

Product simplicity reigns in a bear market

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The harsh conditions of the past 18 months have driven a reversion to low risk products among UCITS funds, yet this has not totally stifled product innovation.



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Within Europe's UCITS fund universe, finance's bear market has driven a retreat to low risk low cost products. Looking back over 2008, the low risk money market funds and low cost index tracking funds (being, for the most part, Exchange-Traded Funds) have indeed been amongst the few categories of funds able to attract net subscriptions.

Exchange-traded funds (ETFs) benefited from their inherent simplicity. Replicating the performance of an index, charging low management fees and being traded on a stock exchange is appealing: billions of euros have switched from traditional actively managed equity funds to ETFs tracking large equity indices. It is also interesting to note that the best UCITS performers in 2008 are, for most of them, ETFs providing 'bear' exposure to traditional indices.

But evolution in the UCITS market is not just about ETFs and money market funds.

Traditional equity and bond funds are not dead!

When we look at the number of UCITS launched in 2008 by category, one element is particularly striking: a relatively large proportion of launches were plain vanilla equity funds, and this seems to continue in the first months of 2009. This is surprising as they did poorly in 2008, both in terms of performance and cash inflows. Our explanations are that asset managers want to have new equity products at hand as markets recover but also that the number of funds liquidated and re-launched in a slightly different form¹⁰ is higher in the equity funds category.

Similarly to equity funds, corporate bond funds are in the radar screen of asset managers for 2009 as they believe this category of assets will provide good returns in the coming months.

Guaranteed and protected funds strong on certain markets

Guaranteed/protected UCITS¹¹ received large net inflows in markets like those in France and Spain. Capital protection satisfies investor demand for low-risk products while their guaranteed/protected features allow asset managers to charge higher management-related fees than in traditional low risk products.

Looking forward, what does this data tell us about the future? We believe that UCITS still have a good future because of their highly regulated status and flexible characteristics. Actively managed equity and bond funds, which have been under pressure in the last months, will regain interest as markets recover. ETFs will carry on increasing their market share. Absolute return funds will stay under the spotlight, as there is an ongoing request from institutional investors for hedge fund strategies to be implemented in UCITS.

¹⁰ Reasons for this are often related to poor track records in equity funds (due to sharp fall in equity markets) which explain liquidation of these funds and launch of new ones.

¹¹ These funds are typically set up for a defined term and offer, at the end of the full term, a protection of capital invested and participation in the increase of a defined market (e.g. 80% of the increase of the CAC 40).

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