

**SEPT'S
HOT TOPIC
ETFs**

A COMING OF AGE

During the last twelve months, sales of Exchange Traded Funds (ETFs) in Europe reached €30.8bn, more than two times higher than the same period last year. Mutual funds by contrast saw outflows of €41bn. ETFs have been available in Europe since 1999, following their introduction in the US in 1993, but they have only really started to take off in the past two years. During that period, the number of ETFs available in Europe has more than doubled from 221 to 476. Market volatility and liquidity issues appear to be the main drivers behind their rapid expansion. So far they have been mainly the preserve of institutional investors but discretionary managers and private investors are becoming increasingly attracted by their flexibility, low cost and transparency.

EQUITIES FACE COMPETITION FROM CASH

The ETF markets in France, Germany and Spain are growing rapidly. However, the highest level of ETF activity is cross border and the International market accounts for 76% of assets. The best-selling asset class for ETFs over the past year has been equities, which attracted net sales of €19.8bn, but a host of other assets classes are also available ranging from Commodities to Swaps. The fastest increase in sales was in money market ETFs (€5.8bn) and assets have risen from €30m to €5.9bn during the year. The majority of the 120 new funds launched during the past 12 months were equity ETFs, with Euroland and Germany the best selling equity sectors. Several of the top selling individual ETFs, though, were money market funds. At a group level, Deutsche Bank has been very busy accounting for a third of all ETF launches in Europe over the year, but French groups were also active, accounting for another third.

A CONCENTRATED MARKET

Despite the growing number of ETF promoters, there are now 27 in the market compared with only 16 in 2006, the market is still dominated by three major players which together account for 86% of assets under management: Barclays (38.6%), Société Générale's Lyxor unit (25%) and Deutsche/DWS (15.7%). In terms of new business, these three groups accounted for 90% of ETF net sales over the past year with Deutsche Bank posting the strongest net flows of €14.3bn.

IN BRIEF

Sales of ETF funds in the first six months of 2008 were nearly four times higher than in 2007 at €21.8bn.

In June 2008, €96bn of ETF assets were managed by 27 companies in Europe.

The most proactive domiciles for ETF fund launches over the past year were Luxembourg and France.

The groups with the highest ETF inflows were Deutsche/DWS, Barclays and Société Générale.

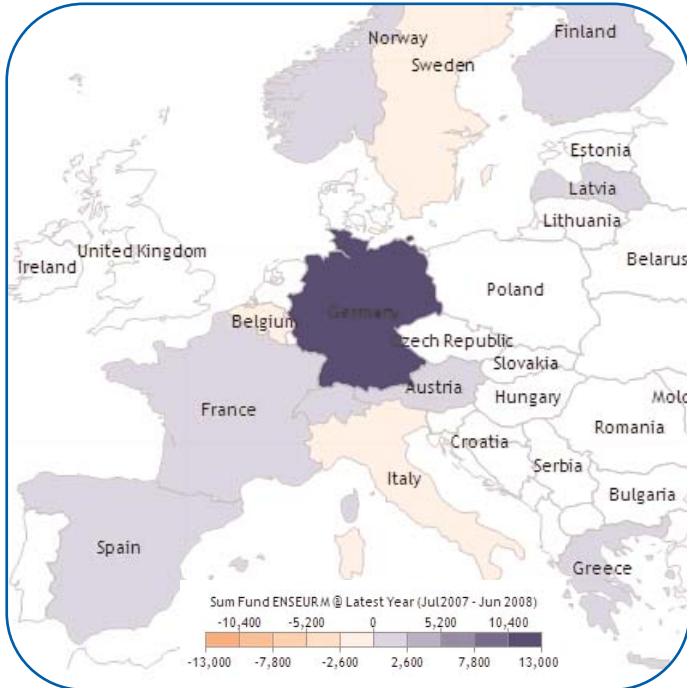
The top selling equity sectors were Euroland and Germany followed by North America and Emerging Markets.

Money market funds was the second most successful asset class gathering €5.9bn of assets over the year.

HOT TOPICS



European map of ETF latest year sales (€m)



Market ranking by assets (€m)

Fund market	# funds	Assets Jun 08	Annual gth %
International	319	72,972.7	2.5
Germany	83	12,672.5	782.0
Switzerland	14	4,967.8	18.1
Spain	11	2,118.4	327.2
France	26	1,756.4	23.0
Sweden	7	903.0	-63.2
Italy	4	339.7	-40.8
Finland	2	127.2	-22.1
Greece	1	120.2	n/a
UK	3	57.9	34.7
Norway	3	48.4	45.7
Belgium	1	39.9	-43.1
Latvia	1	13.1	169.0
Austria	1	11.8	58.8
Total	476	96,149.2	17.1

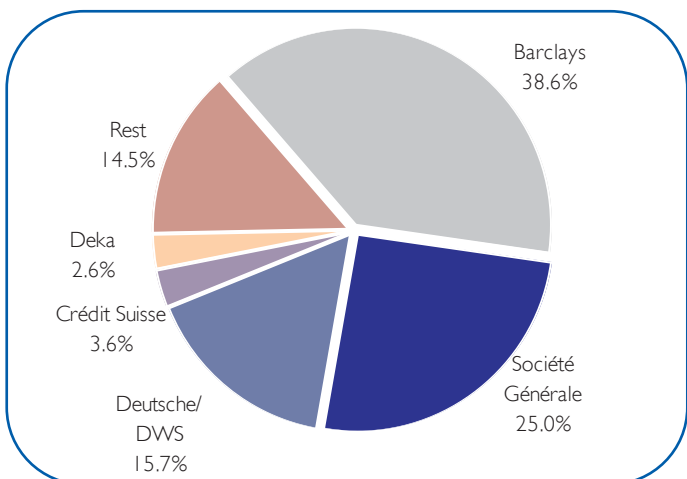
Top ETF sectors by latest year sales (€m)

Fund sector	Assets	Asset Grth	Sales	Sales/Grth %
MM EUR	5,856.4	5,826.5	5,714.1	98.1
Eq Euroland	18,276.2	-1,159.0	4,078.5	n/a
Eq Germany	6,136.1	2,130.2	3,308.4	155.3
Eq North America	5,449.5	1,901.0	3,267.6	171.9
Eq Emg Markets	3,183.7	2,385.3	2,866.6	120.2
Rest	57,247.3	2,943.2	11,580.6	393.5
Total	96,149.2	14,027.2	30,815.7	219.7

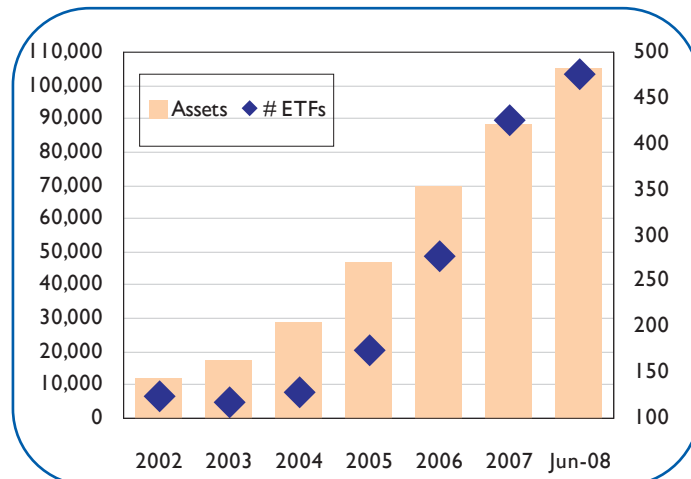
Best ETF by latest year sales (€m)

Fund	Dom	Sales
X-Trackers II Eonia Total Ret Index ETF	LX	2,784.8
X-Trackers MSCI Emg Mkts TRN Index ETF	LX	2,407.7
Deka ETFlab DAX®	DE	2,166.0
Lyxor ETF Euro Cash	FR	1,697.6
Barclays iShares® - iShares S&P 500	IE	1,320.4
Rest		20,439.3
Total		30,815.7

Top 5 ETF master groups by assets - June 2008 (€m)



Growth of ETFs by number and assets (€m)



Notes: Sales are estimated net sales. Latest year is the period Jul 07-Jun 08