Investment Management Association

Trends in UK Retail Sales of Equity Funds

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TRENDS IN UK RETAIL SALES OF EQUITY FUNDS

This paper reviews trends in UK retail investors' appetite for equity funds and concludes that, whilst retail investors have diversified their fund portfolios in recent years to a greater extent than previously, and perhaps become more cautious, they are hardly shunning equities.

Retail investors still hold around two-thirds of their fund investments in equity funds and have invested substantial new amounts in recent years - despite the often difficult investment climate as stockmarket values have fluctuated substantially.

Last year's exceptionally difficult time in the equities market saw a small net retail outflow from equity funds – the first since 1992. But it was a very small one compared to the size of the funds that retail fund investors have entrusted to equity fund managers.

The continuing central role of equity funds in retail investors' portfolios was further demonstrated by the fact that well over half of gross retail sales still went into equity funds.

Nevertheless, the proportion of retail investors' money going into other types of funds has increased – in recent years more than half of retail net investment has been into non-equity funds whereas, in the 1990s, well over half went into equity funds.

Some comparisons are made with previous recessions showing net sales of funds as we move into the current recession compared with earlier ones. Also, comparisons with the rest of Europe show the relative resilience of UK fund investors' attitudes towards equity funds.

Introduction

This paper explores trends in fund sales, with its main focus on trends in retail sales of equity funds. These trends are explored on the basis of the statistics collected monthly by the IMA and its predecessors over almost 50 years.

The statistics collected by IMA that are used in this analysis relate to open ended investment companies (OEICs) and units trusts domiciled in the UK which are together known as Authorised Investment Funds (AIFs). Figures are collected for funds under management (FUM), sales of units to investors and re-purchases back from them. Summary figures are available back to 1961 – more detailed figures showing investments into different types of funds since 1992. From that date, the former Association of Unit Trusts and Investment Funds (AUTIF) also began to collect separate figures for retail and institutional investment – see p.4 for definitions.

The more extensive data available from 1992 provides excellent information on trends in retail and institutional investment behaviour in authorised funds since then. The first section of this paper focuses on trends in these retail figures and, in particular, on the extent to which retail investors chose equity funds as a home for their investments. The definition of equity funds and other asset classes is provided at Appendix 1.

Trends in retail sales are examined mainly in terms of net sales but some comparisons are also offered in terms of gross sales and re-purchases – see p.4 for definitions of these terms.

Some key definitions

Gross sales – new sales of funds where investors are investing new monies or re-investing monies from selling back units in other funds.

Re-purchases – this is where investors sell their units back to the fund.

Net sales – gross sales less re-purchases.

Retail – retail transactions are those where fund companies deal with investors who take direct beneficial ownership of the units, including where their investment is held on their behalf by nominees. It includes investments in ISAs (and PEPs till they were merged with ISAs) as well as holdings held outside this tax wrapper.

Institutional investments – all other transactions. The biggest investors are insurance companies and self-administered pension schemes. Insurance company investments include units held within bonds and personal pensions as well as investments from with profits funds.

Funds of funds – funds that invest mainly in other funds. For this paper, IMA's standard fund sales statistics have been re-arranged to better reflect investor choices by removing sales of funds to funds of funds (an internal industry transaction) and replacing these with sales of funds of funds to retail investors. See Appendix 2 for more details.

As noted earlier, prior to 1992, less detail is available - separate figures are not available for retail investment, nor for investments in different types of assets. However, these earlier figures are still worth looking at because they provide a broad view of the experiences of the funds industry in earlier recessions. The second part of this paper looks at three earlier recessions and compares the trend of net sales in the current recession with the earlier ones.

Finally, comparisons are drawn between the experience of the funds industry in the UK and the rest of Europe. Again, the comparisons that can be made are determined by the availability of data. In this case, comparisons can be made between investments in equity funds in the different domains but it is not possible to distinguish between retail and institutional investment.

1. Net Retail Investment Into Funds Since 1992

Equity Funds Strongly Favoured in the 1990s

Chart 1: Net Retail Sales by Asset Class

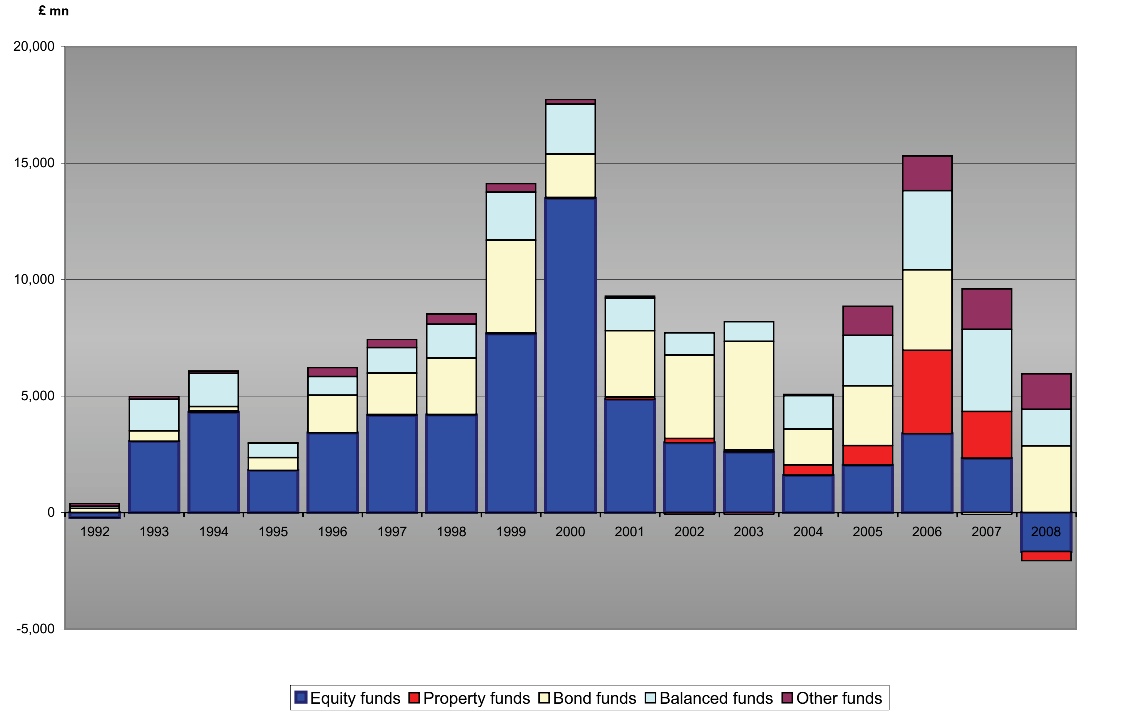


Chart 1 shows trends in net retail investment by type of asset, starting in 1992 which is the first year that IMA's forerunner, AUTIF, collected separate information by asset type and distribution channel.

From 1993, as the UK emerged from recession, net investment into funds grew strongly, with the largest net investment into equity funds. Second choice for net retail investment was balanced funds up to 1995, with bonds taking second place in the latter part of 1990s. Throughout this period, most major stockmarkets were rising strongly – the biggest exception was the Japanese market – with the FTSE 100 increasing 143 per cent between 1 January 1993 and 31 December 1999.

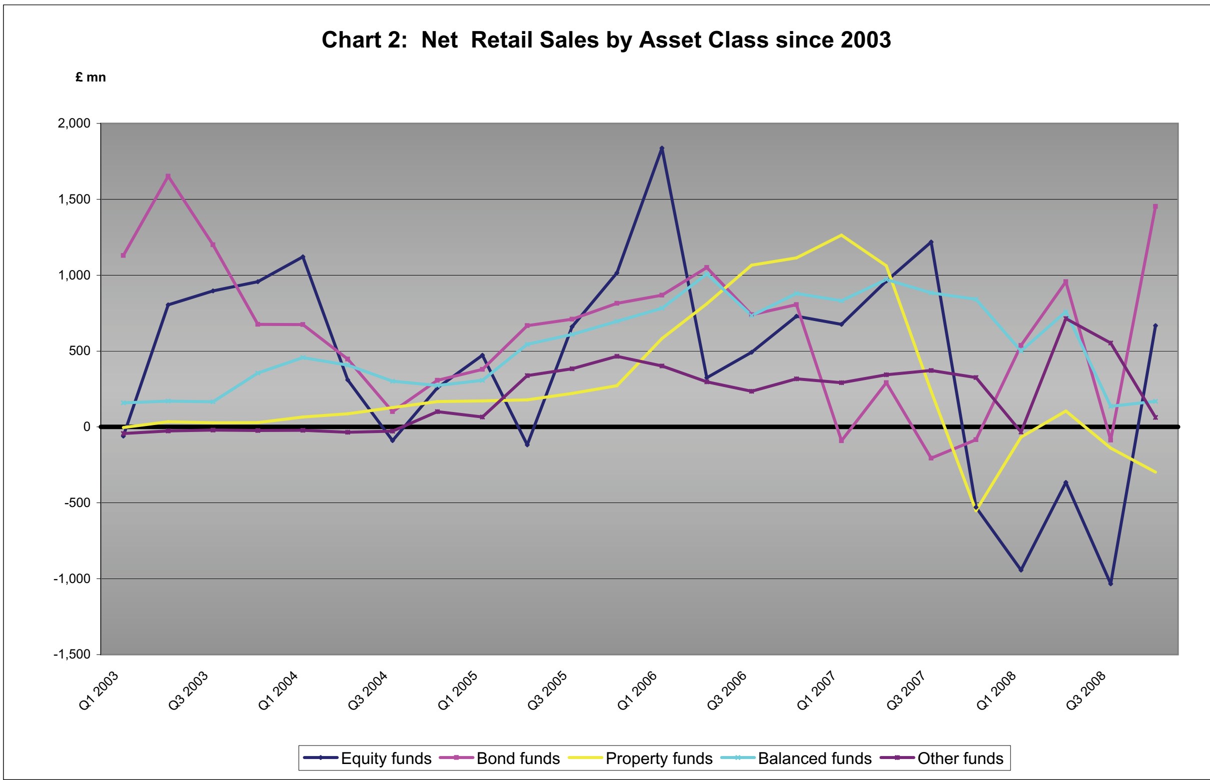
Whilst bond funds took an increasing proportion of net investment in funds during the second half of the 1990s, their share of net investment fell away sharply during 1999 as investors switched their attention to equity funds during the tech boom. Investors' passion for equity funds peaked in the 2000 ISA season. During 2000, investors' put a net £13.5 billion into equity funds (both ISAs and otherwise) making that year the best ever for equity funds as well as for net retail investment into funds overall.

Aftermath of the Dotcom Boom

However, net retail investment into equity funds fell away sharply in 2001. In the first half, covering the ISA season, net sales were down around a half on a year earlier and, in the second half, the fall was well over three-quarters. By the end of 2001, equity funds had ceased to be the dominant beneficiary of net flows into funds – a position that equity funds have not recovered since on a sustained basis.

Indeed, 2002 was the first year since 1992 in which net investment into bond funds exceeded that into equity funds – at a time when stockmarket values were falling and bond prices were rising as interest rates fell. Bond funds continued to take a bigger share of net retail investment into funds in 2003 as the FTSE reached its low point in March 2003 before recovering some ground during the remainder of the year. Net investment into equity funds was £2.6 billion during 2003 – at that time the lowest amount since 1995.

Retail Investors Make Broader Choices



The figures for 2003 onwards are shown in more detail in Chart 2 – a period that has shown much greater variation in retail investor choices.

Net retail sales of both bond and equity funds fell during 2004 – in the case of equity funds to £1.6 billion. Net investment began to recover in 2005 – during this year, the biggest net investment was into bond funds, closely followed by balanced funds, with equity funds in third place with 23 per cent of net sales.

The interpretation of net and gross sales figures

Net sales are gross sales less re-purchases. But gross sales do not solely represent new money to the industry. Nor are all re-purchases a loss to the industry. A lot of gross sales and re-purchases are investors selling one fund and re-investing in another fund – sometimes within the same sector, often within the same asset-type. So gross sales effectively have three distinct components: new investments into the industry; investors moving from one asset-type to another; and investors exchanging one fund for another within the same type of asset. Each of these is driven by different motivations making interpretation of the figures of gross sales difficult. The same applies to re-purchases.

This impacts on the net sales figures too – though here at least these represent the overall impact of all investors' decisions as a group and the net impact of these choices on the funds industry.

In 2006, net investment into property funds grew very strongly, whilst net retail sales of balanced and bond funds also continued apace. Equity funds did well too, especially in the first half of the year which includes the ISA season. Over the calendar year, property funds received net retail investment of £3.6 billion, bond

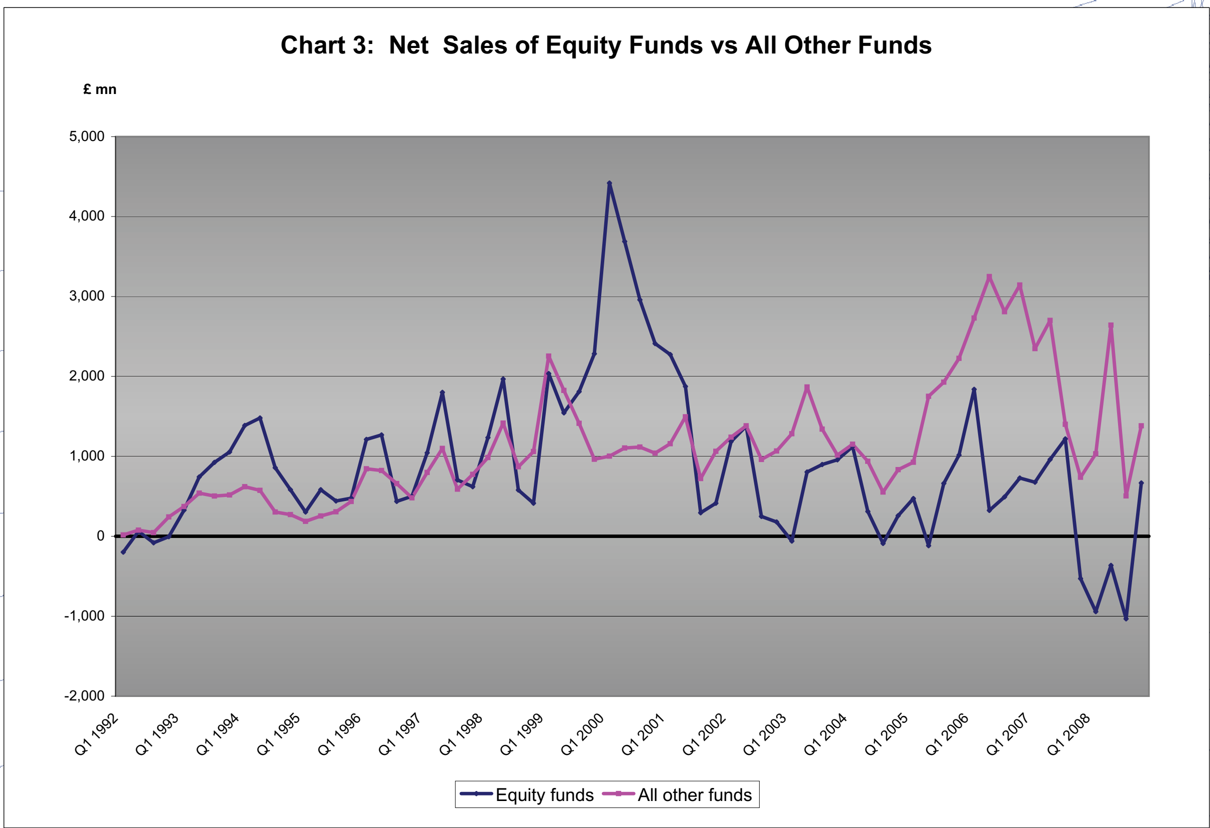
funds took £3.5 billion whilst balanced funds and equity funds each took £3.4 billion.
After peaking in the first half of 2007, net investment into property funds collapsed with investors taking money out of this sector in the second half. Bond sales were negative in 2007 whilst net retail sales of equity funds were strong for the first three quarters before turning negative in the final quarter as the credit crunch began to impact on investors' attitudes. Balanced funds did best taking in a net £3.5 billion over the year – beating their record the previous year – though many of these funds have their largest investments in equity markets.

The success of balanced funds reflected the growing popularity of funds of funds and the fact that these are the primary asset choice of investors in funds of funds – they accounted for 65 per cent of funds under management in funds of funds at the close of 2008. Funds of funds accounted for 21 per cent of net retail sales of investment funds in the five years to 2008, helping to raise fund of funds' share of total industry funds under management from 4.8 per cent to 8.4 per cent.

Looking at the three years to the third quarter of 2007 as a whole, before the credit crunch began to affect significantly investors' choices, the proportion of net retail investment into the different assets included 25 per cent into equity funds, 21 per cent into property funds, 18 per cent into bond funds and 25 per cent into balanced funds.

Overall net retail sales of funds were their lowest in 2008 since 1995. Balanced funds continued to do well during the first half of the year as retail investors continued to increase their commitment to funds of funds. However, retail investors' biggest net investment was into bond funds whilst, on the other hand, they made net re-purchases of equity and property funds. Nevertheless, net re-purchases of equity funds by retail investors were very small in relation to retail funds under management – less than 1 per cent.

The Longer Perspective



Fluctuations in the popularity of equity funds have a variety of causes. A significant one is changes in stockmarket values and indices with net sales tending to be higher when the indices are high and rising and lower when the indices are low and falling. This explains the strong peak in net sales of equity funds seen in Chart 3 around 2000. This chart, looking back over almost two decades, shows that up to 2001 more than one half of net sales went into equity funds, whereas since then more than half of net inflows have gone into non-equity funds.

The fact that investors are putting a smaller proportion of net investment into equity funds could be viewed as a sensible move towards a more broad based allocation of their fund investments between different asset types. And investors switching towards funds of funds and balanced funds could be seen as not so much the avoidance of equities as delegating some of the asset allocation task to fund managers.

The broader context

Retail investment into funds takes place within the broader context of people's savings and investments. These include savings in banks and building societies, investments in insured funds, "buy to let" investments, as well as in equities directly.

Whilst retail investors have continued to make substantial new investments into equity funds over most of the last ten years, official figures indicate that households have been net sellers of directly held equities over the same period. A popular alternative equity style investment has been "buy to let" which contributed to the very strong growth in loans for house purchase from the mid-1990s until the onset of the credit crunch. Some "buy to let" investors have also seen this as an alternative to more normal routes for long term saving and pension provision.

Many people also now have substantial exposure to equity funds through their personal pensions. The last ten years has seen the rise of defined contribution (DC) schemes that have replaced many defined benefit (DB) pension schemes. Whilst DB schemes may have had substantial investments in equity funds, the risks associated with better or worse than expected investment returns lie with companies whereas, in DC schemes, they lie with employees. This is an important consideration of any assessment of changes in individuals' overall exposure to equities and their appetite for them.

Nevertheless, these trends should not be allowed to disguise the fact that retail investors have still put a lot of new money into equity funds over recent years. Net new retail investment of £18.1 billion has gone into equity funds over the last eight years (2001-2008) since the demise of the tech boom. In addition, a net £11.9 billion has reached equity funds indirectly through investments by retail investors into funds of funds that are balanced funds – and which managers of the latter then invested into equity funds. To this could also be added the amounts re-invested into equities where retail investors own accumulation units that re-invest fund income on their behalf.

2. Gross Sales and Re-purchases of Retail Funds

Gross sales are made up of two substantial flows – new investments into funds and investors switching between funds. But, in both cases, the decision to buy the fund being bought is likely to involve an active assessment of asset preference – even if that decision is to stay with the same type of asset. Looking at the asset choices represented by gross sales is, therefore, useful.

Chart 4: Gross Sales by Asset Class

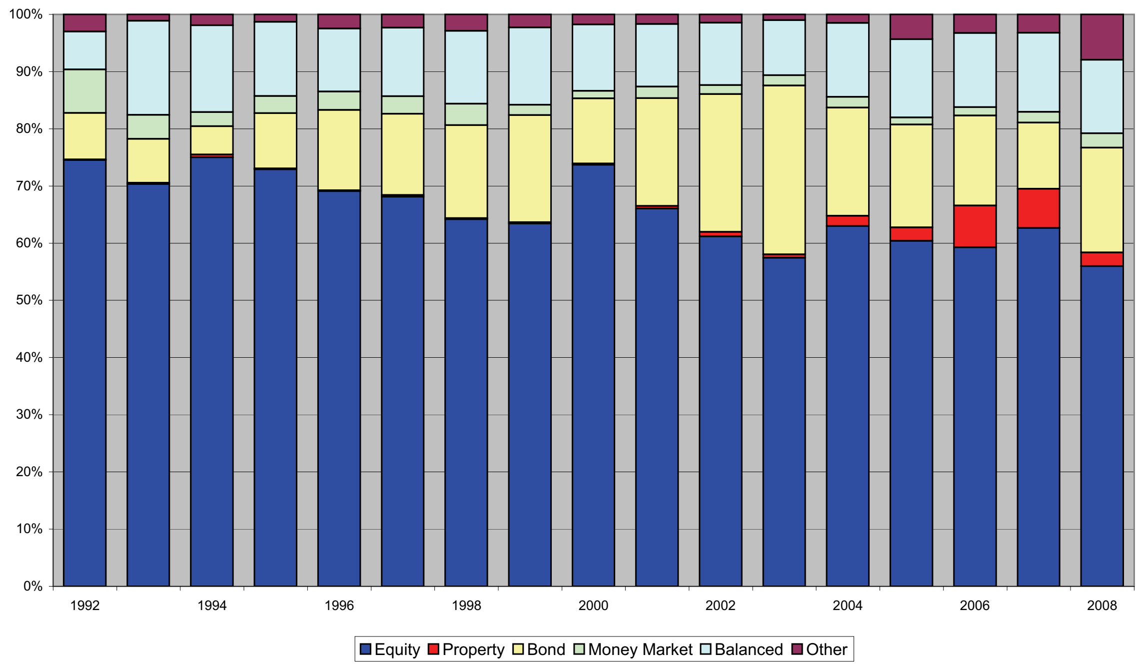


Chart 4 shows these figures - they indicate that the proportion of gross retail sales going into equity funds has fluctuated around 60 per cent since 2002 – before that the figure had been somewhat higher – up to 75 per cent in the mid 1990s. The figure for 2008 was 56 per cent – the lowest recorded but still well over half.

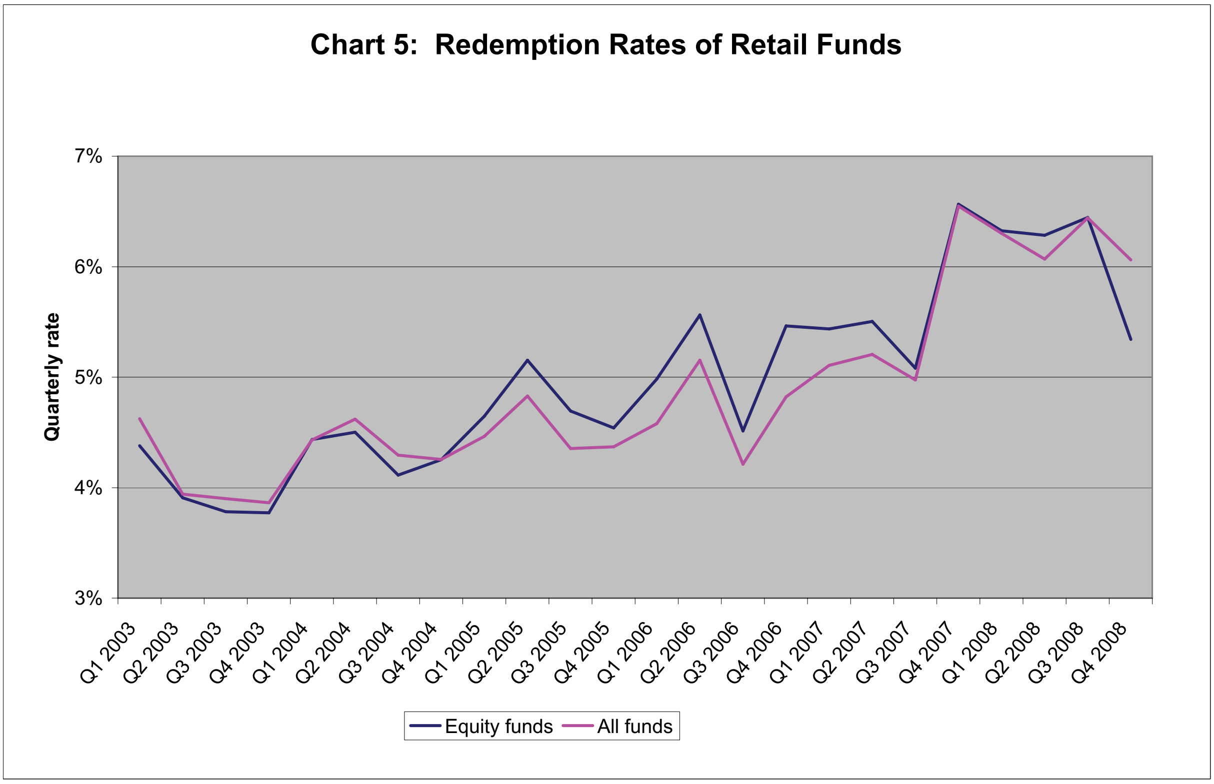


Chart 5 looks at the evolution of redemption rates for retail funds invested in equity funds over recent years. The figures in this chart are redemptions of retail funds for each quarter expressed as a percentage of funds under management in retail funds invested in equities – see p. 10 for full information on the calculation of these rates.

Calculating retail redemption rates

This requires comparable figures of re-purchases and funds under management. Unfortunately, there are no figures of retail funds under management that correspond with the figures that IMA collects in relation to retail re-purchases.

Redemption rates have, therefore been calculated instead for “retail funds” as defined in the calculation of fund company rankings shown on the IMA website. For this purpose “retail funds” are defined as those funds for which, over the preceding three years, at least one-third of gross sales were retail sales and the minimum lump sum subscription is less than or equal to £10,000.

For these retail funds, figures of re-purchases (both retail and institutional) and funds under management have been extracted and used to calculate redemption rates for retail funds.

Figures have been calculated back to 2005 on this basis – earlier figures use a more approximate calculation. Figures have been calculated without the re-allocation of fund of fund transactions.

The figures show that the redemption rate for retail equity funds has been on a rising trend in recent years, reaching its highest level in 2008. However, the redemption rate has been rising for all retail funds.

The rise across the board for all types of funds may reflect the greater ease with which funds may be traded, for example using on-line services, and the lower costs in terms of reduced initial charges where part or all of these charges are waived to new investors in funds. Recent market turbulence may also have encouraged investors to review their funds and make switches between funds.

Overall, net redemptions of retail equity funds in 2008 represented only 0.4 per cent of funds under management. And, by December 2008, despite the impact of the declining stockmarket on their valuation, funds under management in retail equity funds still accounted for 69 per cent of the total for all retail funds.

In conclusion, the figures for gross retail sales and re-purchases seem, therefore, to confirm that there is no flight from equity funds by investors. Redemption rates on retail equity funds have risen no faster than for funds generally and retail investors continue to put well over half of new investments or re-investments in funds into equity funds. Moreover, equity funds still account for over two-thirds of the funds under management in retail funds.

3. Investment in Funds in Previous Recessions

As noted earlier, net retail sales of funds, which totalled £3.9 billion in 2008, were the lowest since 1995. Investors were cautious in the face of the considerable economic uncertainty caused by the credit crunch. The third quarter of the year saw the UK enter its first recession since the early 1990s. This next section looks at net sales leading up to and through earlier recessions – and the evolution of net sales this time round.

Comparisons are made on the basis of total sales (retail and institutional) of all funds, since separate information was not collated by type of investor or asset type before 1992.

A commonly used definition of recession is two quarters of negative GDP growth which is the basis of analysis in this note. Assuming that a recession begins with the first of these two quarters, the last three recessions commenced in 1973 Q3, 1980 Q1 and 1990 Q3. The current recession commenced, on this basis, in 2008 Q3 though it should be noted that GDP growth was zero in 2008 Q2.

Comparing this recession with previous ones is bedevilled by some statistical difficulties – the change in the value of money over the last 40 years and the substantial growth in the size of the funds industry having the most impact. Table 1 compares the funds industry with the economy at the beginning of each of the recessions.

Table 1: Basic funds industry statistics for previous and current recessions

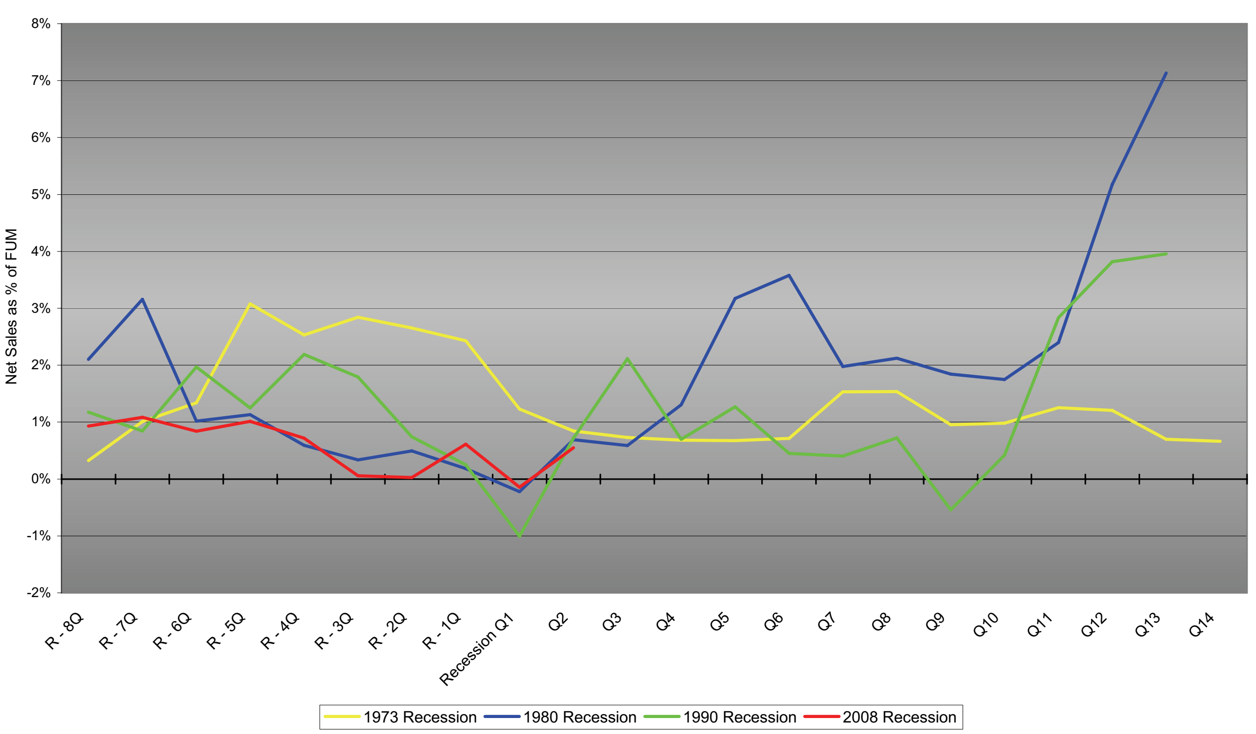
Recession commencing:	1973 Q3	1980 Q1	1990 Q3	2008 Q3
Funds under management (FUM)[1]	£2.5bn	£3.9bn	£57.3bn	£371.2bn
GDP at current prices[2]	£72.4bn	£215.2bn	£570.1bn	£1452.5bn
Inflation index (base 2003)[3]	12.2	33.2	68.5	113.0
FUM inflation adjusted (2003 prices)	£20.9bn	£11.9bn	£83.6bn	£328.2bn
FUM as % GDP	3.5%	1.8%	10.0%	25.6%

[1] FUM at end of quarter before recession commenced
[2] Annualised rate for quarter before recession commenced
[3] GDP deflator has been used

As will be seen from the table, funds under management at the beginning of this recession were around 150 times greater than the industry managed in 1973. Of course, inflation accounts for a lot of the increase – nevertheless funds under management are more than 15 times greater than 1973 even after taking account of inflation. Funds have also grown much faster than GDP over this period. Entering this recession, funds under management equated to more than a quarter of GDP compared with 3.5 per cent in 1973 and 10.0 per cent at the beginning of the last recession in 1990.

Since the start of the last recession, funds under management have had a compound average growth rate of 7.9 per cent in real terms compared with GDP growth on the same basis of 2.4 per cent.

Chart 6: Funds Sales in Four Recessions



The quarterly pattern of net sales leading into and through recessions is shown in Chart 6. In this chart, net sales are shown relative to the funds under management at the beginning of each respective recession. Figures in the chart end in the last quarter when GDP was still below its level in the last quarter before the recession commenced. For all the recessions covered, it took more than three years for GDP to recover to its peak quarterly level before the recession, though output was of course rising in the latter part of the three year periods.

The chart shows no decisive pattern that runs across the recessions though there are some possible broad trends. First, sales were on a declining trend ahead of both the 1980 and 1990 recessions. Second, in both these recessions, net sales reached their lowest point in the first quarter of the recession when they were, in both cases, negative. Third, net investment was mostly positive during recessions, climbing strongly towards the end of the 1980 and 1990 recessions when GDP was rising back towards its level immediately before the recession.

The biggest drop in GDP – peak before the recession to trough – was 4.6 per cent during the recession that commenced in 1980. This occurred in the fifth quarter of the recession – 1981 Q1. This was also the recession that saw the strongest expansion in funds investment as the recession ended.

The early 1990s recession saw the smallest drop in GDP – 2.5 per cent from peak to trough – with low sales during 1992 turning negative in the third quarter when the UK left the European Exchange Rate Mechanism. GDP started to grow in the same quarter whilst net investment into funds started to grow very strongly two quarters later.

The earlier recession starting in 1973 was different in character – net investment was strong ahead of the recession against a background of very high economic expansion – GDP grew 7.7 per cent in the year to the second quarter of 1973. However, net investment did not recover at the end of the recession, perhaps reflecting a weaker recovery in economic growth compared with the later recessions.

Every recession is different and the course of earlier recessions may be no guide to what will happen this time. Moreover, this recession is quite different from earlier ones in as much as interest rates have been reduced as a part of the policy response to the credit crisis, whereas in the recessions in the early 1980s and 1990s interest rates were raised to deal with inflationary pressures.

Yearly figures of net sales in cash terms leading into and through each of the recessions are shown in Table 2 below.

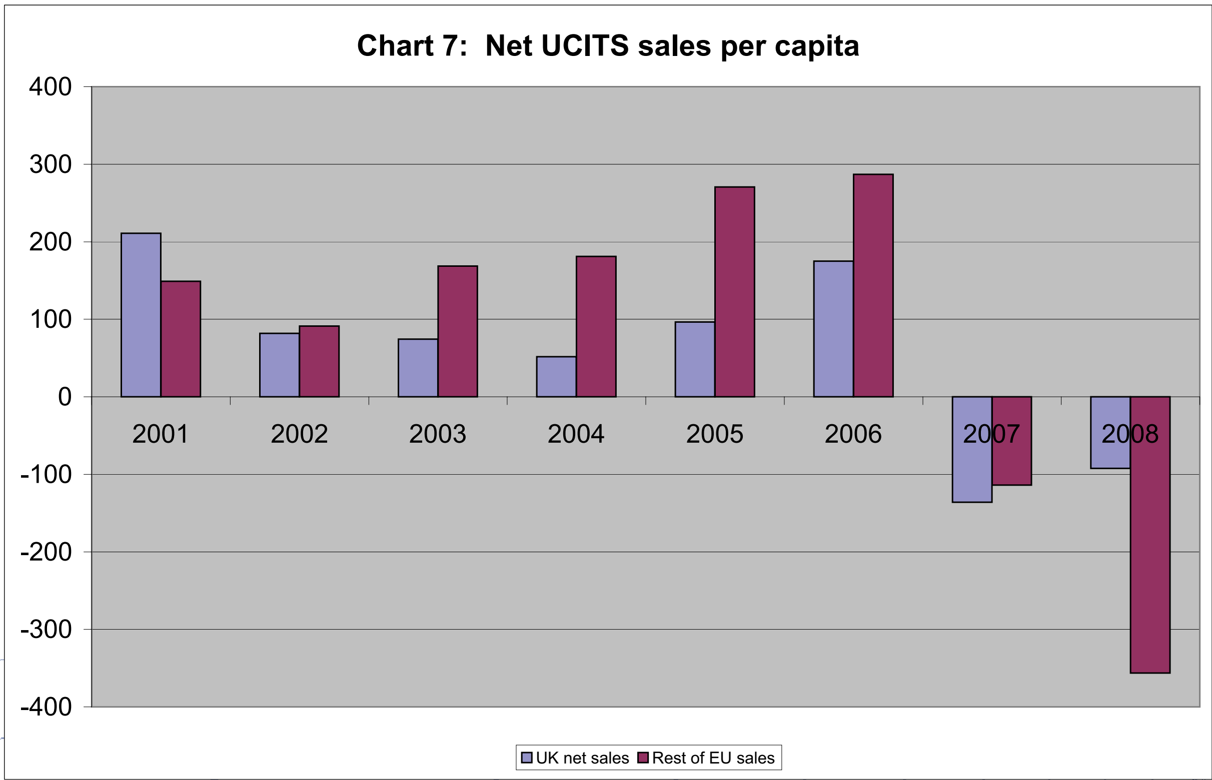
Table 2: Net sales through successive recessions £mn 2003 prices

Recession commencing:	1973 Q3	1980 Q1	1990 Q3	2008 Q3
Second preceding year	£1,200mn	£878mn	£4,375mn	£12,682mn
Immediately preceding year	£2,181mn	£191mn	£4,159mn	£4,637mn
First recession year	£727mn	£280mn	£2,110mn	
Next year	£930mn	£1,287mn	£2,380mn	
Following year	£916mn	£1,324mn	£5,463mn	

4. European trends

This section looks at the experience of equity funds domiciled in the UK in recent years compared to those domiciled in the rest of Europe, based on figures from the European Fund and Asset Management Association for UCITS funds. At the end of 2007, the UK share of EU domiciled UCITS funds was 10.5 per cent – somewhat less than its share of the EU's population at 12.2 per cent in the same year or its GDP share of 16.6 per cent. However, the funds market is quite different in the UK compared with other countries, with European money market funds taking monies that might often have been invested in bank deposits in the UK.

Another big difference is that equity funds account for around two-thirds of funds under management in the UK, but only around a third on average for the rest of Europe. The retail distribution of funds is also different, taking place in the UK mainly through independent financial advisers (IFAs), whereas, in most of the rest of Europe, distribution is through banks.



It is, nevertheless, interesting to look at comparative trends in investment into equity funds in recent years in the UK in comparison with the rest of Europe. Chart 7 shows figures of net sales of UCITS equity funds in the UK and the rest of the European Union on a per capita basis. The figures relate to all investments into equity funds – both retail and institutional in order to enable a comparison with the rest of Europe.

The chart suggests that the rest of Europe has been “catching up” with the UK in terms of its enthusiasm for equity funds – in most recent years net investment into equity funds per capita was lower in the UK than the rest of Europe. Whilst net sales of equity funds were higher in the UK than the rest of Europe in 2001, UK net sales then fell behind the rest of Europe. Indeed UK net sales of such funds fell further and recovered later than in the rest of Europe – after falling to €91 per capita in 2002 net sales recovered strongly in Europe whilst they continued to fall to a low point of €52 per capita in the UK in 2004 before recovering. Net sales of equity funds then peaked for both areas in 2006 but with net sales reaching €175 per capita in the UK, around three-fifths of the average €287 seen in the rest of the EU.

In 2007, net investment turned negative both in the UK and the rest of Europe – a trend that continued during 2008 when net redemptions of equity funds in Europe were €356 per capita and represented around 6.6 per cent of funds under management at the beginning of the year, whereas UK net redemptions were €92 per capita and represented around 1.0 per cent of funds under management on the same basis. This shows UK equity investors more resilient in face of economic uncertainty – indeed in the final quarter of 2008, UK investors made net purchases of equity funds whilst there was a net outflow for Europe as a whole.

Table 3: Net investment into equity funds, € billions

	UK	Rest of EU[1]	EU
2001	12.4	63.3	75.7
2002	4.8	38.8	43.6
2003	4.4	72.0	76.4
2004	3.1	77.7	80.8
2005	5.8	116.6	122.4
2006	10.6	124.1	134.7
2007	-8.3	-49.5	-57.7
2008	-5.7	-155.5	-161.2

[1] Excludes guaranteed equity funds in three countries.

As already noted, UK retail investors' net investment into funds was much more diversified during the 2000s than the 1990s with various assets taking the biggest share of net investment in recent years – bonds, property and balanced funds each in turn. This has contributed, alongside falls in stockmarket values, to a decline in UK funds under management in equity funds (retail and institutional combined) from 82 per cent of total funds at the beginning of 2001 to 68 per cent by the end of 2007 and 62 per cent at the end of last year – these figures are based on IMA's standard statistics.

Nevertheless, the share of equity funds in total funds under management remains substantially higher than the comparative figure for Europe as a whole (excluding Ireland) of 33 per cent at the end of 2007 – and confirms the continued importance that UK investors attach to a strong weighting for equities in their fund portfolios, albeit with some greater diversification than in the past. At the end of 2007, funds under management in UK domiciled equity funds equated to €6,962 per capita, an increase of 29 per cent since the end of 2000, compared with €4,084 in the rest of Europe, up 43 per cent over the same period.

5. Conclusion

Last year was the first year, since 1992, in which UK retail investors took more out of equity funds than they put in. It was also the most difficult market for investors in equities for a long time as the credit crisis developed and most stock and fund prices fell. Even so, net redemptions of equity funds were very small in relation to the size of the funds that the industry managed on retail investors' behalf.

Nevertheless, last year's negative net retail sales of equity funds could be seen as the continuation of a trend in recent years for investors to put less into equity funds and more into funds investing in other assets. In the 1990s well over half of net investment in funds went into equities whereas the figure has been well below half during most of this decade.

Retail investors continue, however, to keep most of their fund investments in equity funds – more than two-thirds of retail funds were equity funds at the close of last year. Moreover, in terms of gross retail sales of funds, well over half still went into equity funds last year despite the unusually uncertain economic climate.

Compared with other European investors, UK investors in equity funds certainly held their nerve last year – with the UK net redemption rate a small fraction of that in the rest of Europe. And UK investors continue to hold a much higher proportion of their fund portfolios in equities than their continental neighbours.

Overall, therefore, UK investors in funds seem to be keeping faith with equities though they have invested in a greater variety of asset types in recent years.

Appendix 1

Definition of Assets

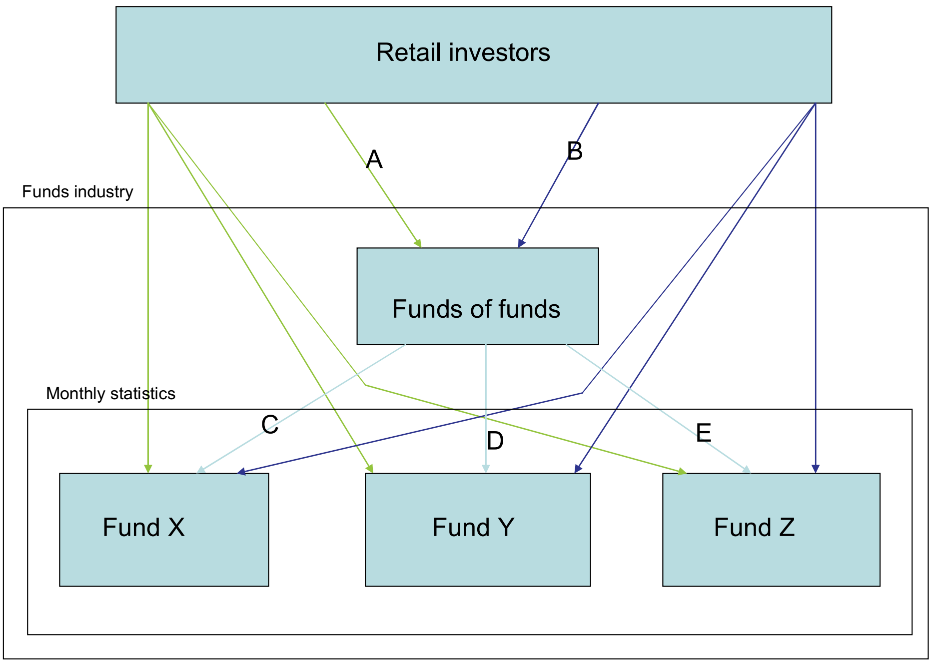
Asset	IMA sectors
Equities	Europe excluding UK Europe including UK European Smaller Companies Asia Pacific including Japan Asia Pacific excluding Japan Global Emerging Markets Global Growth Japan Japanese Smaller Companies North America North American Smaller Companies Specialist Technology and Communications UK All Companies UK Equity Income UK Smaller Companies
Property	Property
Bonds	Global Bonds £ Strategic Bond £ Corporate Bond UK Gilt UK Index Linked Gilt £ High Yield UK Zeros
Balanced	Active Managed Balanced Managed Cautious Managed UK Equity and Bond Income
Money Market	Money Market
Other	Guaranteed Protected Funds Pensions Unclassified Sector Absolute Return – UK

Appendix 2

Note on Asset Breakdown of Investor Choices

IMA's monthly statistics do not give a complete view of the sectoral and asset breakdown of investors' choices. This reflects their treatment of funds of funds (FOFs) in order to avoid potential double counting.

The diagram below illustrates flows from investors into the funds industry – with retail investors investing in FOFs as well as in funds directly (eg X,Y,Z). In the data that we collect from fund managers, sales to FOFs by funds other than FOFs (flows C,D and E) are subsumed indistinguishably within other reported sales by these funds. However, to count C, D and E as well as A and B would involve double counting since C,D and E are internal transactions to the funds industry and entirely funded by A and B.



Thus the monthly figures show the monies that flow directly into the box headed "monthly statistics" whereas, from investors' viewpoint, their investment in the funds industry is represented by the flows into the box headed "funds industry". For the latter case, A and B would be counted and C, D and E discounted.

For the analysis in this paper, to look at the asset choices that retail investors have made, IMA's fund sales statistics have been re-arranged to include A and B and discount an estimate of C, D and E. This re-arrangement allows the full extent of investors' choice of balanced funds to be shown. These funds accounted for 65 per cent of funds under management (FUM) in FOFs at the end of 2008, compared with only 8 per cent of FUM in funds other than FOFs.

Excluding FOFs, which have increased substantially over the last five years, from our main statistics gives, therefore, an incomplete view of investors' choices. Investors' money put into FOFs may have ended up in equities and bonds but this was a decision made on their behalf – their choice was a balanced investment. The re-adjustment gives a much better picture of investors' choices though it cannot be completely accurate because, whilst IMA collects information from FOFs that describes flows A and B, it is necessary to make an estimate of flows C,D and E. This has been made on the assumption that, overall, balanced FOFs allocate net investments they receive from retail investors across asset types in line with the industry average for funds under management in funds other than balanced ones. Alternative assumptions about the investments of FOFs would vary the results to some extent.

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