	57,972.7	-5,432.1	-2,427.8	-1,454.3
Netherlands	52,389.6	-7,040.7	-1,082.3	-320.9
Finland	38,418.6	-5,283.7	-1,898.1	-793.6
Norway	27,467.4	-4,676.6	-878.8	664.2
Poland	24,042.4	-7,206.5	-4,527.9	-941.2
Portugal	18,485.4	-2,750.9	-1,855.5	-1,093.2
Greece	10,056.2	-2,192.9	-841.5	-1,423.8
Hungary	5,826.5	-360.4	13.9	268.5
Czech Republic	5,167.1	80.0	116.8	115.2
Slovenia	2,271.0	-458.1	-9.2	18.7
Liechtenstein	2,140.8	-202.8	-52.3	21.7
Slovakia	1,562.3	-115.4	-115.3	-34.8
Estonia	1,421.2	-378.3	-208.1	-95.4
Bulgaria	255.1	-87.1	-35.7	16.0
Lithuania	174.3	-56.7	-24.5	-10.3
Romania	166.9	-24.0	11.3	13.6
Latvia	127.2	-9.6	-1.1	21.2
Total	3,623,504.3	-529,577.0	-136,773.8	-62,139.8

Analysis is based on 'long-only' funds and therefore excludes money market funds. Data excludes funds of funds to avoid double-counting. A fund is allocated to a market if more than 80% of its assets are sourced from that country. International includes all European funds that derive less than 80% of their assets from any one country. Liechtenstein added to the ranking in Feb 07. Data excludes Russia, Croatia, Turkey and Ukraine.

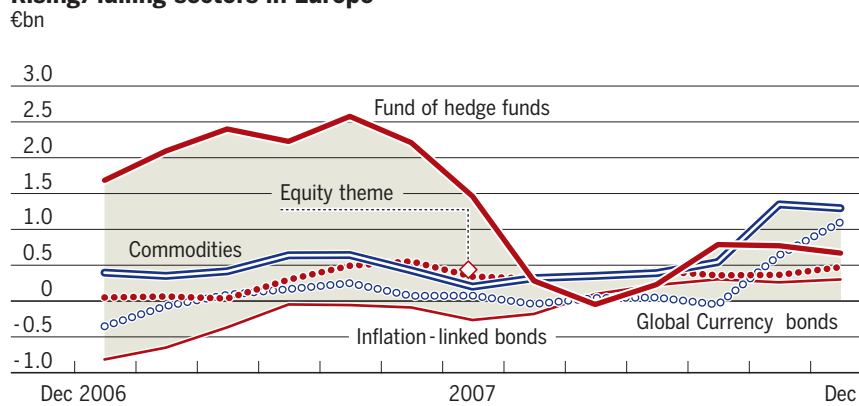
Source: Lipper Feri; BVI for Germany; VFF and OBI for Norway; IMA for UK

Net sales contribution to asset growth (latest quarter)



Source: Lipper Feri

Rising/falling sectors in Europe



Performance: Fund sector averages

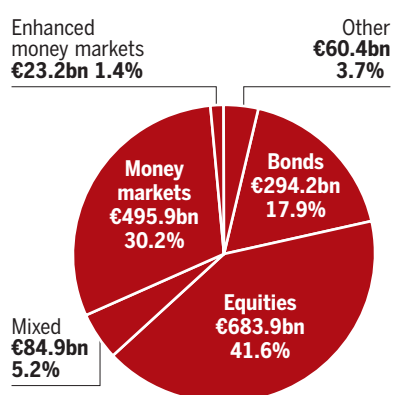
	Jan-Mar 2008	One year	Three years	Five years
Top 10				
% growth				
Euro Short Bond	10.4	20.2	28.1	24.3
Euro Long Bond	10.0	18.3	17.2	25.2
SEK Money Market	9.9	18.6	17.6	25.4
Euro Money Market	9.0	20.8	24.2	28.1
Euro International	7.5	13.5	11.4	12.1
Euro Cautious Blend	3.0	17.5	62.3	180.7
Euro Convertible	2.5	10.1	19.2	31.6
Dollar Bond Market	1.9	4.3	6.7	-6.4
Sterling Money Market	1.1	4.6	12.5	19.8
Dollar Money Market	-0.1	1.7	5.4	-9.1
Bottom 10				
% growth				
Global Aggressive	-10.4	-4.2	24.3	59.9
US	-10.4	-7.9	7.6	26.7
US Aggressive	-10.7	-7.1	9.1	24.5
Emerging Markets	-11.2	16.9	98.7	236.1
Germany	-11.9	5.9	66.0	193.7
Eastern Europe	-11.9	11.4	122.4	344.0
Biotechnology	-12.0	-9.3	5.4	22.0
Asia	-13.3	12.2	73.0	165.4
Technology	-14.9	-3.6	12.0	27.3
Technology Aggressive	-15.0	-8.1	6.0	24.7

Source: FT Fund Ratings

International

Assets (at end Mar 2008)

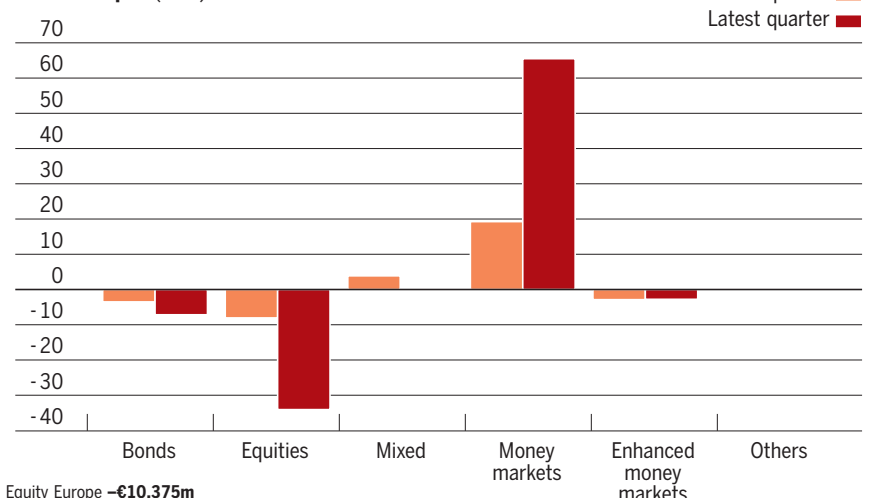
Total €1,642bn



Market leaders (top 10 Groups)

Rank	Group	Assets Mar 2008 (€m)	Est net sales Q1 (€m)
1	Société Générale	35,741.7	4,019.0
2	Barclays	56,585.6	3,164.3
3	Deutsche/DWS	13,924.3	1,639.4
4	Carmignac	10,844.4	1,016.2
5	Schroders	33,291.4	919.7
6	Julius Baer	15,880.0	594.9
7	Vanguard	13,692.8	549.5
8	SEB	7,840.8	402.9
9	Bluebay	2,769.4	343.9
10	NBK Banque Privée	333.4	333.4
Total top 10		190,903.9	12,983.2
Total International		1,146,518.2	-44,496.6
Top 10 as % of all groups		16.7%	n.a.

Net sales split (€bn)



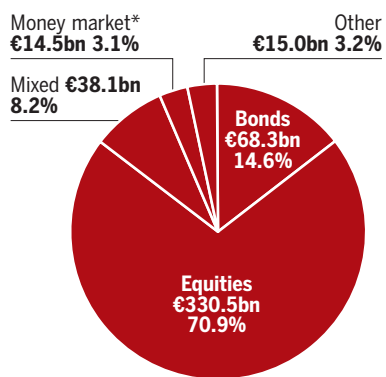
Investor preference (excluding liquidity products): Top selling sector for latest quarter: Commodity €3,306m Bottom selling sector for latest quarter: Equity Europe -€10,375m

Leading fund groups (by country)

UK

Assets (at end Mar 2008)

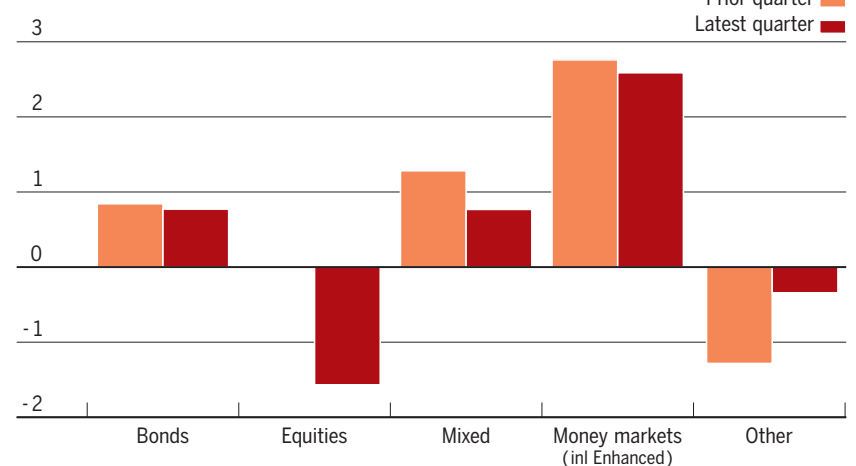
Total €466.4bn



Market leaders (top 10 Groups)**

Rank	Group	Actual net retail sales Q1 €m
1	BlackRock ML	899.1
2	SWIP	726.0
3	Invesco Perpetual	650.6
4	M&G	375.5
5	Mellon	231.6
6	Jupiter	196.7
7	First State	170.7
8	Martin Currie	163.7
9	Halifax	153.0
10	Allianz	109.7
Total top 10		3,676.7
Total UK		-368.7
Top 10 as % of all groups		n.a.

Net sales split (€bn)



* Includes enhanced money market €108.7m

** Data is based on net retail sales only; asset data is not available in same form

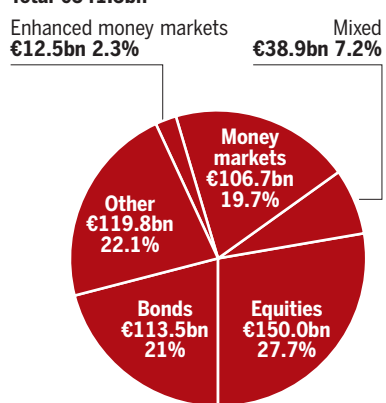
Investor preference (excluding liquidity products): **Top selling sector** for latest quarter: Bonds GBP Corporate Investment Grade €826.3m
Bottom selling sector for latest quarter: Equity UK -€1,826.3m

Source for UK sector data: FERFI FMI, based on estimated net sales of retail-only funds

Germany

Assets (at end Mar 2008)

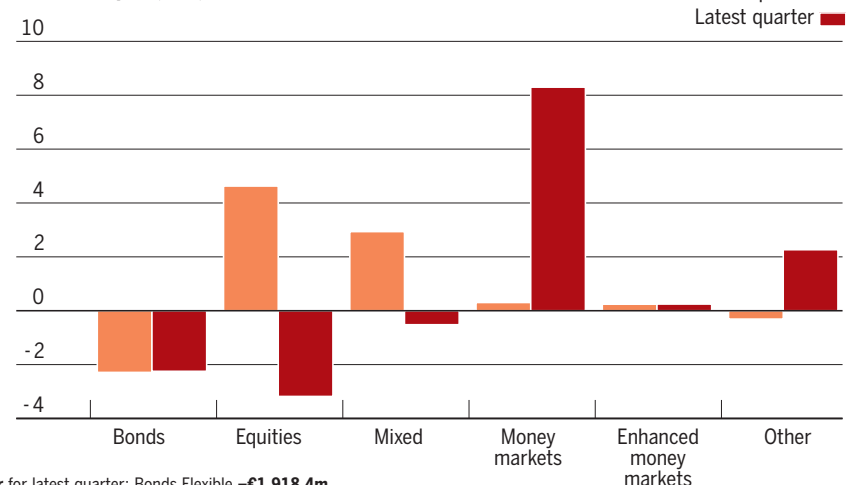
Total €541.3bn



Market leaders (top 10 Groups)

Rank	Group	Assets Mar 2008 €m	Est net sales Q1 €m
1	Deutsche/DWS	115,218.2	3,515.2
2	Barclays	684.0	664.7
3	AXA	4,238.5	375.1
4	Siemens	3,544.4	337.8
5	B Metzler	2,274.0	273.1
6	Prudential Sec	735.4	212.0
7	HSBC	3,987.5	165.0
8	Morgan Stanley	1,951.1	159.4
9	Hessen-Thüringen	1,520.0	99.8
10	Universal Invest	3,857.8	62.9
Total top 10		138,010.8	5,865.0
Total Germany		434,603.7	-3,438.4
Top 10 as % of all groups		31.8%	n.a.

Net sales split (€bn)

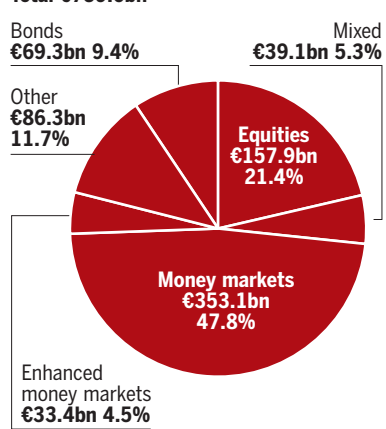


Investor preference (excluding liquidity products): **Top selling sector** for latest quarter: Bonds Global Currencies €2,184.2m **Bottom selling sector** for latest quarter: Bonds Flexible -€1,918.4m

France

Assets (at end Mar 2008)

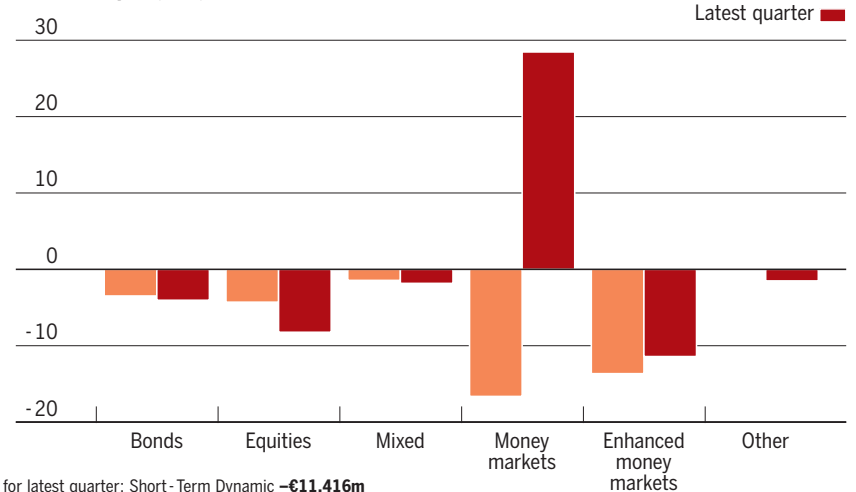
Total €739.0bn



Market leaders (top 10 Groups)

Rank	Group	Assets Mar 2008 €m	Est net sales Q1 €m
1	Morgan Stanley	655.6	493.0
2	Barclays	1,942.2	258.8
3	Rothschild	2,492.0	249.0
4	AFER	6,170.6	176.2
5	Quilvest	838.3	155.8
6	Mutuelles du Mans	2,764.3	138.6
7	Acropole	568.7	127.6
8	Ofivalmo	2,080.7	78.2
9	Exane	1,126.6	73.1
10	UBP	288.2	50.0
Total top 10		18,927.1	1,800.2
Total France		385,965.1	-27,034.2
Top 10 as % of all groups		4.9%	n.a.

Net sales split (€bn)

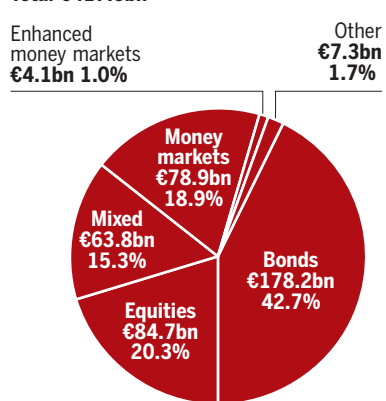


Investor preference (excluding liquidity products): **Top selling sector** for latest quarter: Fund of Funds Guaranteed €745.5m **Bottom selling sector** for latest quarter: Short-Term Dynamic -€11,416m

Italy

Assets (at end Mar 2008)

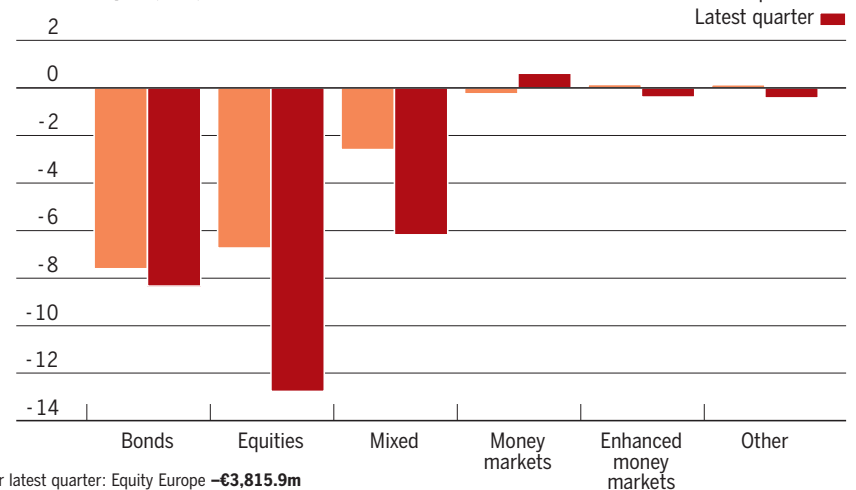
Total €417.0bn



Market leaders (top 10 Groups)

Rank	Group	Assets Mar 2008 €m	Est net sales Q1 €m
1	Mediolanum	11,416.9	302.3
2	Allianz	7,676.6	178.1
3	Don Bosco	5,055.3	39.0
4	Banca Popolare di Bergamo	-	27.6
5	Arner	30.4	13.0
6	Finnat Euram	330.3	11.2
7	Casa 4 Funds European AM	115.0	7.3
8	Nextam	272.6	6.0
9	Agora	81.8	4.2
10	Unifortune	92.3	3.4
Total top 10		25,071.1	592.1
Total Italy		338,102.7	-28,069.1
Top 10 as % of all groups		7.4%	n.a.

Net sales split (€bn)



Investor preference (excluding liquidity products): **Top selling sector** for latest quarter: Bonds EUR Short-Term €768.7m **Bottom selling sector** for latest quarter: Equity Europe -€3,815.9m

Ranking tables exclude money market funds, which can be a distorting element. Funds of funds are also excluded to avoid double-counting. Rankings are based on Lipper Feri estimated net-sales flows for the latest quarter (Jan-Mar 2008) and are based in €m. However, UK rankings are based on data collected for the UK Fund Sales Report, which includes real data from groups representing 86% of UK assets. The data included in these tables relates to European mutual funds and may include both retail and institutional investment