

European Fund Trends

September 2005

Summary of results:

Japan favourite among managers

Some 44% of fund management groups participating in this month's survey said Japan will be the best performing market over the next 12 months. That was a radical shift from three months ago when only 11% pointed to Japan as their favourite market. There could, of course, be a number of reasons behind this change of attitude but the recent re-election of Prime Minister Koizumi is probably one. The average fund in Morningstar's Japan Large Cap Equity category is up by 23.9% so far this year (in euro terms).

Moving to manage hedge funds

The theme of the month – Fund Manager Tenure – is a follow up from September last year when we posed the same questions to fund groups (see column on the right).

This year more fund groups said that managers were leaving their organisations in order to manage hedge funds. Some 17% cited it as a reason compared with 10% last year. Meanwhile, just as few fund groups – only 15% – had managers with an average tenure of more than six years.

Retaining talent

A worrying sign, which was also highlighted last year, is that some 35% of fund groups in the survey said that fund manager bonuses are based on short term performance (defined in this survey as one year performance). Slightly more fund groups (45% this year compared with 41% last year) also said that they use increased salaries to retain talent. It is, however, encouraging that this year more fund groups – 27% compared with 18% last year – said they use a mix of factors in order to retain talent.

Tenure must increase

With funds being sold as long-term investments we at Morningstar want to see fund manager tenure increasing rather than decreasing. Remuneration packages should be made more consistent with the time horizon of the fund's investors rather than the short term focus indicated in this survey's results.

Please see page 8 for contact details to Morningstar analysts.

Theme: Fund Manager Tenure

(Last year's answers in parentheses)

1. How would you define the fund manager turnover within your own organisation over the past 12 months (including internal moves between funds)?

None.....	18%	(26)
Some.....	73%	(70)
High (>25%).....	9%	(4)

2. What is the average fund manager tenure (i.e. number of years the same manager has been responsible for the same fund) currently at your organisation?

Less than 1 year.....	0%	(0)
1-2 years.....	3%	(2)
2-4 years.....	36%	(39)
4-6 years.....	45%	(43)
More than 6 years.....	15%	(15)

3. What is the most common reason for fund managers leaving?

Moving to manage hedge funds.....	17%	(10)
Moving to smaller/boutique type firm.....	27%	(23)
Moving to get away from "index+".....	10%	(10)
Other.....	47%	(56)

4. What are the most important steps you have taken to retain talent within your organisation?

Increase salary/bonus payments.....	45%	(41)
Launching hedge funds.....	6%	(9)
Set up boutique structures within firm.....	21%	(32)
Other.....	27%	(18)

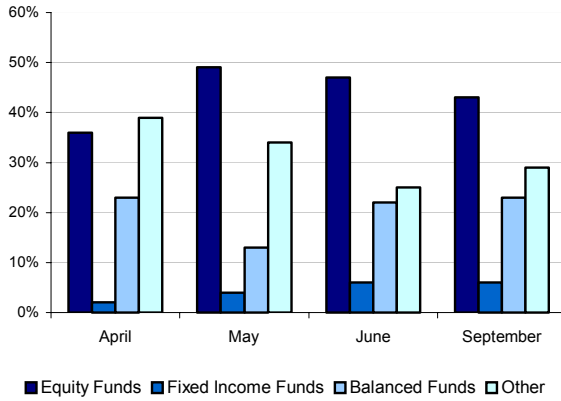
5. If your fund managers receive bonuses, on what are they based?

Short term performance (1 year).....	35%	(37)
Long term performance (>3 years).....	14%	(15)
Risk adjusted performance.....	23%	(26)
Growth in assets under management.....	9%	(9)
Other.....	19%	(13)

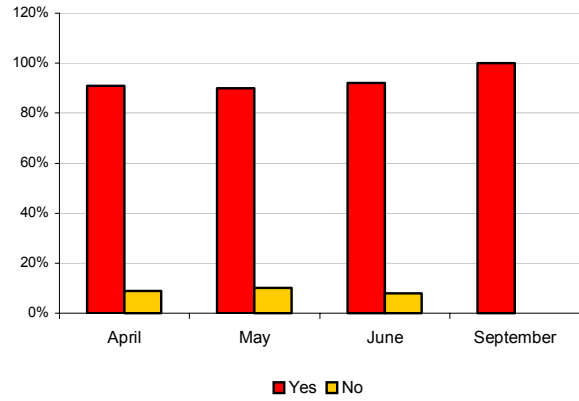
6. How would you define the way your fund managers work?

Team based – group of fund managers reaching consensus.....	53%	(63)
Lead manager for each fund with backup from analyst team.....	38%	(30)
Other.....	9%	(7)

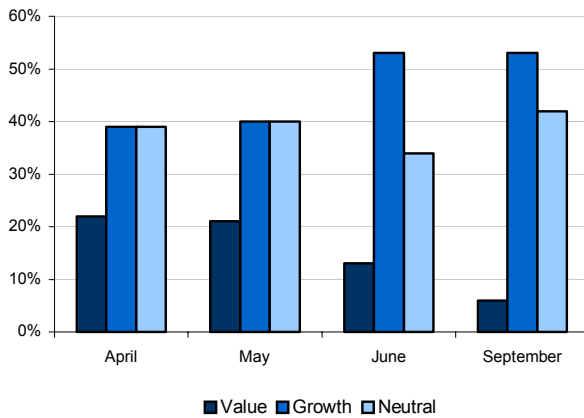
Which asset class will dominate new fund launches in the next 12 months?



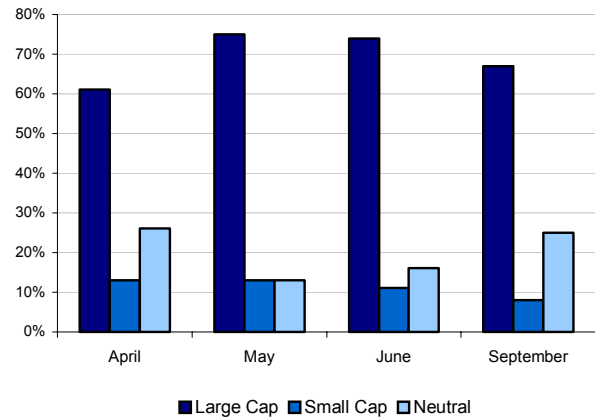
Are you planning to launch new funds in the next 12 months?



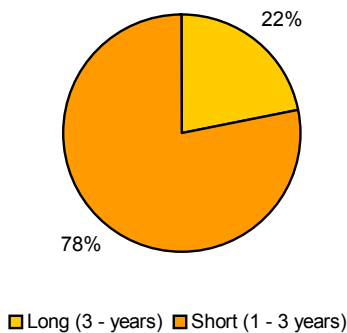
What investment style (value or growth) will perform best over the next 12 months?



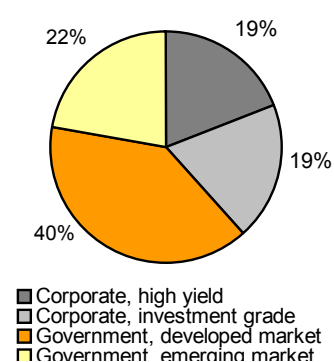
What investment style (large cap or small cap) will perform best over the next 12 months?



Which type of fixed income instrument (long or short) will perform best over the next 12 months?



Which type of fixed income instrument (corporate or government) will perform best over the next 12 months?



European Fund Industry Trends

1. Which asset class will dominate new fund launches in the next 12 months in Europe?

	April	May	June	September
Equity Funds	36%	49%	47%	43%
Fixed Income Funds	2%	4%	6%	6%
Balanced Funds	23%	13%	22%	23%
Other	39%	34%	25%	29%

Most fund management groups said that equities will dominate new fund launches in the next 12 months.

2. Are you (as a fund group) planning to launch new funds in the next 12 months?

	April	May	June	September
Yes	91%	90%	92%	100%
No	9%	10%	8%	0%

All fund management groups say they will launch new funds in the next 12 months.

3. Will the number of launched funds in Europe be higher than the number of closed funds in the next 12 months?

	April	May	June	September
Yes	79%	81%	82%	77%
No	21%	19%	18%	23%

Most fund groups said the number of launched funds will be higher than the number of closed funds in the next 12 months.

4. Do you foresee an increased number of mergers between fund management groups in the next 12 months?

	April	May	June	September
Yes	58%	63%	60%	64%
No	42%	37%	40%	36%

Some 64% of fund groups said they foresee an increased number of mergers between fund management groups in the next 12 months.

European Fund Performance Trends

5. Which investment style (growth or value) will be the best performing in the next 12 months?

	April	May	June	September
Value	22%	21%	13%	6%
Growth	39%	40%	53%	53%
Neutral	39%	40%	34%	42%

Some 42% of fund groups were neutral on which investment style will be the best performing in the next 12 months.

6. Which investment style (large cap or small cap) will be the best performing in the next 12 months?

	April	May	June	September
Large Cap	61%	75%	74%	67%
Small Cap	13%	13%	11%	8%
Neutral	26%	13%	16%	25%

Only 8% of fund groups said small caps will perform best in the next 12 months.

7. How will equities perform in the next 12 months (MSCI World Index in dollars)?

	April	May	June	September
Negative	0%	0%	0%	0%
0 – 5%	28%	20%	24%	19%
5 – 10%	65%	67%	58%	61%
10 – 15%	4%	10%	16%	14%
More than 15%	2%	2%	3%	6%

Some 20% of fund groups said equities will gain more than 10% in the next 12 months, of which 6% said equities will gain more than 15%.

8. Which type of fixed income instrument (long or short) will perform best in the next 12 months?

	April	May	June	September
Long (3 – years)	38%	28%	32%	22%
Short (1 – 3 years)	62%	72%	68%	78%

Fund management groups said that short term fixed income products will perform best in the next 12 months.

9. Which type of fixed income instrument (corporate or government) will perform best in the next 12 months?

	April	May	June	September
Corporate, high yield	13%	4%	26%	19%
Corporate, investment grade	15%	19%	16%	19%
Government, developed market	59%	62%	47%	39%
Government, emerging market	13%	15%	11%	22%

Fund management groups said developed market government bonds will perform best in the next 12 months.

10. What currency do you think will be the strongest/weakest in the next 12 months?

	June		September	
	Best	Worst	Best	Worst
Euro	35%	33%	27%	30%
Sterling	3%	19%	3%	18%
Dollar	22%	44%	24%	45%
Yen	41%	3%	45%	6%

Most fund groups said the **yen** will be the strongest currency in the next year.

11. What markets do you think will perform best/worst in the next 12 months?

	June		September	
	Best	Worst	Best	Worst
Europe (ex. UK)	46%	3%	24%	3%
UK	5%	14%	0%	15%
USA	5%	43%	0%	50%
Japan	11%	16%	44%	3%
Asia (ex. Japan)	19%	8%	12%	3%
Latin America	5%	11%	15%	21%
Emerging Europe	8%	5%	6%	6%

Japan was expected to be the best performing market over the next 12 months. The **US** market was expected to be the worst performer.

12. What stockmarket sectors do you think will perform best/worst in the next 12 months?

	June		September	
	Best	Worst	Best	Worst
Software	12%	3%	11%	0%
Hardware	6%	12%	3%	3%
Media	6%	9%	0%	3%
Telecommunication	3%	0%	17%	8%
Healthcare	33%	0%	23%	6%
Consumer Services	3%	9%	3%	0%
Business Services	0%	0%	0%	3%
Financial Services	6%	3%	6%	14%
Consumer Goods	3%	9%	3%	17%
Industrial Materials	3%	21%	9%	11%
Energy	18%	9%	23%	14%
Utilities	6%	24%	3%	22%

Healthcare and **Energy** were expected to be the best performing sectors over the next 12 months. The **Utilities** sector was expected to be the worst performer.

About the survey

Morningstar editors and analysts conducted this survey between September 19th and September 26th. In total, 36 fund management groups participated in the survey [Benelux 3, Denmark 3, France 9, Germany 3, Italy 7, Norway 2, Spain 3, Switzerland 3 and UK 3]. The companies surveyed are among the largest in each country [see list on page 7]. On average they manage some EUR 51 billion and offer 93 funds. In most cases the respondents were chief investment officers, strategists or a fund manager who was a member of the company's asset allocation committee. Most numbers are expressed as percentages, and may not add to 100 because of rounding or multiple/no answer by the fund groups.

Fund groups are classified according to the country from which they responded to the survey.

This survey (as well as all past surveys) is available in the Press Centre at:

www.morningstareurope.com

About Morningstar

Morningstar is a global investment research firm whose mission is to help investors make better decisions to reach their financial goals. The company provides investment information and analytical tools for a number of leading financial institutions, websites and media.

Over the past 20 years, Morningstar has taken advantage of the technological progress that has revolutionised world financial markets. Morningstar is now one of the most recognised brands in the financial services industry in the world. Morningstar's goal is to revolutionise investing by providing investors with information, ideas, and tools that help them make sense of the extraordinary range of investment products available today.

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Australia, Canada, Denmark, Finland, France, Germany, Hong Kong, Italy, Japan, Korea, Netherlands, New Zealand, Norway, Sweden, Spain, the UK and the USA

Fund Groups in Survey

Benelux

ABN AMRO AM
Robeco Group
SNS AM

Denmark

Bankinvest
Nordea Invest
Sydinvest

France

AXA IM
CPR AM
Crédit Agricole AM
Etoile Gestion
Invesco
Lazard Frères Gestion
SG AM
Sogeposte
WestAM Banque d'Orsay

Germany

Activest
FRANKFURT-TRUST
Lupus alpha AM

Italy

Aletti Gestielle
Banca Fideuram
BNL GESTIONI
Monte Paschi AM
Nextra IM
Pioneer IM
Ras AM

Norway

DnB NOR Kapitalforvaltning
Stavanger Fondsforvaltning

Spain

Ahorro Corporación
BanSabadell Inversión
Santander AM

Switzerland

Bank Sarasin & Cie
Swisscanto FM
UBS Global AM

UK

HSBC Investments
Royal London AM
Threadneedle Investments

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