

# Lipper FundFlows Insight Reports



**Pan European Fund Flows Report**  
**November 2005**

2005

## **THE EUROPEAN MUTUAL FUND INDUSTRY ENJOYS NET INFLOWS OF 26 BILLION EUROS IN NOVEMBER—THE LARGEST SINCE JULY**

- The European fund market stood at 4.215 trillion euros of assets under management at the end of November. Net inflows contributed to nearly 40% of the total growth, which amounted to 68.2 billion euros.
- Equities enjoyed an outstanding month as net inflows recorded an absolute record for the year 2005 of 19.4 billion euros, representing 75% of the total.
- Money market funds continued their negative trend registered in the second half of the year, suffering net outflows of 3.36 billion euros.
- Luxembourg, recording 13.9 billion euros of net inflows, replaced France as the most dynamic country domicile.
- The strong reading for Luxembourg meant this offshore fund domicile extended its lead as the largest European market, surpassing the 28% market share mark.
- Unsurprisingly, some equity classifications were among the ones recording the largest net inflows, with Equity Japan and Equity Europe topping the pack as they benefited from strong performance and positive sentiment on both markets.

### **Executive Summary**

The European fund market continued expanding in November on the back of buoyant equity markets, standing at 4.2 trillion at the end of the month. The industry enjoyed net inflows of 26 billion euros, which was the largest amount since the 29.2 billion recorded in July, and the total increase in assets amounted to 68.2 billion euros. The remaining 42.2 billion euros of growth corresponded to market performance, which was particularly outstanding in equity funds.

Following the troublesome month of October, when a majority of equity and bond fund classifications posted average losses, some lack of confidence was to be expected from European investors. However, they continued pouring money into funds in November as they had done during the previous difficult month, indicating optimism currently runs high in the market.

November was a mixed month—although positive overall—for fixed income markets as a more-hawkish stance by the European Central Bank led to strong expectations that short-term rates would be raised on its December 1 meeting for the first time since the year 2000. Yields increased, in particular hitting short-term bonds, but the widely mentioned liquidity available in the markets surely played in, as bond and mixed-asset funds also recorded healthy net inflows of 6.4 billion euros and 4.1 billion euros, respectively.

Real estate funds continued weathering risk of property bubble comments, and their positive performance in 2005 led to an acceleration of net inflows in the second part of the year. In fact, real estate funds enjoyed net inflows for every month in 2005 but March, and in November they recorded 552 million euros.

The main laggards were money market funds—suffering net outflows of 3.4 billion euros—confirmed this fund type has been losing attractiveness for many investors, in addition to other seasonal corporate tax commitment factors. Persistent low interest rates are surely also behind this

trend, which has taken a growing number of European investors to more-appealing options like money market leveraged funds. Protected and guaranteed funds had a poor month also as they recorded net redemptions of 779 billion euros and 207 billion euros, respectively, while hedge funds had a mixed month—varying according to the different strategies—although the mostly poor October performances took their toll.

### **Lipper Global Classification Breakdown**

#### **Equity Funds Summary**

It was not surprising to find out that the Equity Japan and Equity Europe categories led net inflows in November, since they have been the equity funds more favored by European investors in the last few months. While European equities have been attracting money for most of the year, Japanese ones took off just in August, and they have now recorded the largest net inflows of all Lipper fund classifications for four consecutive months. Local market indices kept beating record highs not seen since 2001 as the Nikkei 225 index of reference flirted with the 15,000-point mark in the last trading days of the month. Expectations for consistent overperformance of Japanese stocks remain intact, since valuations still seem attractive in a context where the export-led economic recovery has recently been joined by increasing signs of a domestic demand pick-up.

On the other hand, two of the major equity classifications that have been least successful in attracting flows this year—Equity North America and Equity U.K.—had a positive month. Certainly, the rally enjoyed by North American equity markets in November, after the major indices had been virtually flat for the first ten months of the year, had an influence on the net inflows of 2.5 billion euros. Funds investing in U.K. equities were also among the winners as they registered close to 2 billion euros for the main Lipper classification and an additional 893 million euros for the small- & mid-cap sector.

Emerging markets had an outstanding month, following the October scare, and all sector regions—Global, Europe, and Latin America—recorded positive net inflows of 1.2 billion euros, 1.1 billion euros, and 0.7 billion euros.

On the other hand, not all equity sectors registered inflows. Both the Equity Global and Equity Global ex UK classifications experienced outflows, while the best and worst European equity classifications in terms of performance—Switzerland and Italy—suffered net outflows of 458 million euros and 284 million euros, respectively.

#### **Bond Funds Summary**

Emerging markets debt was the star fixed income performer of the month, and European investors responded by pouring money into funds investing in this asset type. In fact, the Bond Emerging Markets Global category attracted 2.7 billion euros of new assets—the third most successful classification of funds for the month. Emerging markets bonds benefited from the strong equity market returns and the decreasing perception of risk. Spreads with equivalent-quality government debt were at minimums, and the possible end to the U.S. tightening monetary policy cycle and declining interest rates in countries like Brazil contributed to the excellent performance also.

The sharp appreciation of the U.S. dollar against the euro during the first half of the month very likely had a strong influence on the record inflows registered in the Bond USD category. The U.S. dollar, which started the month trading around the 1.20 mark, experienced a fast decline, taking it to

levels below 1.17 by mid-November as rumors on imminent interest rate rises by the ECB mounted. The final outcome was that over 900 million euros of new assets were registered in this category.

Money Market Leveraged funds also recorded large net inflows of 1.5 billion euros because of the reasons given in the executive summary, while convertible categories—not surprisingly—kept benefiting from the positive equity markets environment.

On the negative side, not only did the Money Market EUR category suffer the largest outflows of all classifications with 3.3 billion euros, but the Sterling Pound category came second with 1.6 billion euros of net redemptions. The Bond Eurozone Short-Term category was also one of the major losers in terms of flows in November, recording net outflows of 1.5 billion euros. Once again performance was behind this move as the strong expectation of interest rates rises by the ECB hit short-term bonds—the most sensitive to changes in interest rate policies.

### **Alternative Investment Funds Summary**

Hedge funds were up against outstanding equity returns as well as low volatilities and other factors, which have impacted the performance of many strategies. However, this did not prevent investors from pouring money into the asset class, in particular, into the Multi-Strategy and CTA Commodity Trading categories. In November again, funds tracked by Lipper under these two strategies were the most successful in attracting investors' money, with modest inflows of 238 million euros and 115 million euros, respectively.

### **Outlook**

The last month of the year should not represent any major changes to the general good picture for the European fund industry regarding assets and growth in 2005. November was a good example of where markets have been in 2005, with buoyant equity returns but a more-modest bond performance than in 2004. Equities attracted the most inflows in November as in October in what has been an asset type progressively more favored by European investors, although bond funds clearly remained the favorite choice.

The positive trend for equity markets seems more established in investors' minds than ever before in the current bull cycle, which started close to three years ago. This might mean that some of the riskier choices—like equity emerging markets or the sector technology categories—or those with better expectations from analysts—like Equity Japan—will lead flows in the short term. On the other hand, as indices reach record highs the possibility of a significant downward correction in 2006 will increase, which might change the focus of investors to the most conservative categories (Money Market EUR, Bond EUR Short-Term) or absolute return strategies within alternative investment funds.

**Juan Manuel Vicente Casadevall**  
Research – Spain  
[juan.vicente@lipper.reuters.com](mailto:juan.vicente@lipper.reuters.com)

**Asset Classes: Assets under Management (in EUR millions)**

Asset Class

Equity	1 527 868
Bond	1 008 712
Money Market	900 156
Mixed Assets	378 731
Other	283 288
Real Estate	116 489
<b>Total</b>	<b>4 215 243</b>

**Asset Classes: Market Shares (in %)**

Asset Class

Equity	36,25
Bond	23,93
Money Market	21,35
Mixed Assets	8,98
Other	6,72
Real Estate	2,76

**Asset Classes: Inflows / Outflows (in EUR millions)**

Asset Class

Equity	19 391
Bond	6 435
Mixed Assets	4 069
Real Estate	552
Other	-1 086
Money Market	-3 360
<b>Total</b>	<b>26 002</b>

**Top 15 Fund Domiciles: Assets under Management (in EUR millions)**

**Fund Domicile**

Luxembourg	1 204 514
France	814 105
UK	484 430
Italy	368 056
Germany	325 651
Dublin	325 545
Spain	248 530
Switzerland	128 338
Belgium	80 173
Austria	68 878
Guernsey	36 021
Portugal	28 418
Ireland	27 590
Netherlands	17 070
Poland	12 926

**Top 15 Fund Domiciles: Market Shares (in %)**

**Fund Domicile**

Luxembourg	28,58
France	19,31
UK	11,49
Italy	8,73
Germany	7,73
Dublin	7,72
Spain	5,90
Switzerland	3,04
Belgium	1,90
Austria	1,63
Guernsey	0,85
Portugal	0,67
Ireland	0,65
Netherlands	0,40
Poland	0,31

**Top 15 Fund Domiciles: Inflows / Outflows (in EUR millions)**

**Fund Domicile**

Luxembourg	13 879
France	2 724
Dublin	1 919
Spain	1 355
Germany	1 189
Netherlands	973
UK	803
Switzerland	675
Austria	432
Poland	356
Portugal	138
Guernsey	115
Ireland	14
Belgium	-500
Italy	-2 394

**Top 50 Lipper Global Classifications: Assets under Management (in EUR millions)**

**Lipper Global Classification**

Money Market EUR	664 485
Equity Europe	211 833
Bond EUR	205 990
Equity Global	185 026
Guaranteed	150 470
Equity North America	140 797
Equity UK	138 788
Equity EuroZone	105 774
Bond EUR Short Term	100 593
Equity Japan	90 170
Bond Global	89 942
Real Estate European	87 035
Money Market USD	78 689
Money Market GBP	74 943
Bond EuroZone Short Term	68 426
Mixed Asset EUR Bal - Global	60 612
Equity Europe ex UK	57 683
Equity Emerging Mkts Global	56 220
Equity UK Income	55 842
Equity France	54 428
Money Market EUR Leveraged	52 143
Bond EuroZone	50 908
Bond GBP Corporates	49 567
Mixed Asset EUR Cons - Global	48 939
Equity Asia Pacific Ex Japan	48 921
Hedge/Multi Strategies	47 290
Protected	44 648
Mixed Asset EUR Flex - Global	41 662
Bond EUR Corporates	38 037
Bond EUR Medium Term	36 096
Equity Germany	33 899
Bond USD	33 418
Bond Europe	32 785
Bond CHF	32 403
Bond GBP	31 555
Equity Emerging Mkts Europe	29 739
Equity Europe Sm&Mid Cap	27 509
Mixed Asset EUR Cons - EuroZon	27 362
Bond Emerging Markets Global	26 665
Mixed Asset EUR Agg - Global	25 390
Bond Global EUR Hedged	24 325
Equity Switzerland	24 271
Equity Asia Pacific	21 280
Bond Emerging Markets Europe	20 509
Equity UK Sm&Mid Cap	17 960
Mixed Asset CHF Balanced	17 591
Equity Italy	17 467
Mixed Asset CHF Conservative	16 953
Bond Global High Yield	16 269
Bond EuroZone Medium Term	16 182

**Top 50 Lipper Global Classifications: Market Shares (in %)**

**Lipper Global Classification**

Money Market EUR	15,76
Equity Europe	5,03
Bond EUR	4,89
Equity Global	4,39
Guaranteed	3,57
Equity North America	3,34
Equity UK	3,29
Equity EuroZone	2,51
Bond EUR Short Term	2,39
Equity Japan	2,14
Bond Global	2,13
Real Estate European	2,06
Money Market USD	1,87
Money Market GBP	1,78
Bond EuroZone Short Term	1,62
Mixed Asset EUR Bal - Global	1,44
Equity Europe ex UK	1,37
Equity Emerging Mkts Global	1,33
Equity UK Income	1,32
Equity France	1,29
Money Market EUR Leveraged	1,24
Bond EuroZone	1,21
Bond GBP Corporates	1,18
Mixed Asset EUR Cons - Global	1,16
Equity Asia Pacific Ex Japan	1,16
Hedge/Multi Strategies	1,12
Protected	1,06
Mixed Asset EUR Flex - Global	0,99
Bond EUR Corporates	0,90
Bond EUR Medium Term	0,86
Equity Germany	0,80
Bond USD	0,79
Bond Europe	0,78
Bond CHF	0,77
Bond GBP	0,75
Equity Emerging Mkts Europe	0,71
Equity Europe Sm&Mid Cap	0,65
Mixed Asset EUR Cons - EuroZon	0,65
Bond Emerging Markets Global	0,63
Mixed Asset EUR Agg - Global	0,60
Bond Global EUR Hedged	0,58
Equity Switzerland	0,58
Equity Asia Pacific	0,50
Bond Emerging Markets Europe	0,49
Equity UK Sm&Mid Cap	0,43
Mixed Asset CHF Balanced	0,42
Equity Italy	0,41
Mixed Asset CHF Conservative	0,40
Bond Global High Yield	0,39
Bond EuroZone Medium Term	0,38

**Lipper Global Classifications: Top 50 Inflows (in EUR millions)**

**Lipper Global Classification**

Equity Japan	4 826
Equity Europe	3 679
Bond Emerging Markets Global	2 697
Equity North America	2 484
Equity UK	1 963
Equity EuroZone	1 626
Money Market EUR Leveraged	1 548
Mixed Asset EUR Flex - Global	1 208
Equity Emerging Mkts Global	1 186
Equity Emerging Mkts Europe	1 121
Mixed Asset EUR Cons - Global	931
Bond USD	920
Equity UK Sm&Mid Cap	893
Bond Europe	863
Equity Asia Pacific Ex Japan	741
Bond GBP Corporates	701
Equity Japan Sm&Mid Cap	677
Bond EUR	668
Bond Global EUR Hedged	668
Equity Emerging Mkts Latin Am	666
Bond CHF	655
Bond Global	636
Mixed Asset EUR Cons - EuroZon	628
Equity India	574
Equity Sector Natural Resource	537
Equity Europe ex UK	484
Bond Convertibles Europe	455
Bond Global Corporates	451
Equity Asia Pacific	327
Mixed Asset PLN Balanced	317
Bond Convertibles Global	283
Money Market Global	280
Bond Emerging Markets Europe	268
Mixed Asset EUR Bal - Global	263
Real Estate UK	247
Hedge/Multi Strategies	238
Bond EuroZone Medium Term	226
Money Market CHF	215
Real Estate Switzerland	199
Mixed Asset EUR Agg - Global	171
Equity Sector Gold&Prec Metals	157
Equity Sector Utilities	155
Bond EUR High Yield	140
Mixed Asset GBP Bal - Global	133
Bond Global USD Hedged	133
Equity Sector Basic Industries	130
Equity Sector Information Tech	124
Hedge/CTA Commodity Tradng Adv	115
Equity Sector Pharma&Health	111
Real Estate European	108

**Lipper Global Classifications: Top 50 Outflows (in EUR millions)**

**Lipper Global Classification**

Money Market EUR	-3 280
Money Market GBP	-1 635
Bond EuroZone Short Term	-1 500
Equity Global ex UK	-872
Protected	-779
Bond EUR Corporates	-734
Equity UK Income	-651
Money Market USD	-531
Bond EUR Short Term	-511
Equity Switzerland	-458
Equity Global	-427
Equity Italy	-284
Bond Other EUR Hedged	-268
Bond EuroZone	-265
Equity Nth America Sm&Mid Cap	-248
Hedge/Long/Short Equity	-232
Equity France	-223
Bond USD High Yield	-208
Guaranteed	-207
Equity Sector Real Est Europe	-168
Bond EUR Medium Term	-164
Mixed Asset CHF Balanced	-120
Hedge/Other Hedge	-114
Bond Asia Pacific	-111
Equity Nordic	-93
Equity Europe Sm&Mid Cap	-82
Bond USD Medium Term	-70
Bond Emerging Markets Other	-64
Equity France Sm&Mid Cap	-62
Equity Global (High UK)	-59
Equity Swiss Sm&Mid Cap	-48
Equity Sector Cyclical Service	-47
Unclassified	-46
Equity Sector Biotechnology	-44
Equity Italy Sm&Mid Cap	-37
Mixed Asset GBP Agg - UK	-30
Equity Sector Telecom Srvcs	-30
Mixed Asset EUR Agg - Europe	-30
Mixed Asset USD Conservative	-29
Mixed Asset EUR Bal - EuroZone	-29
Bond CHF Short Term	-25
Mixed Asset CHF Aggressive	-24
Equity EuroZone Sm&Mid Cap	-22
Equity Thailand	-20
Mixed Asset EUR Bal - Europe	-20
Bond DKK	-20
Hedge/Event Driven	-20
Hedge/Convertible Arbitrage	-17
Equity Sector Tech Media&Tele	-17
Bond USD Corporates	-15

## Ethical Funds

### Asset Classes: Assets under Management (in EUR millions)

#### Asset Class

Equity	10 771
Mixed Assets	4 580
Bond	4 459
Money Market	475
Other	20
<b>Total</b>	<b>20 305</b>

### Asset Classes: Inflows / Outflows (in EUR millions)

#### Asset Class

Bond	-17,16
Other	-0,09
Money Market	1,13
Mixed Assets	38,70
Equity	169,61
<b>Total</b>	<b>192,19</b>

### Fund Domiciles: Assets under Management (in EUR millions)

#### Fund Domicile

UK	5 027
France	4 274
Luxembourg	3 358
Italy	3 034
Belgium	2 393
Austria	500
Switzerland	499
Germany	396
Norway	361
Spain	308
Dublin	81
Liechtenstein	73

### Fund Domiciles: Inflows / Outflows (in EUR millions)

#### Fund Domicile

France	100,03
Luxembourg	59,12
Belgium	24,38
UK	21,73
Spain	8,21
Germany	5,26
Austria	2,19
Dublin	0,67
Switzerland	-0,60
Italy	-27,71

### 1. Universe of Funds

By default, the universe of funds taken into account includes all domestic funds registered at local regulatory bodies. In Germany, we exclude the 'Spezialfonds' segment and for Austrian domiciled funds we exclude the Spezial and Grossanlager funds. In the UK, non-regulated funds are not taken into account. The guaranteed/protected segment in France is not fully covered as some companies do not want their funds to be visible by the public. Coverage of the Institutional fund segment in the Lipper database might not be complete across different countries. Please note also that to avoid double computation, internal FOF have also been excluded. The country-domiciles that have been taken into account are as follows:

Andorra	Italy
Austria	Jersey
Belgium	Liechtenstein
Czech Republic	Luxembourg
Denmark	Malta
Dublin	Monaco
Estonia	Netherlands
Finland	Norway
France	Poland
Germany	Portugal
Gibraltar	Russia
Greece	Slovenia
Guernsey	Spain
Hungary	Sweden
Iceland	Switzerland
Ireland	Turkey
Isle of Man	UK

### 2. Calculation

The estimated growth in net asset value - inflows and outflows - is calculated as follows: change in total net assets minus price return adjusted for capital events and currency changes. The detailed formula on fund level is as follows:

total net assets at month-end minus total net assets at previous month-end multiplied by  
 $(1 + ((\text{price at month-end} - \text{price at previous month-end}) / \text{price at previous month-end}))$

The figures are expressed in million euros.

### 3. Fund launches, mergers and liquidations

New fund launches within the reporting month will show at month end their Total Net Assets as complete inflows. Similarly fund liquidations and fund mergers during the reporting month will show their last Total Net Assets as complete outflows.

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