

**MAY'S
HOT TOPIC
ABSOLUTE &
TOTAL
RETURN**

ALL EYES ON ABSOLUTE RETURN

Sales of absolute and total return funds, which aim to achieve positive returns in all market conditions, have soared in some parts of Europe this year. In the first quarter, they attracted net inflows of €9.7bn compared to €1.1bn during the whole of last year. For investors, the attraction of the funds has been boosted by a combination of low interest rates, economic uncertainty and stock market volatility. Among product providers, hedge fund managers see absolute return funds as an opportunity to move into the mainstream mutual fund market (though figures show that the most successful funds are from fund managers with a foot in both camps).

It is not the first time that absolute return funds have enjoyed the limelight. In 2006 absolute return funds sold strongly in Europe, but many were flexible funds or short-term dynamic funds that got caught out in the sub-prime mortgage crisis and subsequently suffered large redemptions. However, the absolute return 'model' has moved on since then and the appeal of these funds has widened.

A CHOICE OF ASSET CLASSES

Absolute return funds are often referred to as a single group. However, they are linked to a wide range of asset classes and use a variety of strategies. They invest in domestic equity or bond markets, or sectors such as commodities, while others have a global spread and hold a broad range of assets. Thanks to the general popularity of fixed income funds this year, absolute return bond funds sold particularly well during the first quarter. Seven of the best-selling absolute return funds in the first quarter were bond funds. However, over a third of the 40+ new absolute return fund launches this year were mixed asset or asset allocation funds.

STRONGEST FOLLOWING IN UK AND ITALY

Cross-border groups attracted the highest flows into their absolute return funds in the first quarter. However, on an individual country basis it was in the UK and Italy that these funds proved most popular. The top-selling fund in the first quarter was Standard Life Global Absolute Return Strategies, which was opened up to retail investors in 2008 and has proved increasingly popular with independent advisers. In Italy, banks, notably private banks, have started to promote absolute return funds again on the basis of their ability to adapt to changing market circumstances.

IN BRIEF

The introduction of the Ucits III Directive, allowing the use of financial derivatives paved the way for absolute return funds.

The Eligible Assets Directive of 2007 increased the list of eligible assets and allowed exposure to non-eligible assets through structured financial instruments.

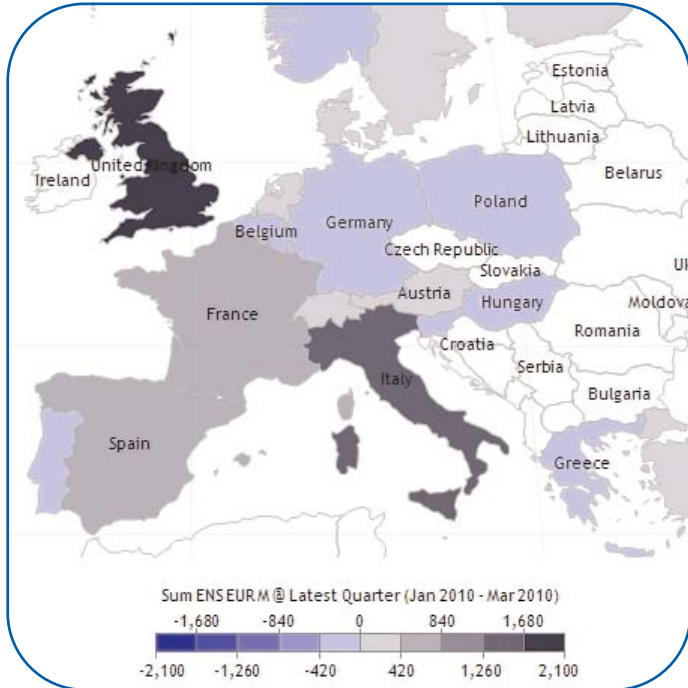
Some absolute return funds are described as Newcits, principally those launched by hedge fund managers

More than half of European hedge fund managers have launched, or are planning to launch a Newcits, according to HFI.

Support for absolute and total return funds is not unanimous, in Germany and Belgium this year there were net redemptions.

Total net assets in absolute/total return funds stand at €132.5bn as at March 2010. At their 2006 peak, assets totalled €179bn.

European map of fund sales (Jan-Mar) (€m)



Top 10 markets in March 2010 (€m)

Fund market	# funds	Assets Mar 10	Sales Q1 10
International	308	50,607.1	4,101.0
United Kingdom	93	23,230.8	2,073.3
Italy	143	25,082.0	1,565.6
Spain	122	6,312.0	834.0
France	77	8,779.1	759.3
Switzerland	73	4,829.8	188.1
Finland	3	759.5	132.0
Denmark	3	762.1	112.0
Sweden	4	1,106.5	61.1
Rest	196	11,047.36	-82.77
Total	1022	132,516.2	9,743.6

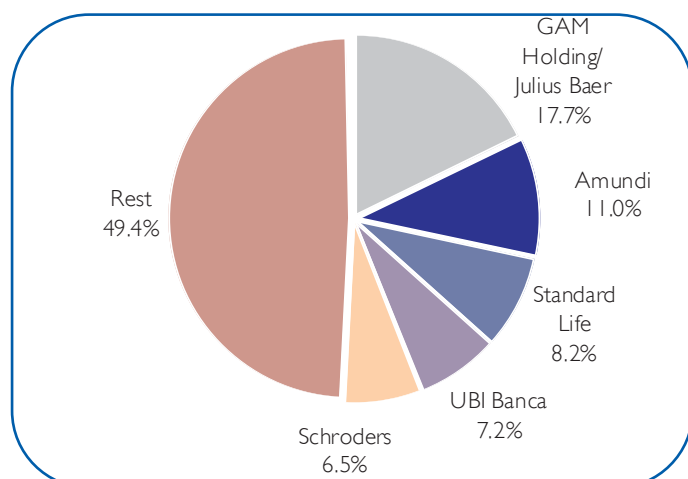
Top 5 groups by assets in March 10 (€m)

Master Groups	Nat	Assets
GAM Holding/Julius Baer	Switz	8,589.8
JP Morgan	US	8,547.7
Amundi	France	8,208.8
Schroders	UK	7,485.0
Intesa SanPaolo	Italy	6,385.1
Rest		93,299.8
Total		132,516.2

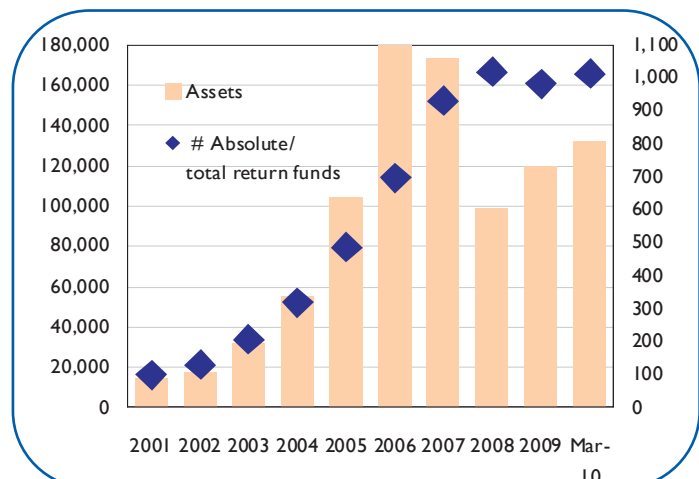
Top 5 funds by quarterly sales (Jan-Mar 10) (€m)

Fund	Dom	Sales
Standard Life Global Abs Return Strategy	UK	800.2
Julius Baer Multibond - Abs Return Bond Fund	LX	729.0
UBI Pramerica Total Return Prudente I	IT	682.7
JPMorgan - Income Opportunity Fund	LX	671.7
Schroder ISF-Emg Mkt Debt Absolute Return	LX	620.1
Rest		6,240.0
Total		9,743.6

Top 5 groups by quarterly sales (€m)



Evolution of assets and number of funds (€m)



Notes: Sales are estimated net sales. Quarterly is the period Jan-Mar 2010.