CHAPTER II

SUPERVISION OF UNDERTAKINGS FOR COLLECTIVE INVESTMENT

1. DEVELOPMENTS IN THE UCIS SECTOR IN 2004

1.1. Key trends

In 2004, the sector of undertakings for collective investment (UCIs) saw a positive development as regards the number of UCIs registered on the official list as well as the net assets managed. 1,968 UCIs were registered on the official list as at 31 December 2004 against 1,870 at year-end 2003 (+5.2%). The net assets managed amounted to EUR 1,106.2 billion at the end of the year, against EUR 953.3 billion twelve months earlier (+16.0%).

Development in the number and net assets of UCIs

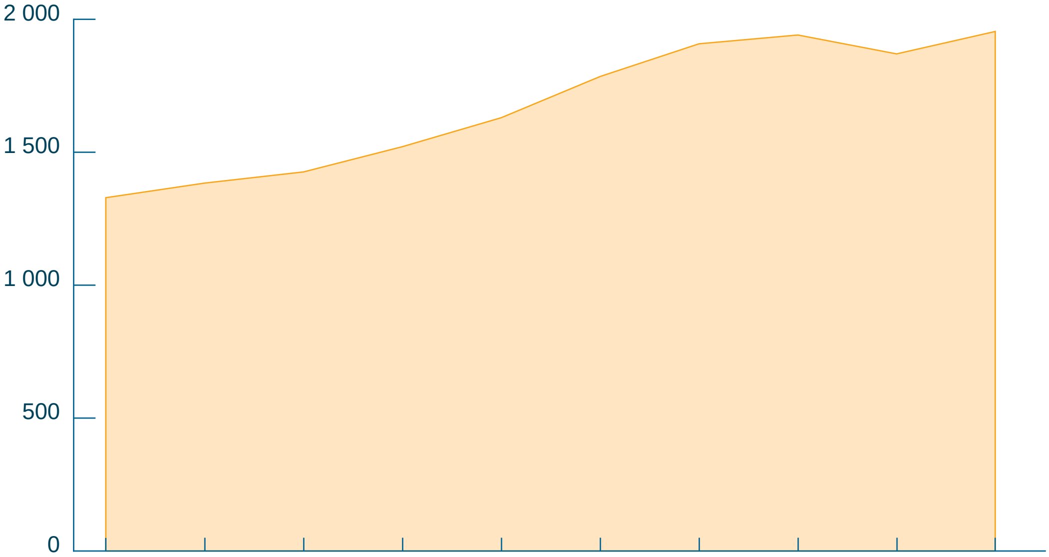
in billion EUR

Year	Number of UCIs	Registrations on the list	With-drawals from the list	Net variation	In %	Net assets	Net issues	Variation of net assets	In %	Average net assets by UCI
1995	1,329	166	120	46	3.6	261.8	2.0	14.3	5.8	0.197
1996	1,384	182	127	55	4.1	308.6	22.5	46.8	17.9	0.223
1997	1,426	193	151	42	3.0	391.8	50.1	83.2	26.9	0.275
1998	1,521	234	139	95	6.7	486.8	84.1	95.0	24.3	0.320
1999	1,630	265	156	109	7.2	734.5	140.1	247.7	50.9	0.451
2000	1,785	278	123	155	9.5	874.6	168.1	140.1	19.1	0.490
2001	1,908	299	176	123	6.9	928.4	121.7	53.8	6.2	0.487
2002	1,941	222	189	33	1.7	844.5	57.3	-83.9	-9.0	0.435
2003	1,870	175	246	-71	-3.7	953.3	82.6	108.8	12.9	0.510
2004	1,968	202	104	98	5.2	1,106.2	113.7	152.9	16.0	0.562

After 2002 and 2003 in the course of which the development of the main financial markets and global economy required promoters of UCIs to be able to re-orientate and anticipate, the year 2004 was characterised by the relaunch of a certain number of UCI products.

The number of UCIs registered on the official list thus increased by 98 entities. On the one hand, the number of newly registered UCIs is again increasing with 202 UCIs. On the other hand, the number of withdrawals reached only 104 entities, which is the lowest number of withdrawals recorded for years. Indeed, the major restructurings and reorganisations seem to be completed. Among these 104 UCIs, 88 have been liquidated and 16 withdrew following takeover by merger.

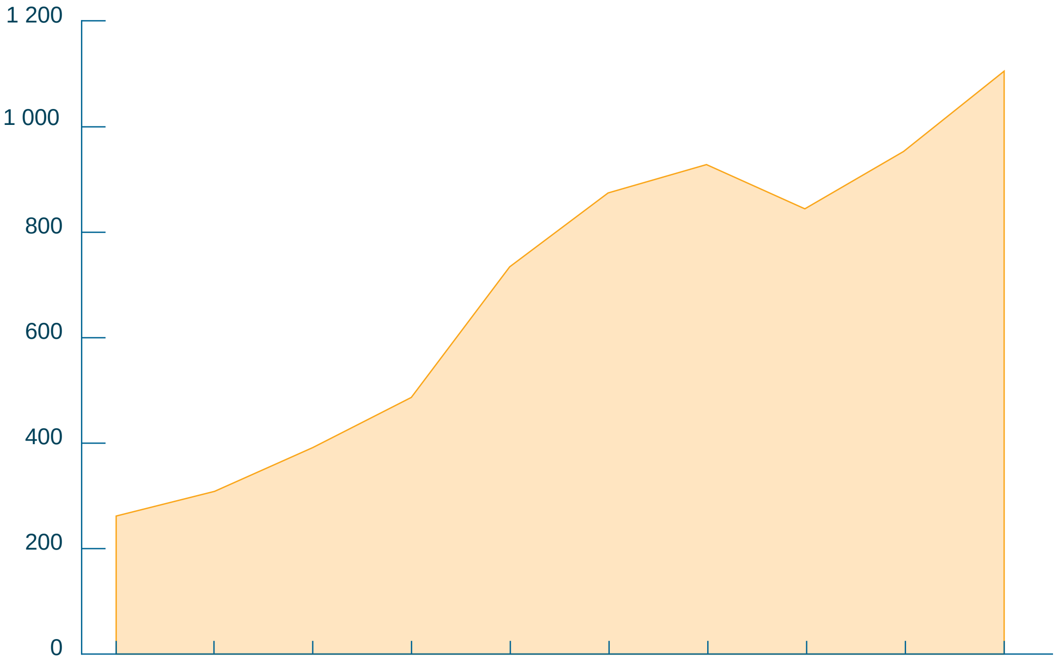
Development in the number of UCIs



	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Units	1,329	1,384	1,426	1,521	1,630	1,785	1,908	1,941	1,870	1,968

A moderate increase in the main financial stock exchanges, as well as the regular influx of new capital led total net assets of Luxembourg UCIs to climb to EUR 1,106.2 billion as at 31 December 2004.

Development in UCI net assets (in billion EUR)



	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Net assets	261.8	308.6	391.8	486.8	734.5	874.6	928.4	844.5	953.3	1,106.2

The breakdown of UCIs across *fonds communs de placement* (FCP), *sociétés d'investissement à capital variable* (SICAV) and *sociétés d'investissement à capital fixe* (SICAF) reveals that at 31 December 2004, FCPs were still the most prevalent legal form with 1,036 entities out of a total of 1,968 UCIs in operation, against 913 entities operating as SICAVs and 19 as SICAFs.

Breakdown of UCIs by legal status

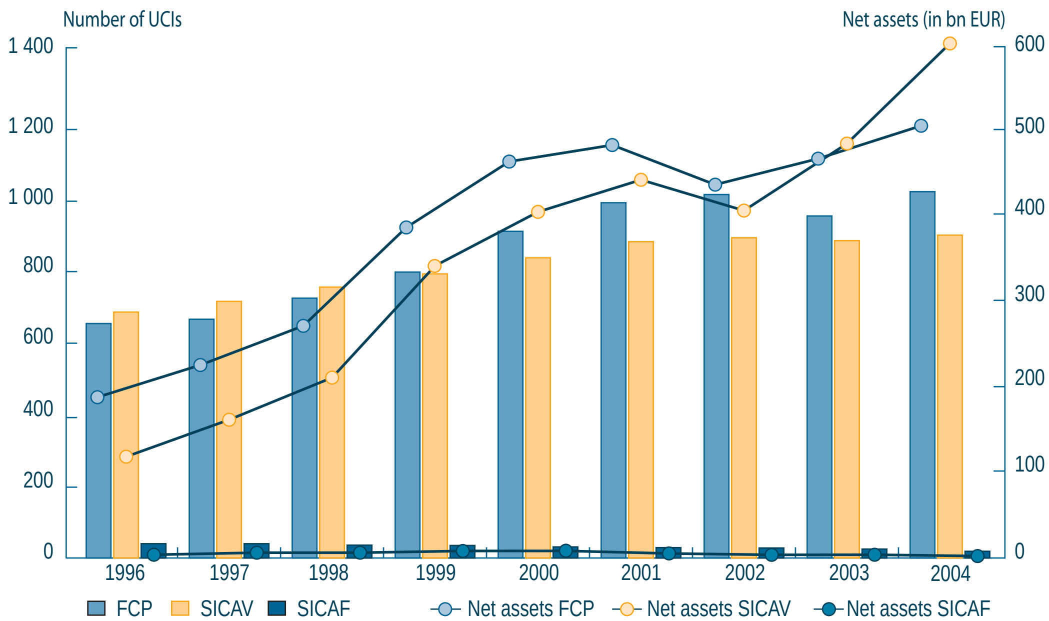
in billion EUR

	FCPs		SICAVs		SICAFs		Total	
	Number	Net assets	Number	Net assets	Number	Net assets	Number	Net assets
1995	622	164.7	662	94.2	45	2.9	1,329	261.8
1996	656	187.4	688	117.9	40	3.3	1,384	308.6
1997	668	225.0	718	161.1	40	5.7	1,426	391.8
1998	727	270.8	758	210.3	36	5.7	1,521	486.8
1999	800	385.8	795	341.0	35	7.7	1,630	734.5
2000	914	462.8	840	404.0	31	7.8	1,785	874.6
2001	994	482.1	885	441.5	29	4.8	1,908	928.4
2002	1,017	435.8	896	405.5	28	3.2	1,941	844.5
2003	957	466.2	888	483.8	25	3.3	1,870	953.3
2004	1,036	504.0	913	600.3	19	1.9	1,968	1,106.2

At year-end 2004, FCP net assets totalled EUR 504.0 billion, representing 45.6% of the UCI total net assets. SICAV net assets increased to EUR 600.3 billion, representing 54.3% of the total net assets of UCIs, whereas SICAF net assets stayed below EUR 2.0 billion.

While FCP net assets slightly exceeded SICAV net assets during many years, SICAV net assets have exceeded those of FCPs since 2003. This trend became more noticeable in 2004, SICAV net assets having grown by 24.1%.

Breakdown of UCIs by legal status



The following table illustrates the spread of UCIs depending on whether they fall within the scope of Part I or Part II of the law of 30 March 1988 as amended, Part I or II of the law of 20 December 2002 as amended or the law of 19 July 1991 concerning UCIs reserved for institutional investors.

Breakdown of UCIs according to Parts I and II of the law and institutional UCIs

in billion EUR

	Part I		Part II		Institutional UCIs	
	Number	Net assets	Number	Net assets	Number	Net assets
1995	952	171.9	335	88.1	42	1.8
1996	988	209.2	353	96.2	43	3.2
1997	980	280.4	367	102.2	79	9.2
1998	1,008	360.2	400	111.0	113	15.6
1999	1,048	564.2	450	137.0	132	33.3
2000	1,119	682.0	513	153.3	153	39.3
2001	1,196	708.6	577	178.2	135	41.6
2002	1,206	628.9	602	171.6	133	44.0
2003	1,149	741.1	583	169.3	138	42.9
2004	1,303	929.3	516	131.2	149	45.7

UCIs that fall under Part I of the law of 30 March 1988 as amended and the law of 20 December 2002 as amended respectively are those which comply with the provisions of the Community Directive on UCITS and which can therefore benefit from the marketing facilities provided. Part II encompasses all the other UCIs which pool funds from the public, whereas institutional funds are UCIs whose securities are not intended to be placed with the public. In terms of the regulatory provisions and especially the applicable restrictions regarding investment policies, they are nonetheless very similar to the UCIs subject to Part II of the law of 30 March 1988 as amended.

In accordance with article 134 of the law of 20 December 2002 as amended, all UCIs under Part II of the law of 30 March 1988 as amended fall *ipso jure* under the provisions of the law of 20 December 2002 as amended since 13 February 2004. From that date onwards, UCIs under Part II of the law of 30 March 1988 as amended do not exist anymore.

The law of 20 December 2002 as amended provides for an extension of the investment policy of UCITS under Part I of the law. Within the scope of their main policy, UCITS can, on certain conditions, invest notably in money market instruments, acquire parts of UCITS and/or other UCIs, invest their assets in deposits and/or derivatives.

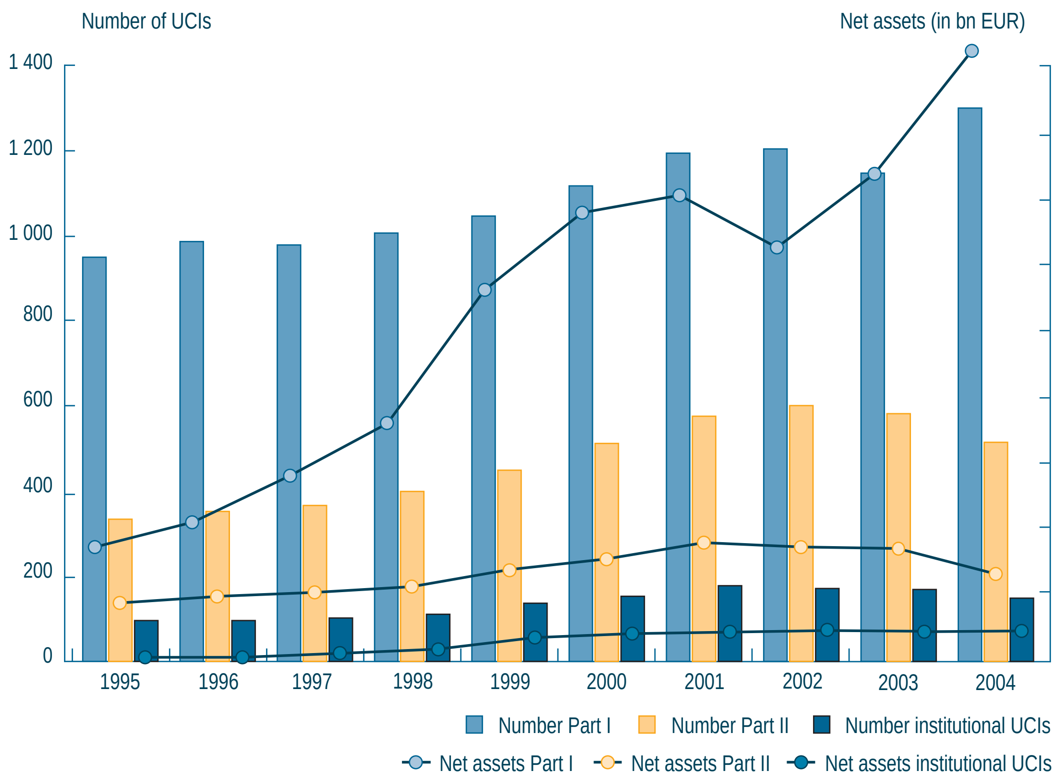
96 UCIs benefited from the provisions of the law of 20 December 2002 as amended to change from Part II of the former law into a UCI under Part I of the new law.

Breakdown of UCIs and their assets according legal status and law applicable

Situation as at 31 December 2004	Number of UCIs				Net assets (in bn EUR)			
	FCP	SICAV	Others	Total	FCP	SICAV	Others	Total
Part I (law 1988)	425	427	4	856	314.636	413.000	0.221	727.857
Part I (law 2002)	326	121	0	447	87.333	114.126	0.000	201.459
Part II (law 2002)	198	305	13	516	71.864	57.670	1.619	131.153
Institutional UCIs	87	60	2	149	30.124	15.520	0.109	45.753
Total	**1,036**	**913**	**19**	**1,968**	**503.957**	**600.316**	**1.949**	**1,106.222**

66.2% of UCIs active as at 31 December 2004 were EU UCITS governed by Part I of the abovementioned laws and 26.2% were other UCIs not allowed, by virtue of a Community law, to marketing in the other EU countries. Institutional UCIs represented 7.6% of 1,968 Luxembourg UCIs. UCIs under Part I, those under Part II and institutional UCIs record 84.0%, 11.9% and 4.1% respectively of net assets.

Breakdown of UCIs according to Parts I and II of the law and institutional UCIs



The following table compares the development in 2004 of the number of UCIs and net assets according to legal status as well as to the scope of the laws.

Breakdown of UCIs according to Parts I and II of the law and institutional UCIs

	2003				2004				Variation 2003/2004			
Number of UCIs	FCP	SICAV	SICAF	Total	FCP	SICAV	SICAF	Total	FCP	SICAV	SICAF	Total
Part I	611	532	6	1,149	751	548	4	1,303	22.91%	3.01%	-33.33%	13.40%
Part II	260	306	17	583	198	305	13	516	-23.85%	-0.33%	-23.53%	-11.49%
Institutional UCIs	86	50	2	138	87	60	2	149	1.16%	20.00%	0.00%	7.97%
Total	**957**	**888**	**25**	**1,870**	**1,036**	**913**	**19**	**1,968**	**8.25%**	**2.82%**	**-24.00%**	**5.24%**
Net assets *(in bn EUR)*	FCP	SICAV	SICAF	Total	FCP	SICAV	SICAF	Total	FCP	SICAV	SICAF	Total
Part I	321.419	418.316	1.361	741.096	401.969	527.126	0.221	929.316	25.06%	26.01%	-83.76%	25.40%
Part II	114.294	53.178	1.842	169.314	71.864	57.670	1.619	131.153	-37.12%	8.45%	-12.11%	-22.54%
Institutional UCIs	30.509	12.265	0.118	42.892	30.124	15.520	0.109	45.753	-1.26%	26.54%	-7.63%	6.67%
Total	**466.222**	**483.759**	**3.321**	**953.302**	**503.957**	**600.316**	**1.949**	**1,106.222**	**8.09%**	**24.09%**	**-41.31%**	**16.04%**

As far as Part I of the law of 1988 and that of 2002 is concerned, the number of UCIs rose by 13.4% as compared to the year-end of the previous year. Net assets recorded an even stronger growth (+25.4%). On the other hand, the number as well as the net assets of UCIs under Part II decreased (-11.5% and -22.5% respectively), owing, among other things, to the widening of the scope of application of Part I of the law of 20 December 2002 as amended.

As regards institutional UCIs, their number increased by eleven entities and their net assets recorded a growth rate of 6.7% in 2004.

In 2004, UCIs under part I of the law of 30 March 1988 as amended or the law of 20 December 2002 as amended, mainly UCIs in the form of SICAV, record 87.6% of net issues. UCIs under Part II of the law of 2002 showed net issues totalling EUR 13.7 billion.

Breakdown of net issues according to Parts I and II of the law and institutional UCIs

in million EUR

	FCP	SICAV	SICAF	Total
Part I	20,973	78,798	-198	99,573
Part II	3,792	9,948	-36	13,704
Institutional UCIs	-1,883	2,337	0	454
Total	**22,882**	**91,083**	**-234**	**113,731**

1.2. Developments in umbrella funds

Following the slowdown recorded in 2003, the number of umbrella funds started to grow again in 2004. This structure, which brings together under the same legal entity several subfunds centered on investment in a given currency, geographical region or economic sector, enables investors to re-focus their investment without having to switch to another investment fund. Within a single umbrella fund, many promoters offer a range of subfunds investing in equities, debt securities, money market paper or warrants, enabling the investor to benefit from the best outlook for available returns. The structure of umbrella funds also enables promoters to create new subfunds and to manage a collective pool of assets which would not normally be large enough for separate management in a traditionally structured fund.

Umbrella funds

in billion EUR

Year	Total number of UCIs	Number of umbrella funds	As a % of total	Number of subfunds	Average number of subfunds per umbrella fund	Total number of entities	Net assets of umbrella funds	As a % of total	Net assets per subfund
1995	1,329	573	43.1	2,841	4.96	3,597	174.4	66.6	0.061
1996	1,384	632	45.7	3,187	5.04	3,939	222.0	71.9	0.070
1997	1,426	711	49.9	3,903	5.49	4,618	296.1	75.6	0.076
1998	1,521	797	52.4	4,454	5.59	5,178	384.3	78.9	0.086
1999	1,630	913	56.0	5,119	5.61	5,836	604.9	82.4	0.118
2000	1,785	1,028	57.6	6,238	6.07	6,995	739.1	84.5	0.118
2001	1,908	1,129	59.2	6,740	5.97	7,519	797.8	85.9	0.118
2002	1,941	1,190	61.3	7,055	5.93	7,806	724.8	85.9	0.103
2003	1,870	1,180	63.1	6,819	5.78	7,509	820.9	86.1	0.120
2004	1,968	1,226	62.3	7,134	5.82	7,876	962.8	87.0	0.135

As at 31 December 2004, 1,226 out of 1,968 UCIs, i.e. almost 60%, have adopted a multiple subfund structure.

The average number of subfunds per undertaking decreased to 5.82 as at 31 December 2004. However, this figure conceals a wide dispersion between the smallest and largest UCIs.

As at 31 December 2004, umbrella fund net assets totalled EUR 962.8 billion, i.e. a substantial increase of 17.3% compared with the previous year-end. 87% of total net assets are managed within umbrella funds.

1.3. Valuation currencies used

With regard to the valuation currencies used, the distribution remains almost the same as in the previous year. Most entities (5,260 out of a total of 7,876) are denominated in euros, followed by those in US dollars (1,807) and those in Swiss francs (241).

In terms of net assets, the entities denominated in euros encompass EUR 717.778 billion of a total EUR 1,106.222 billion, ahead of entities expressed in US dollars (EUR 264.480 billion) and Swiss francs (EUR 51.677 billion).

1.4. UCIs' investment policy

Net assets managed by UCIs or umbrella funds invested in fixed-income transferable securities amounted to EUR 557.880 billion as at 31 December 2004 (i.e. 50.43% of total net assets), followed by the funds invested in variable-yield securities (EUR 371.087 billion or 33.55%), funds of funds (EUR 85.023 billion or 7.69%) and diversified funds (EUR 77.357 billion or 6.99%).

Breakdown of net assets of UCIs according to their investment policy

Situation as at 31 December 2004	*(in bn EUR)*
Fixed-income transferable securities[1]	557.880
Variable-yield transferable securities[2]	371.087
Mixed securities	77.357
Fund of funds	85.023
Cash	6.994
Real estate	3.130
Futures, options, warrants	4.605
Other assets	0.146
Total	1,106.222

The following table illustrates, per quarter, the annual flow of subscriptions and redemptions broken down into the main investment policies:

1 - Fixed-income transferable securities (excluding money market instruments and short-term securities)

2 - Variable-yield securities (equities)

3 - Mixed transferable securities

4 - Liquid assets, money market instruments and other short-term securities

5 - Other

in million EUR

	1st quarter 2004			2nd quarter 2004			3rd quarter 2004			4th quarter 2004			Total		
Pol.	subscr.	red.	n. iss.	subscr.	red.	n. iss.	subscr.	red.	n. iss.	subscr.	red.	n. iss.	subscr.	red.	n. iss.
1	49,387	36,990	12,397	43,260	36,965	6,295	35,971	27,754	8,217	52,297	39,145	13,152	180,915	140,854	40,061
2	61,725	42,895	18,830	56,645	45,348	11,297	42,513	35,322	7,191	53,931	43,480	10,451	214,814	167,045	47,769
3	8,350	5,900	2,450	5,293	5,023	270	6,363	4,719	1,644	9,620	7,317	2,303	29,626	22,959	6,667
4	263,437	261,383	2,054	244,608	246,334	-1,726	163,434	167,781	-4,347	206,980	204,130	2,850	878,459	879,628	-1,169
5	12,378	8,618	3,760	19,197	9,826	9,371	11,431	9,200	2,231	13,716	8,675	5,041	56,722	36,319	20,403
Total	**395,277**	**355,786**	**39,491**	**369,003**	**343,496**	**25,507**	**259,712**	**244,776**	**14,936**	**336,544**	**302,747**	**33,797**	**1,360,536**	**1,246,805**	**113,731**

[1] Including EUR 182.515 billion in money market instruments and other short-term securities.

[2] Including EUR 2.221 billion in non listed securities and EUR 0.436 billion in venture capital.

The first quarter of 2004 was characterised by an upturn in net issues, which then decreased during the second and third quarters of the year but recovered during the fourth. The most interest was registered for UCIs investing mainly in shares and bonds.

UCIs' investment policy

Situation as at 31 December 2004	Number of entities	Net assets *(in bn EUR)*	Net assets *(in %)*
UCITS subject to Part I			
Fixed-income transferable securities[3]	2,151	499.282	45.1
Variable-yield transferable securities	2,616	349.245	31.6
Mixed transferable securities	796	69.716	6.3
Fund of Funds	258	10.413	0.9
Cash	1	0.660	0.1
UCITS subject to Part II[4]			
Fixed-income transferable securities[5]	267	41.731	3.8
Variable-yield transferable securities	152	6.533	0.6
Mixed transferable securities	87	4.505	0.4
Fund of Funds	810	62.763	5.7
Cash	113	6.335	0.6
UCITS subject to Part II[6]			
Non listed transferable securities	14	1.835	0.2
Venture capital	17	0.424	0.0
Leveraged	2	0.054	0.0
Other UCIs subject to Part II			
Real estate	8	2.280	0.2
Futures and/or options	62	4.547	0.4
Other securities	4	0.146	0.0
Institutional UCIs			
Fixed-income transferable securities[7]	201	16.867	1.5
Variable-yield transferable securities	100	12.598	1.1
Mixed transferable securities	50	3.136	0.3
Non listed transferable securities	5	0.386	0.0
Venture capital	1	0.012	0.0
Fund of Funds	144	11.847	1.1
Real estate	14	0.850	0.1
Futures and/or options	3	0.057	0.0
TOTAL	**7,876**	**1,106.222**	**100.0**

[3] Including EUR 154.071 billion in money market instruments and other short-term securities (284 entities).

[4] UCITS excluded from Part I of the law of 20 December 2002 pursuant to article 3, points 1 to 3, i.e. UCITS disallowing any repurchase, not promoted in the EU or only sold to individuals in third-party countries outside the EU.

[5] Including EUR 26.570 billion in money market instruments and other short-term securities (110 entities).

[6] UCITS excluded from Part I of the law of 20 December 2002 pursuant to article 3, point 4, i.e. UCITS under one of the categories established by circular CSSF 03/88 owing to their investment and loan policy.

[7] Including EUR 1.874 billion in money market instruments and other short-term securities (16 entities).

1.5. Development in guarantee-type UCIs

Given the fluctuations inherent in financial markets, guarantee-type UCIs aim to offer investors greater security than that offered by traditional collective management products. According to the investment policy pursued by the funds in question, the guarantee ensures that the subscriber is reimbursed either a proportion of the capital invested or is fully reimbursed his initial investment or even receives a return on his investment at the end of one or several pre-determined periods.

In the course of 2004, the number of guarantee-type UCIs rose from 76 to 90 and the number of entities increased from 166 to 207.

As at 31 December 2004, the 207 entities comprise 16 entities guaranteeing investors only a proportion of the invested capital, 86 entities guaranteeing repayment in full of the invested capital (money-back guarantee) and 105 entities which offer their investors a surplus as compared to the initial price.

UCIs offering their investors a surplus compared to their initial outlay are thus dominant. These funds generally track a stock market index and, through the use of derivatives, enable investors to participate to some extent in the growth of this index.

Net assets of guarantee-type UCIs increased by EUR 0.52 billion to EUR 21.41 billion in 2004, i.e. an increase of 2.5%. It is also worth noting that guarantee-type UCIs created by German promoters alone account for 92.4% of the total net assets of guarantee-type UCIs.

Development in guarantee-type UCIs

	Number of UCIs	Number of economic entities	Net assets *(in bn EUR)*
1995	43	54	5.58
1996	52	67	7.08
1997	70	90	11.47
1998	86	99	15.00
1999	85	116	17.13
2000	79	119	14.30
2001	74	115	17.09
2002	75	151	17.40
2003	76	166	20.89
2004	90	207	21.41

1.6. Promoters of Luxembourg UCIs

The breakdown of Luxembourg UCIs according to geographic origin of their promoters highlights the multitude of countries represented in the financial centre. Promoters of Luxembourg UCIs spread over 43 countries. The main countries actively promoting UCIs in Luxembourg are Switzerland, the United States, Germany, Italy and Belgium.

Origin of promoters of Luxembourg UCIs as at 31 December 2004

Country	Net assets *(in bn EUR)*	In %	Number of UCIs	In %	Number of entities	In %
Switzerland	234.364	21.2%	260	13.2%	1,444	18.3%
United States	198.430	17.9%	115	5.9%	697	8.9%
Germany	186.048	16.8%	752	38.2%	1,331	16.9%
Italy	131.805	11.9%	73	3.7%	649	8.2%
Belgium	96.447	8.7%	132	6.7%	1,118	14.2%
United Kingdom	82.695	7.5%	99	5.1%	556	7.1%
France	64.264	5.8%	170	8.6%	730	9.3%
Japan	23.604	2.2%	67	3.4%	158	2.0%
Netherlands	22.880	2.1%	43	2.2%	246	3.1%
Sweden	21.427	1.9%	36	1.8%	151	1.9%
Others	44.258	4.0%	221	11.2%	796	10.1%
Total	**1,106.222**	**100.0%**	**1,968**	**100.0%**	**7,876**	**100.0%**

There have been no major changes as compared to 2003. The ratios remained almost the same as regards the number of UCIs as well as the number of entities per country of origin of the promoter.

1.7. Marketing of Luxembourg UCIs and marketing of foreign UCIs in Luxembourg

Owing to the small size of the domestic market, the vast majority of Luxembourg UCIs are marketed outside Luxembourg. To this end, UCIs governed by Part I of the law of 30 March 1988 as amended and Part I of the law of 20 December 2002 as amended respectively, are authorised, based on a CSSF registration certificate, to market their units/shares in other EU countries without having to follow a further approval procedure with the competent authorities.

Until 31 December 2004, the CSSF had delivered a total of 3,321 Directive compliance certificates for registered UCITS, representing an increase of 467 compared with 31 December 2003, and an increase of 411 compared with 31 December 2002. The certificates issued by the CSSF were intended for 1,165 different UCIs (2003: 1,020 UCIs, 2002: 1,068 UCIs, 2001: 997 UCIs), which means that 89% of UCIs falling under Part I of the law of 30 March 1988 as amended and Part I of the law of 20 December 2002 as amended had requested at least one certificate.

The main countries concerned, in decreasing order, are: Germany (876 certificates), Austria (399), Italy (322), France (282), Spain (244), Belgium (194), Sweden (170), United Kingdom (157) and the Netherlands (155).

As regards foreign UCITS marketed in Luxembourg at the end of 2004, 143 foreign EU UCITS (69 from Germany, 27 from France, 31 from Ireland, 10 from Belgium and 6 from the United Kingdom) took advantage of the marketing facilities provided by the Directive to offer their units/shares in Luxembourg.

Finally, at 31 December 2004, 19 foreign UCIs (9 from Germany, 9 from Switzerland and 1 from Belgium) have been authorised to market their units/shares in Luxembourg in accordance with article 70 of the law of 30 March 1988 as amended and article 76 of the law of 20 December 2002 as amended respectively.

Marketing of foreign UCIs in Luxembourg

	2001	2002	2003	2004
EU UCITS				
Home country				
Germany	112	93	70	69
France	27	26	26	27
Ireland	15	19	22	31
Belgium	9	9	10	10
United Kingdom	2	2	3	6
Denmark	1	1	-	-
Subtotal	**166**	**150**	**131**	**143**
Other foreign UCIs				
Home country				
Germany	5	13	16	9
Switzerland	49	16	15	9
Belgium	1	1	2	1
Subtotal	**55**	**30**	**33**	**19**
Total	**221**	**180**	**164**	**162**

2. NEWLY CREATED ENTITIES APPROVED IN 2004

2.1. General data

The number of newly approved entities[8] in 2004 has increased again and reaches almost its 2001 level. Thus, 1,434 new entities have been approved, representing a growth of 32.0% as compared to 2003 and 7.2% as compared to 2002.

	2001	2002	2003	2004
Newly approved entities	1,497	1,338	1,086	1,434
Of which : launched in the same year	*1,020*	*881*	*637*	*961*
In %	68.1%	65.8%	58.7%	67.0%

The entities approved in the course of a year have not necessarily been launched that same year. Until 31 December 2004, only 961 entities out of the 1,434 entities approved during the year were active, i.e. 67% of the total number of approved entities. The lapse between the authorisation of a new entity and its effective launch can be explained, *inter alia*, by the period of time promoters have to wait between the notification to the host country's authority pursuant to European regulations and the effective marketing of units/shares in the host country. Moreover, given changing opportunities of one or several financial markets, promoters sometimes decide to postpone the launching of a subfund.

[8] The term "entity" refers both to traditional UCIs and the subfunds of umbrella funds. The number of new "entities" therefore denotes from an economic point of view the number of economic vehicles created.

2.2. Analysis of the investment policy of new entities

The investment policy of the newly approved entities reflects the general market trends.

Most of the entities approved in 2004 chose to invest in fixed-income transferable securities. Their number totals 497 entities, i.e. more than a third of the total number of newly approved entities. Out of the 1,434 approved entities in the course of the year, 358 plan to invest in variable-yield transferable securities and 263 in other UCIs. In relative terms, this accounts for 24.96% and 18.34% respectively of the total number of newly approved entities.

Moreover, a significant part of the requests for registration on the official list becomes more and more complex. In this context, investments in structured products and UCIs investing in real estate should be mentioned.

Investment policy	**2004**	
	Number of entities	As a % of total
Fixed-income transferable securities (excluding money market instruments and other short-term securities)	497	34.65%
Variable-yield transferable securities	358	24.96%
Mixed transferable securities	205	14.29%
Fund of Funds	263	18.34%
Cash, money market instruments and other short-term securities	48	3.35%
Futures, options, warrants	52	3.63%
Others	11	0.78%
Total	**1,434**	**100.00%**

Among the 1,434 newly approved entities in 2004, only six (0.4%) benefited from the reduced subscription tax reserved for subfunds investing in cash, money market instruments and short-term securities.

2.3. Origin of promoters of new entities

The analysis of the origin of promoters of newly created entities shows that:

- The Belgian promoters have strengthened their position with more than a fifth of the newly approved entities.
- The German and Swiss promoters take the second and third places with 16.11% and 15.55% of the newly approved entities respectively.
- With 11.85% of the newly approved entities, French promoters progressed compared to the previous year.

Origin of promoters of new entities

	2001		2002		2003		2004	
	Entities	In %	Entities	In %	Entities	In %	Entities	In %
Belgium	169	11.29%	197	14.72%	192	17.68%	306	21.34%
Germany	264	17.64%	227	16.97%	160	14.73%	231	16.11%
Switzerland	259	17.30%	289	21.60%	176	16.21%	223	15.55%
France	147	9.82%	82	6.13%	99	9.12%	170	11.85%
United Kingdom	111	7.41%	122	9.12%	86	7.92%	108	7.53%
Italy	217	14.50%	97	7.25%	127	11.69%	83	5.78%
United States	92	6.15%	99	7.40%	76	7.00%	78	5.43%
Netherlands	31	2.07%	28	2.09%	36	3.31%	70	4.88%

3. CLOSED DOWN ENTITIES IN 2004

3.1. General data

694 entities have been closed down in 2004, which represents a substantial decrease as compared to 2003 (-41.09%). The number of liquidated entities decreased by 38.88% and the number of merged entities even by more than half. Only the number of matured entities increased from 47 to 64 entities.

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Liquidated entities	167	183	223	254	221	254	354	490	643	393
Matured entities	25	35	32	43	65	47	47	49	47	64
Merged entities	56	72	72	195	429	150	150	326	488	237
Total	**248**	**290**	**327**	**492**	**715**	**451**	**551**	**865**	**1,178**	**694**

3.2. Investment policy of the closed down entities

During the year under review, 133 of the 293 closed down entities of the category of entities investing in variable-income transferable securities have merged. Among the 168 closed down entities whose investment policy provides for investment in fixed-yield transferable securities, 44 have merged. In the category "Fund of Funds", 26 of the 97 closed down entities have merged and in the category "Mixed transferable securities", 19 of 85 of the closed down entities have merged.

Investment policy	**2004**	
	Number of entities	As a % of total
Fixed-income transferable securities (excluding money market instruments and other short term securities)	168	24.2%
Variable-yield transferable securities	293	42.2%
Mixed transferable securities	85	12.3%
Fund of Funds	97	14.0%
Cash, money market instruments and other short term securities	46	6.6%
Futures, options, warrants	5	0.7%
Total	**694**	**100.0%**

3.3. Restructurings of Luxembourg UCIs in 2004

At international level, the merger and acquisition trend of banks and other financial institutions of 2003 did not continue in 2004.

33 major restructurings have affected Luxembourg UCIs in 2004, involving 64 legal entities and 342 subfunds.

These restructurings can be divided into three categories:

- restructuring of the UCI range of a promoter	13 cases
- takeover of management activities of a promoter by another	12 cases
- reorganisation within a promoter group impacting UCIs promoted by this group	8 cases
Total	33 cases

Finally, it has to be noted that besides the major restructurings mentioned in this section, 16 other smaller-scale UCI mergers have taken place in 2004, involving a total of 46 subfunds.

4. DEVELOPMENT REGARDING UCIS INVESTING PRINCIPALLY IN OTHER UCIS: "FUNDS OF FUNDS"

4.1. General data

UCIs known as "funds of funds" *(fonds de fonds, Dachfonds)* are UCIs whose main investment policy provides for investment of the majority of net assets in other UCIs. Their portfolios therefore consist principally, if not exclusively, of shares of SICAVs or units of Luxembourg or foreign *fonds communs de placement*.

Following the coming into force of the law of 20 December 2002 as amended, "funds of funds" UCIs can fall under Part I or Part II of this law, or under the law of 19 July 1991 concerning funds reserved for institutional investors.

Analysis of the trends of the previous years showed that the number of entities investing mainly in other UCIs has substantially grown between 1999 (213 entities) and 2003 (1,098 entities). This upward trend continued in 2004, the number of entities rising to 1,198 as at 31 December 2004. The annual growth rate was 9.1%.

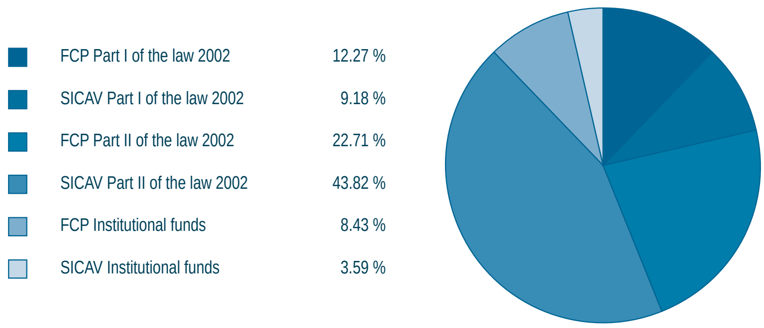
It is worth noting that the share of net assets of entities investing mainly in UCIs known as "funds of funds", compared with the net assets of all UCIs, rose in 2004 and reached 7.7% at the end of 2004, against 7.2% at the end of 2003. Their proportion had only reached 1.8% in December 1998.

4.2. Legal status of "funds of funds"

As at 31 December 2004, 21.45% of "funds of funds" UCIs (257 entities) were governed by Part I and 66.53% (797 entities) by Part II of the law of 20 December 2002 as amended. 12.02% (144 entities) were subject to the law of 19 July 1991.

An additional distinction according to the legal status of the UCI in question, *fonds commun de placement* (FCP) or *société d'investissement à capital variable* (SICAV), is shown in the following graph.

Breakdown of "funds of funds" according to governing laws and legal status (in terms of entities)

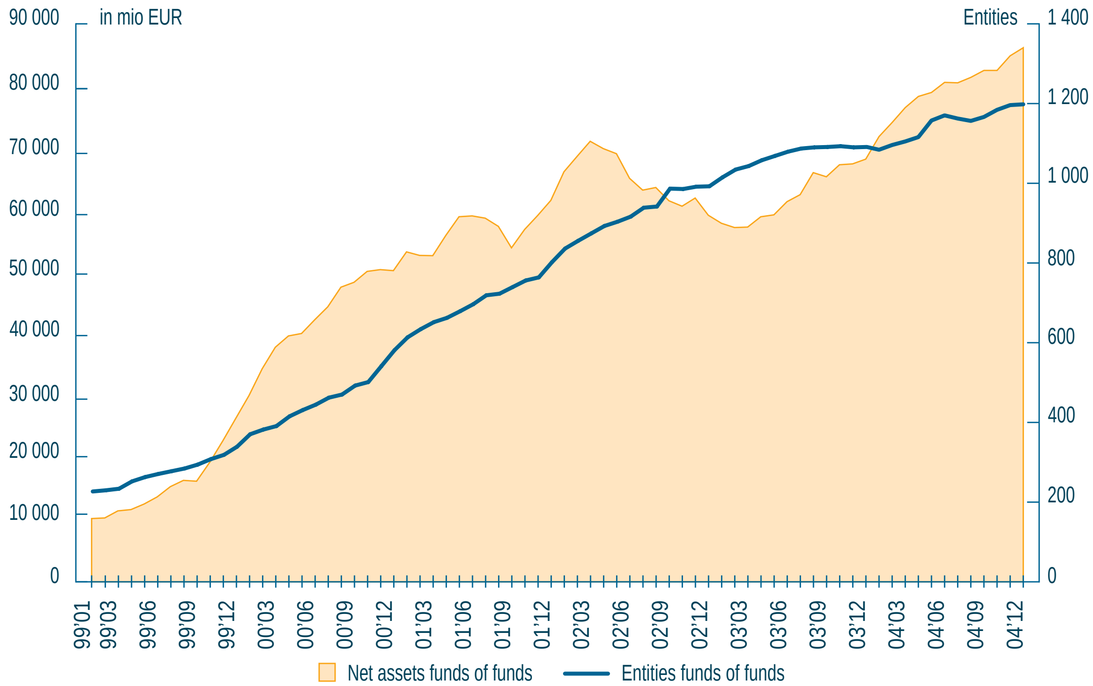


4.3. Development in the number of entities and net assets of "funds of funds"

The number of "funds of funds" entities decreased slightly in January 2004. However, from February to June 2004, the number of entities rose, followed by a stagnation which ended in September 2004. In the last quarter of 2004, the number of entities rose again, reaching in December 2004 its highest level (1,198 entities) since the first analyses in December 1998.

The net assets of "funds of funds" reached a peak as at 31 March 2002 amounting to EUR 71.4 billion. Since then, however, the continuous slump of stock markets has also affected net assets of "funds of funds". The trend has been reversed by the revival of stock markets as from April 2003. The continuous increase in assets then continued throughout 2004. It was only interrupted by a slight decrease of assets in July 2004. The record of 31 March 2002 having been broken already on 29 February 2004, the year 2004 closed with a new high of EUR 85.0 billion.

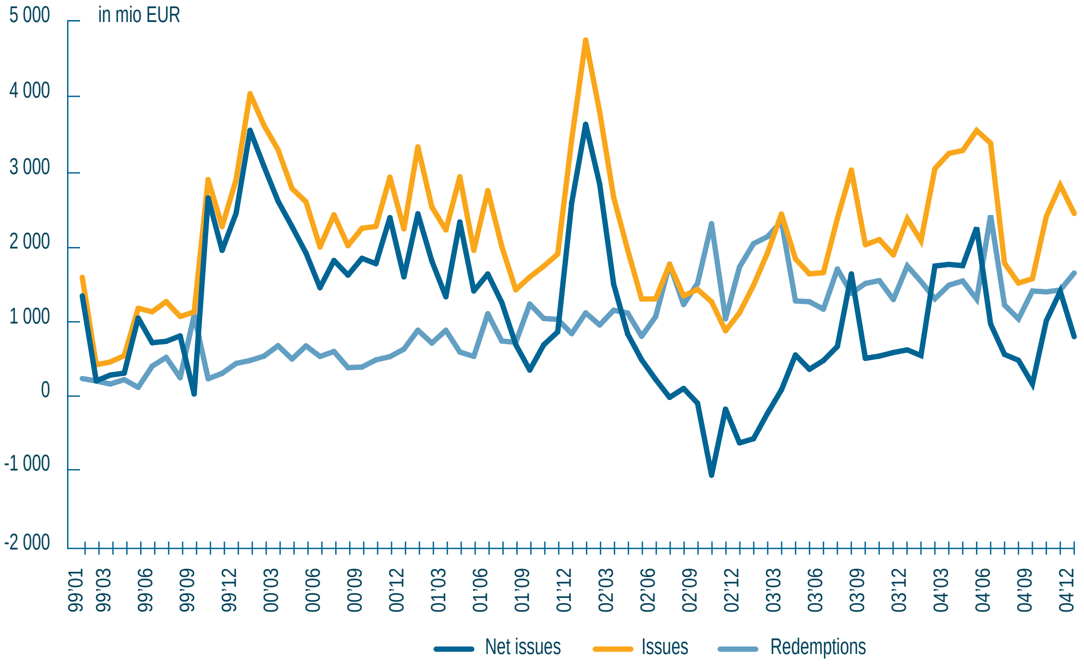
Development in the number of entities and net assets of "funds of funds"



4.4. Development in net issues of "funds of funds"

As far as inflow of new capital for "funds of funds" is concerned, net issues totalled approximately EUR 13.5 billion for the year 2004. Throughout 2004, net issues were positive, alternating periods of intense subscriptions (February to May 2004 and the last quarter 2004) and periods with fewer subscriptions.

Development in issues, redemptions and net issues of "funds of funds"

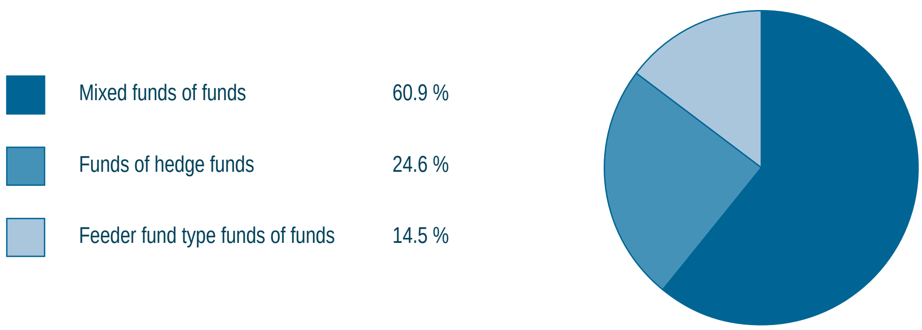


4.5. Classification of "funds of funds" according to their specific investment policy

The "funds of funds" can be classified according to three specific investment policies:

1. those investing in other UCIs by employing a risk spreading policy (mixed funds of funds);
2. those investing in one or a very limited number of UCIs (maximum of 3) (feeder fund-type funds of funds);
3. those investing in funds that invest in hedge funds (funds of hedge funds).

Breakdown of net assets of "funds of funds" according to specific investment policy

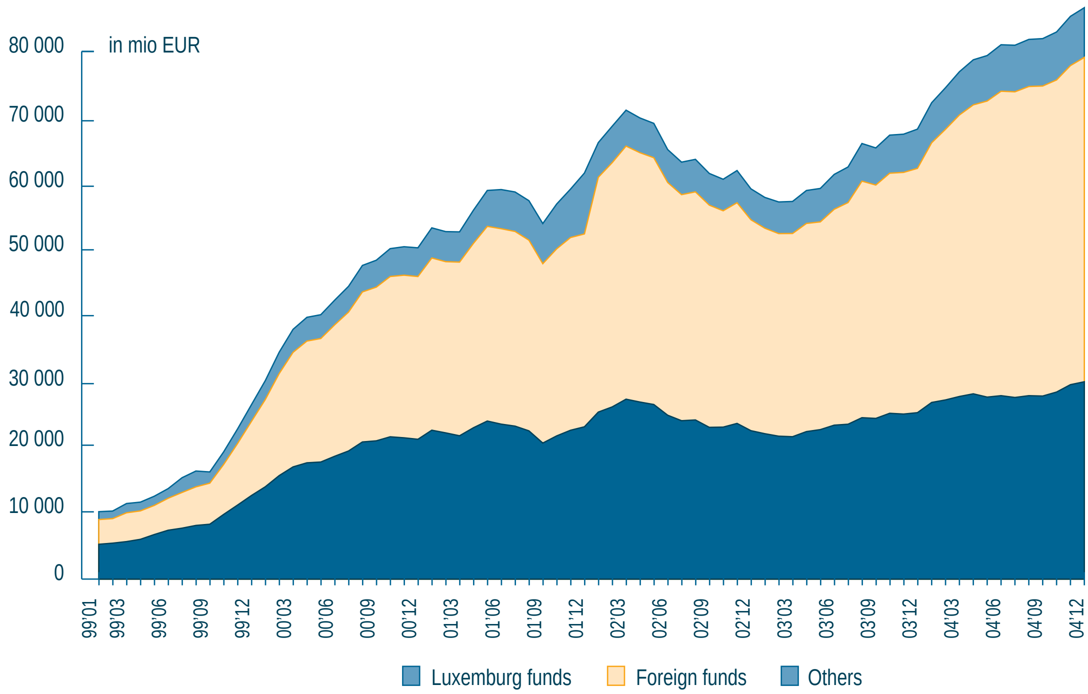


The category "mixed funds of funds" was in the lead in terms of net assets with 60.9%. The proportion of "funds of hedge funds" increased from 20.4% in 2003 to 24.6% at the end of 2004. The proportion of "feeder fund-type funds of funds" remained almost stable decreasing from 14.6% in 2003 to 14.5% in December 2004.

4.6. Nationality of UCIs acquired by "funds of funds"

As at 31 December 2004, 34.5% of net assets of "funds of funds" UCIs have been invested in Luxembourg funds, while 56.8% have been invested in foreign funds and 8.7% in other financial products (cash, equities, bonds, derivatives, etc.).

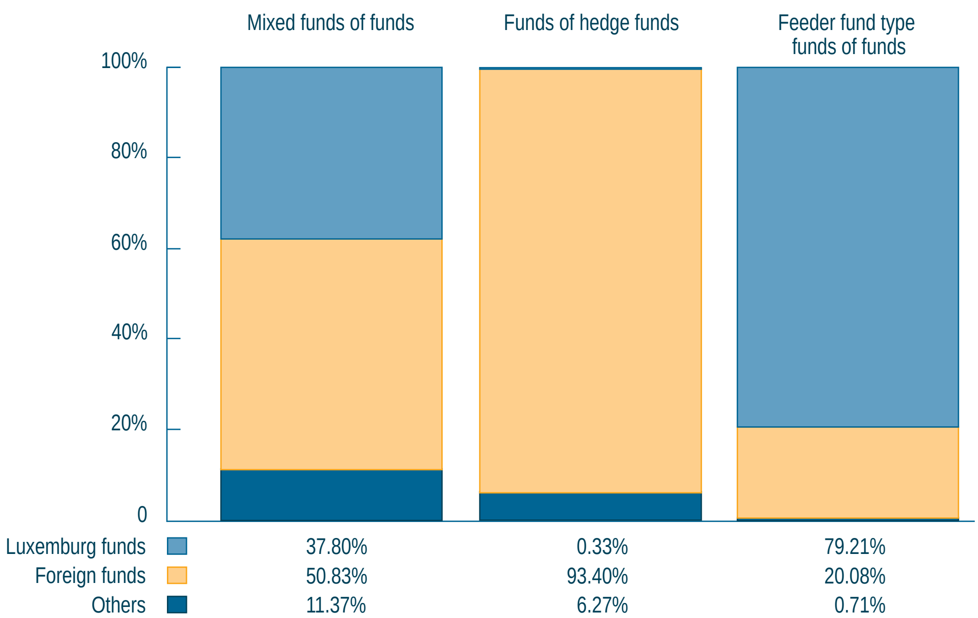
Development and breakdown of "funds of funds" net assets



4.7. Breakdown of net assets of "funds of funds" according to nationality of UCIs acquired and to specific investment policy

As at 31 December 2004, the share of assets of UCIs in the "funds of hedge funds" category investing in Luxembourg funds was almost nil, while the Luxembourg funds were the best represented in the category "feeder fund-type funds of funds".

Breakdown of net assets of "funds of funds" according to specific investment policy and investment product



5. MANAGEMENT COMPANIES

5.1. Management companies under chapter 13 of the law of 20 December 2002 relating to undertakings for collective investment as amended

The year 2004 was characterised by the fact that an increasing number of promoters decided to set up a management company complying with the provisions of Directive 2001/107/EC amending Directive 85/611/EEC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) with a view to regulating management companies and simplified prospectuses.

During the year under review, 24 management companies have submitted their application for approval to the CSSF in order to become compliant with the provisions of chapter 13 of the law of 20 December 2002 as amended. Until 31 December 2004, 23 new entities have been registered on the official list of management companies under chapter 13 and benefiting from the European passport by way of free establishment or free provision of services in another EU Member State. As at 31 December 2004, the number of management companies approved in accordance with chapter 13 totals 26 entities.

The authorisations of nineteen management companies cover exclusively the activity of collective management pursuant to article 77(2) and the authorisations of seven management companies cover, in addition to collective management, also one or several services referred to under article 77(3) of the law of 2002.

Three financial groups, which were not established in Luxembourg yet, have now set up in the financial centre by way of a management company: the Italian group Banca Delle Marche S.p.a., the American group Northern Trust Corporation and the Scottish group The Royal Bank of Scotland Group plc.

Moreover, it should be noted that five of these 23 entities gave up their PFS status to become a management company under chapter 13 of the law of 2002 (namely ABN Amro Investment Funds S.A., CMI Asset Management (Luxembourg) S.A., Dexia Asset Management Luxembourg S.A., Fortis Investment Mangement Luxembourg S.A. and Nordea Investment Funds S.A.) and that one PFS merged with a management company (Aviva Fund Services).

Employment of these 26 management companies approved as at 31 December 2004 totalled 511 persons at year-end.

5.2. Overall situation

As at 31 December 2004, the Luxembourg financial centre counted 295 active management companies among which 26 fulfilled the provisions of chapter 13 of the law of 2002.

158 of these 295 entities exclusively manage UCITS and 39 manage UCITS as well as other UCIs. 52 management companies manage exclusively UCIs subject to Part II of the law of 20 December 2002 as amended, 42 management companies manage only UCIs under the law of 19 July 1991 concerning undertakings for collective investment whose securities are not to be placed with the public and 4 management companies manage UCIs under Part II of the law of 2002 as well as UCIs under the law of 1991.

Distribution of management companies (MCs)	2003 Number	2004 Number
MCs subject to chapter 13 of the law of 2002	3	26
MCs subject to chapter 14 of the law of 2002	281	269
Total	**284**	**295**
of which		
MCs managing exclusively UCITS subject to Part I of the law	148	158
MCs managing UCITS subject to Part I of the law as well as other UCIs	42	39
MCs managing UCIs subject to Part II of the law	54	52
MCs managing UCIs subject to Part II of the law and UCIs subject to the law of 1991	3	4
MCs managing UCIs subject to the law of 1991	37	42

The table shows that 197 management companies manage at least one UCITS under Part I of the law of 2002 as at 31 December 2004.

The following table breaks down the management companies that manage only one UCITS or UCI.

Management companies (MCs) managing only one UCITS/UCI	2003 Number	2004 Number
MCs managing only one UCITS subject to Part I of the law	143	138
MCs managing only one UCI subject to Part II of the law	54	50
MCs managing only one UCI subject to the law of 1991	37	41

5.3. Cross-border activities of management companies under chapter 13 of the law of 20 December 2002 as amended

Articles 88 and 89 of the law of 20 December 2002 as amended introduce a European passport for management companies complying with the amended Directive 85/611/EEC. These articles indeed provide that a management company is allowed to carry on in an EU Member State other than its home Member State, the activity for which it has been authorised in its home Member State, by means of a notification under the right of establishment or the freedom to provide services.

5.3.1. Right of establishment

In 2004, one management company incorporated under Luxembourg law set up branches in other EU Member States under the right of establishment, namely Dexia Asset Management Luxembourg S.A., which set up in Spain, Italy and the Netherlands by means of a branch.

The following management companies are represented, as at 31 December 2004, in one or several EU/EEA countries or Switzerland by means of a branch.

Name of the management company	Country of establishment of the branch
Dexia Asset Management Luxembourg S.A.	Spain Italy Netherlands Switzerland
Nordea Investment Funds S.A.	Austria

As at 31 December 2004, no management company of another EU Member State established a branch in Luxembourg.

5.3.2. Freedom to provide services

In 2004, eleven management companies incorporated under Luxembourg law introduced a notification to carry on their activities in one or several countries of the European Union by way of free provision of services. The majority of the management companies concerned carry on their activities in several EU countries. Given the vocation of the Luxembourg financial centre to be a Pan-European distribution platform for promoters, the majority of these management companies mentioned the marketing activity.

On the other hand, only three management companies that have their registered office in another EU Member State notified their intention to freely provide their services on the Luxembourg territory in 2004.

5.3.3. Representative offices

In 2004, the management company Fortis Investment Management Luxembourg S.A. has opened a representative office in Spain and Switzerland respectively.

5.4. Prudential supervisory practice

5.4.1. Investment firms and management companies under chapter 13 of the law of 20 December 2002 as amended

In 2004, the question was put to the CSSF whether a PFS is allowed to keep its status under the law of 5 April 1993 on the financial sector as amended and combine it with the management company status under chapter 13 of the law of 2002.

Considering article 2 (grandfathering clauses and final provisions) of Directive 2001/107/EC, the CSSF concluded that a management company under chapter 13 cannot hold concurrently the status of management company and that of professional of the financial sector under the law of 5 April 1993 as amended.

5.4.2. Management company and domiciliation activities

This issue arose from the plans of certain professionals of the financial sector to become a management company under chapter 13 of the law of 2002. These PFS indeed requested to be allowed to continue their domiciliation activities after having adopted the status of management company.

The CSSF concluded that a management company under chapter 13 is not authorised to carry on domiciliation activities pursuant to the law of 31 May 1999 governing domiciliation of companies as amended. Indeed, this activity requires a special authorisation and is not included in the scope of activities that a management company is authorised to carry on pursuant to the law of 2002.

However, under article 1(4) of the law of 31 May 1999 as amended, which provides, *inter alia*, that article 1 of this law does not apply to the domiciliation of a management company of undertakings for collective investment, an investment firm or any other undertaking for collective investment in the legal form of a commercial company, at a management company of undertakings for collective investment.

5.4.3. Management company and provision of administrative services for pension funds and/or SICAR

The CSSF had to decide whether a management company is allowed to act as central administration for a SICAR, or provide administrative services for pension funds. These activities would include, *inter alia*, book-keeping, computation of net asset value as well as supervisory and coordination functions, excluding activities linked to intellectual management for these investment vehicles.

The CSSF decided that a management company is allowed to provide these services if it has adequate human and technical resources. In particular, if a management company plans to act as central administration for a SICAR or pension fund, it must fulfil the requirements of chapter D "Rules relating to the administration of Luxembourg UCIs" of circular IML 91/75 of 21 January 1991.

6. DEVELOPMENTS IN THE REGULATORY FRAMEWORK

6.1. Amendment of the law of 20 December 2002 concerning undertakings for collective investment

The law of 15 June 2004 relating to the investment company in risk capital amends article 129(3) of the law of 20 December 2002 concerning UCIs as amended by adding to the structures exempt from the subscription tax "UCIs whose securities are reserved for (i) institutions for occupational retirement provision, or similar pension pooling vehicles, created on the initiative of a same group for the benefit of its employees and (ii) undertakings of this same group investing the funds they hold, to provide retirement benefits to their employees."

The objective is to exempt from the subscription tax the pension pooling vehicles that manage collectively the different pension funds created generally in several jurisdictions by the large multinationals.

Two UCIs of the type pension pooling vehicle are currently registered on the official list.

6.2. Circular CSSF 04/146 concerning the protection of undertakings for collective investment and their investors against Late Trading and Market Timing practices

The purpose of circular CSSF 04/146 of 17 June 2004 is to protect UCIs and their investors against Late Trading and Market Timing practices. To that end, it defines both notions and the protective measures to be adopted by UCIs and certain of their service providers.

These measures take into account the characteristics of Luxembourg UCIs which are frequently invested and distributed through several time zones and the marketing of which is frequently undertaken by intermediaries subject to the supervision of a foreign authority. Furthermore, this circular fixes more general rules of conduct to be complied with by the professionals subject to the supervision of the CSSF. In order to strengthen the protection of UCIs and their investors, the circular specifically lays down that any person who is guilty of knowingly undertaking or supporting Late Trading or Market Timing practices as defined by this circular exposes himself to sanctions and to the obligation of repairing the damage caused to the UCI. Finally, it amends circular CSSF 02/81 by extending the role of the auditor of the UCI as regards the verification of the procedures and controls established by the UCI to protect itself against Late Trading and Market Timing practices.

7. PRUDENTIAL SUPERVISORY PRACTICE

7.1. Prudential supervision

7.1.1. Standards to be observed by UCIs

One of the fundamental functions of the CSSF when supervising UCIs is to ensure application of the laws and regulations relating to UCIs. The aim of supervision is to ensure adequate protection of investors as well as stability and security in the UCI sector.

7.1.2. Instruments of prudential supervision

The CSSF's continuous supervision aims to ensure that UCIs subject to its supervision observe all legislative, regulatory and contractual provisions relating to the organisation and functioning of UCIs, as well as to the distribution, investment or sale of their securities. This supervision is based in particular on:

- examination of the periodic financial information which UCIs must submit to the CSSF on a monthly and annual basis;
- analysis of annual and semi-annual reports which UCIs must publish for their investors;
- analysis of the management letters issued by the external auditor, which must be communicated immediately to the CSSF;
- analysis of the statements made in accordance with the circular relating to the protection of investors in the event of a calculation error of the net asset value (NAV) and correction for the consequences of non-compliance with investment rules applicable to UCIs;
- on-site inspections carried out by CSSF agents.

7.1.3. Audit

- ***Audit of semi-annual and annual reports***

Scrutiny of semi-annual and annual reports carried out by the CSSF shows that these reports are in general prepared in accordance with the applicable legal rules. During 2004, the CSSF had to intervene with several UCI service providers for the following reasons:

- publication deadline not met by several funds subject to Part II of the law of 30 March 1988 as amended and by UCIs that were put into liquidation;
- non-compliance of the financial report with the fund's investment policy or lack of required information;
- insufficient representation of the promoter on the board of directors;
- omission to mention that the subscription can only be made on the basis of the UCI's prospectus;

- omission to mention the exchange rate;
- incorrect mention of the UCI's or compartment's denomination;
- high fees;
- incorrect breakdown of the securities portfolio.

- ***Audit of financial information for the CSSF and STATEC***

In accordance with circular IML 97/136 and pursuant to article 94(1) of the law of 30 March 1988 as amended and article 118 of the law of 20 December 2002 as amended, the central administrations of Luxembourg UCIs must transmit financial information by electronic means to the CSSF, on a monthly (tables O 1.1.) and yearly (tables O 4.1. and O 4.2.) basis. The deadline to transmit the monthly financial information is twenty days following the reference date, which is in principle the last day of each month. As regards yearly financial information, the reference date is the date of the close of the financial year and the time limit is four months.

As far as monthly financial information is concerned, the CSSF considers that UCIs must, on the one hand, scrupulously observe the imparted deadline to submit table O1.1. and, on the other hand, pay due attention when drawing up this table so as to ensure that the format and content are correct. To this end, the CSSF called to order the UCIs that did not meet these conditions, leading the central administrations in charge to review their procedures to make sure that the files are transmitted within the time limit and to improve the quality of this reporting. For information, the format and content of about 7,500 files, representing around 15,000 types of units/shares, are controlled each month.

- ***On-site inspections***

During 2004, the CSSF carried out six on-site inspections at the premises of providers of services to UCIs.

The purpose of one on-site inspection was notably to assess the functioning of the central administration and of the UCI depositary bank, as well as the anti-money laundering procedures. Three on-site inspections mainly aimed to assess the functioning of the UCI central administration and the procedures set up in the fight against money laundering. The purpose of another inspection was to assess the decision-making process and organisation of the fund management and one inspection was conducted mainly to assess the functioning of the UCI's central administration.

The providers of services that have been inspected by the CSSF carry out the functions of central administration and/or depositary bank for more than 200 UCIs.

- ***Surveys on Late Trading and Market Timing***

Following the publication of circular CSSF 04/146 concerning the protection of UCIs and their investors against Late Trading and Market Timing practices, six cases of potential Market Timing have been reported to the CSSF. Investigation is in progress.

Furthermore, the CSSF noted that most of the Luxembourg UCI promoters have amended and adapted their prospectus, notably in order to comply with circular CSSF 04/146.

- ***Meetings***

In 2004, 150 meetings were held between representatives of the CSSF and intermediaries of UCIs. These meetings concerned the presentation of new UCI projects, restructurings of UCIs, but also the application of the laws and regulations of UCIs.

7.2. Circular CSSF 02/77

7.2.1. Statements made in 2004 on the basis of CSSF Circular 02/77

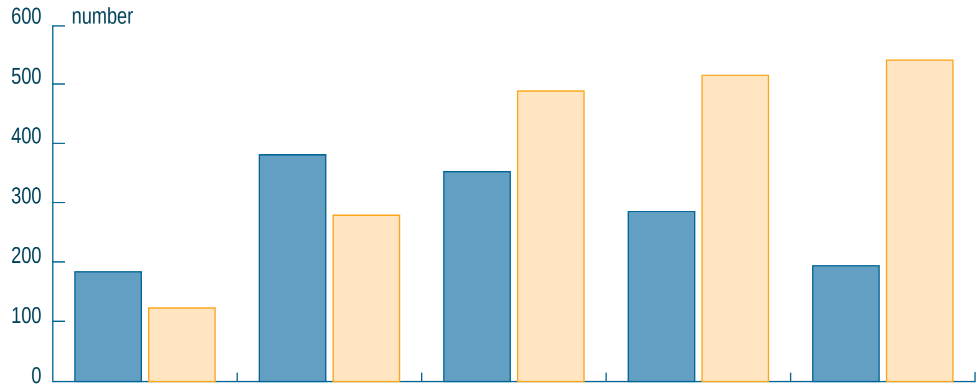
Circular CSSF 02/77 of 27 November 2002 concerning the protection of investors in case of NAV calculation error and correction of the consequences resulting from non-compliance with the investment rules applicable to UCIs repealed circular CSSF 2000/8.

In 2004, the CSSF recorded 724 statements on the basis of circular CSSF 02/77, against 788 statements in 2003, representing a decrease of 8%.

Among these statements, 192 cases (280 in 2003) concerned NAV calculation errors and 532 cases (508 in 2003) non-compliance with investment rules, including 97 cases (70 in 2003) of non-compliance with the investment policy. It is interesting to note that in absolute terms, the number of cases of NAV calculation errors decreased substantially as compared to 2003 (-31%), while the number of cases concerning non-compliance with investment rules increased by 5%.

The following graph shows the development of the number of NAV calculation errors and cases of non-compliance with investment rules which have been reported to the CSSF over the last five years.

Development in the number of NAV calculation errors and cases of non-compliance with investment rules over the last five years



	2000	2001	2002	2003	2004
NAV calculation errors	182	376	348	280	192
Non-compliance with investment rules	122	276	482	508	532

The number of NAV calculation errors has decreased since 2002, while the number of cases of non-compliance with investment rules has constantly risen since the coming into force of the circular in question.

As regards more particularly the statements received in 2004, 164 of the 192 cases of NAV calculation errors and 230 of the 532 cases of non-compliance with investment rules could not be closed at 31 December 2004, as the CSSF is still awaiting further information, the report(s) of the external auditor or the management letter, or the report on the UCI's activity following the application of the simplified procedure as provided for by circular CSSF 02/77.

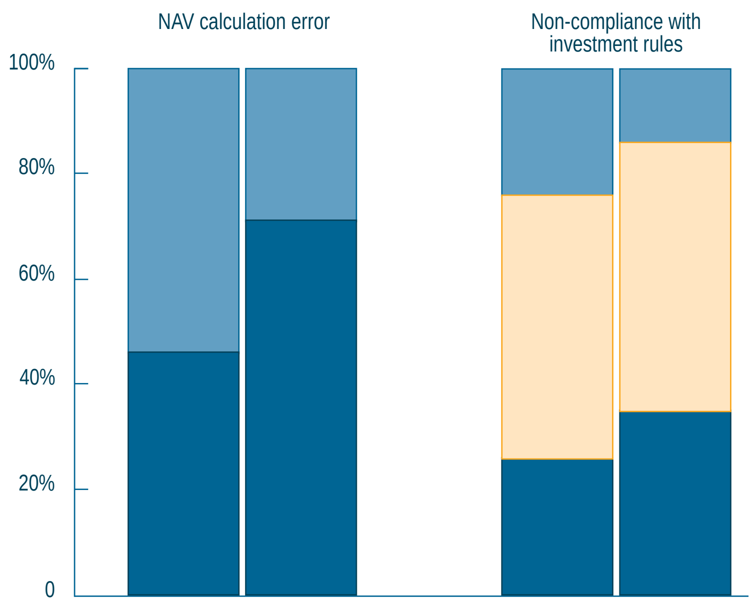
Indeed, circular CSSF 02/77 introduced a simplified procedure for cases of NAV calculation errors or non-compliance with investment rules that entail losses for the UCI, where the indemnification amount does not exceed EUR 25,000 and the amount to be reimbursed to an investor does not exceed EUR 2,500.

In this event, no corrective action plan needs to be submitted to the CSSF, but the central administration must notify the occurrence of the calculation error or non-compliance to the CSSF and take the measures necessary to correct the calculation error or non-compliance and arrange the indemnification of the damages occurred. In the course of his annual audit, the external auditor of the UCI must review the correction process. The external auditor must in his report state whether, in his opinion, the process of correction is appropriate and reasonable.

In 2004, 137 out of 192 cases of NAV calculation errors fall within the scope of the simplified procedure (129 cases of 280 in 2003). 131 out of 532 cases of non-compliance with investment rules have also applied this procedure (131 cases of 508 in 2003).

The following graph plots the proportion of the cases of simplified procedure compared to the total number of statements over the last two years.

Simplified procedure

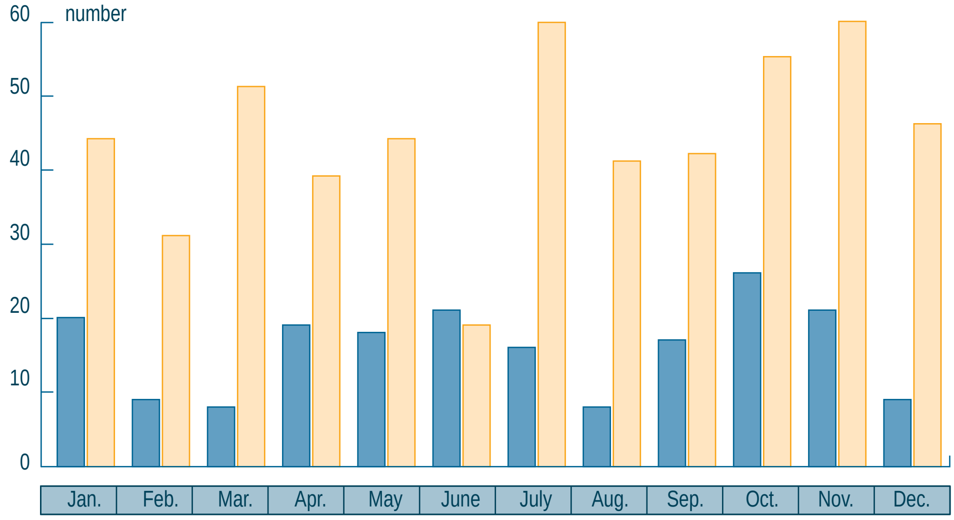


	2003	2004	2003	2004
Normal procedure	54%	29%	24%	14%
Non-compliance without prejudice	0%	0%	50%	51%
Simplified procedure	46%	71%	26%	35%

Thus, 71% of the statements of NAV calculation errors fall within the scope of the simplified procedure (46% in 2003). As regards the cases of non-compliance of investment rules, 35% of the cases meet the criteria of the simplified procedure (26% in 2003) and 51% of the cases could have been regularised without harming the investors (50% in 2003).

The following graph sets out in detail the statements made during 2004.

Development in the errors notified in 2004

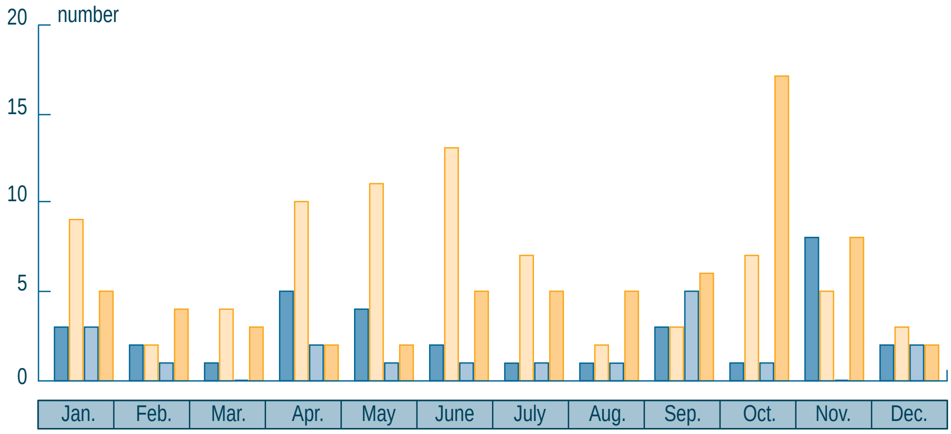


	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
NAV calculation errors	20	9	8	19	18	21	16	8	17	26	21	9
Non-compliance with investment rules	44	31	51	39	44	19	60	41	42	55	60	46

NAV calculation errors are due to four different causes: pricing errors, booking errors, errors in the calculation of costs and accruals and other errors, for example, in the valuation of swaps or futures.

The following graph plots the different cases of NAV calculation errors recorded in 2004.

Development of the cause of NAV calculation errors in 2004



	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
Pricing errors	3	2	1	5	4	2	3	1	3	1	8	2
Booking errors	9	2	4	10	11	13	7	2	3	7	5	3
Errors in costs and accruals	3	1	0	2	1	1	1	0	5	1	0	2
Others	5	4	3	2	2	5	5	5	6	17	8	2

In 2004, 18% of NAV calculation errors were due to pricing errors, 40% to booking errors and 9% to calculation errors in costs and accruals. Among the other causes of error were problems linked to securities operations, representing 11% of cases reported and errors in the valuation of swaps and futures account for 9% of the NAV calculation errors.

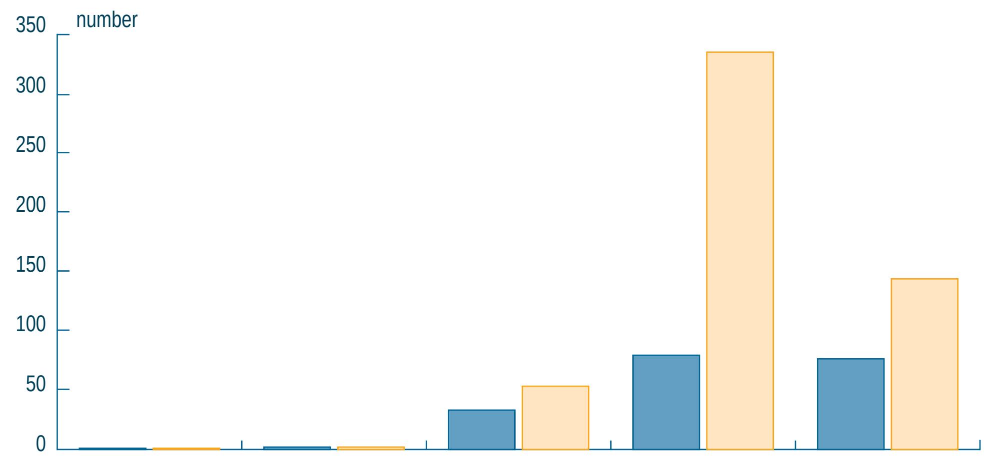
The following table shows the development of the cases of NAV calculation errors since 2000 (coming into force of circular CSSF 2000/8 of 15 March 2000 repealed by circular CSSF 02/77 of 27 November 2002).

Development of the causes of NAV calculation errors over the last five years

Over the last five years, booking errors and errors in the valuation of securities held by UCIs were the main causes for NAV calculation errors. The number of errors relating to the determination of costs and accruals fell compared to 2003. Moreover, it is particularly interesting to note that the number of errors due to transactions on securities increased substantially as compared to 2003.

It should be noted that statements made during 2004 do not relate exclusively to errors and instances of non-compliance that occurred during 2004. Thus, they can also relate to errors or instances of non-compliance detected in 2004, but which relate to errors or instances of non-compliance that occurred before the start of the year, as shown in the graph below.

Statements made during 2004



	concerning 2001	concerning 2002	concerning 2003	concerning 2004	no indication
NAV calculation errors	1	3	33	79	76
Non-compliance with investment rules	1	2	53	333	143

Out of 724 statements made in 2004, 0.3% and 0.7% respectively were related to errors or instances of non-compliance that had occurred in 2001 or 2002. 12% concerned errors or instances of non-compliance which have occurred in 2003 and 57% of statements related to errors or instances of non-compliance that had actually occurred in 2004.

7.2.2. Compensation paid following regularisation of NAV calculation errors or instances of non-compliance with investment rules

The table below sets out the amounts of compensation notified in 2003 and 2004. It has to be noted that it is based on data available to the CSSF as at 31 December 2003 and 31 December 2004 respectively, while the amount of compensation had not yet been notified in certain cases.

Compensation following NAV calculation errors	Investors		UCI/Subfund	
	2003	2004	2003	2004
EUR	758,417.22	439,106.11	1,164,859.50	266,576.98
USD	1,599,307.08	212,624.16	1,388,746.56	277,787.97
JPY	6,322,973.00	248,560.00	1,240,052.83	436,200.00
GBP	722.28	298.71	-	83.56
CHF	-	222.81	-	-
Other currencies*	-	1,171.70	808.25	4,775.96
Total *(in EUR**)*	**2,072,540.61**	**598,725.98**	**2,274,412.65**	**478,535.90**

Compensation following non-compliance with investment rules	Investors		UCI/Subfund	
	2003	2004	2003	2004
EUR	73,356.74	5,605.52	320,566.54	673,865.93
USD	28,328.94	-	774,209.75	137,726.03
JPY	-	-	1,234,205.00	5,567,032.93
GBP	1,171.29	-	182.81	26,802.85
CHF	1,337.84	-	6,300.00	42,253.64
Other currencies*	-	2,704.75	225.08	10,118.50
Total *(in EUR**)*	**98,307.89**	**8,310.27**	**947,227.15**	**890,364.27**

* converted in EUR at the exchange rate applying on 31 December 2004 and 31 December 2003 respectively

** exchange rate as at 31 December 2004 and 31 December 2003 respectively

268 out of the 532 instances of non-compliance with investment rules have been regularised resulting in a profit, while 121 regularisations led to a loss. In 143 instances of non-compliance, the amount realised in the context of regularising operations has not been communicated yet.

As compared to 2003, the amounts of compensation paid following NAV calculation errors fell substantially. It should be noted however that these data are provisional as the amounts for compensation in 76 instances have not been communicated yet. Compensation of investors following instances of non-compliance with investment rules continued to decrease. This development can be explained notably as follows:

- control of investment rules has been reinforced, resulting in a faster detection of instances of non-compliance and shorter periods of non-compliance;
- the period between the overrun and the problem's detection having become shorter, fewer movements on subscriptions and redemptions of units/shares were made during the period of non-compliance; consequently, the amounts of compensation paid to investors and/or UCIs were not very important in a number of cases;
- the losses sustained did not have any material impact on NAV so that it was not necessary to recalculate NAV during the period of non-compliance.

7.2.3. Management letters

Chapter P of circular IML 91/75 of 21 January 1991 states that UCIs must automatically and immediately communicate to the CSSF the management letters issued by external auditors in the context of the audits which the latter are obliged to undertake pursuant to article 89 of the law of 30 March 1988 as amended and article 113 of the law of 20 December 2002 as amended.

The analysis below sets out data for the year 2003, since these are more pertinent. Indeed, most UCIs close their financial year on 31 December so that the data relating to 2003 are established by the CSSF in 2004.

The majority of management letters, namely 72.1%, are management letters that contain no recommendations, i.e. the external auditor has not detected any irregularities in the management of the UCIs. 24.8% are management letters with recommendations by which the external auditors have reported irregularities of various types. 3.1% of the management letters are still lacking.

With regard to management letters with recommendations, the irregularities determined by external auditors may be broken down into four main categories: overstepping of statutory or regulatory limits, NAV calculation errors, non-compliance with investment policy and problems in the organisation of UCIs.

In the course of 2003, 51% of management letters mentioned instances of exceeded investment limits whilst 49% of irregularities came under the other aforementioned categories.

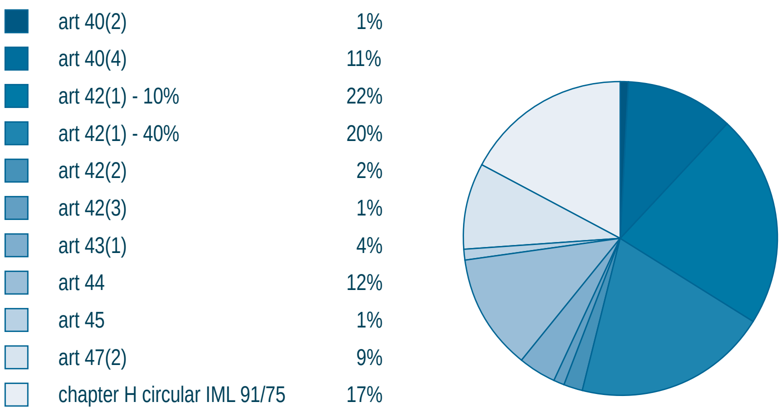
In this context, it should be noted that some major errors or instances of non-compliance considered as "active" that have been reported in management letters, have also been the subject of a statement in accordance with circular CSSF 2000/8 or circular CSSF 02/77 which repeals the aforementioned circular.

Moreover, numerous instances of overstepping investment limits reported in management letters could be considered as "passive." With regard to NAV calculation errors, some did not exceed the materiality thresholds laid down in the aforementioned circular. Certain management letters (16%) also contained details concerning the simplified procedure.

As at 31 December 2003, UCIs governed by Part I of the law of 30 March 1988 as amended represented 60.7% of Luxembourg UCIs. Insofar as statutory restrictions applying to them are more rigid than those applicable to UCIs falling within the scope of Part II, it may be useful to analyse the nature of the limits which they exceed.

The following diagram sets out a breakdown of the statutory limits most frequently exceeded by UCIs governed by Part I of the law of 30 March 1988 as amended.

Nature of limits exceeded by UCIs governed by Part I of the law of 1988



The management letters mainly revealed cases where the statutory limits as defined in article 42(1) of the law of 30 March 1988 as amended were exceeded, i.e. in 42% of cases. This article stipulates that an undertaking for collective investment in transferable securities (UCITS) cannot invest more than 10% of its assets in transferable securities of the same issuer and that the total value of transferable securities held by the UCITS of issuers in which it invests more than 5% of its assets shall not exceed 40% of the value of the assets of the UCITS. Even though these limits are frequently exceeded, a decrease of 4% as compared to 2002 has to be noted.

Compared with 2002, there has been an increase of 2% in cases of overstepping the limit set by articles 44 and 47(2) and of 5% in cases set by chapter H of circular IML 91/75. With regard to the other limits, the percentage of cases recorded has slightly decreased.

7.3. The long form report

Circular CSSF 02/81 of 6 December 2002 set down rules concerning the scope of the audit of the annual accounting documents and the content of the audit reports to be drawn up in this context pursuant to the law of 30 March 1988 on undertakings for collective investment as amended.

The circular, which applies to all the Luxembourg UCIs, takes account of the fact that in practice, the role and function of the external auditor are one of the pillars of the prudential supervision of UCIs.

The purpose of the long form report introduced by circular CSSF 02/81 is to report on the findings of the auditor in the course of its audit concerning the financial and organisational aspects of the UCI comprising *inter alia* its relationship with the central administration, the depositary bank and the other intermediaries (investment mangers, transfer agents, distributors, etc.).

946 long form reports relating to the financial year ending 31 December 2003 were drawn up and submitted to the CSSF.

The reports are an important source of information for the CSSF in the performance of its supervisory functions as they provide detailed information on the organisation of UCIs and on the relationships with the central administration, the depositary bank or any other intermediary.

7.4. Enforcement of the legislation concerning UCIs

7.4.1. Simplification of the authorisation procedures

- ***Compliance of UCITS with the provisions of the law of 20 December 2002 as amended***

The CSSF, in consultation with the *Association Luxembourgeoise des Fonds d'Investissement* (ALFI), decided on a sped-up authorisation procedure to make coordinated Luxembourg UCITS compliant with the provisions of Directives 2001/107/EC and 2001/108/EC, transposed into Luxembourg law by the law of 20 December 2002 as amended. This sped-up authorisation procedure is applicable solely to UCITS that only adjust their constituent documents to these Directives, or to the CSSF circulars, without making any major changes to their investment policy.

To be able to benefit from this procedure, the CSSF requires that the application for approval enclose a written confirmation of the applicant or his authorised representative assuring that the changes made concern only those mentioned. Management companies and self-managed investment firms, that wish to comply with the provisions of Directive 2001/107/EC can also use the sped-up procedure, provided that all the conditions laid down in circular CSSF 03/108 are abided by.

- ***Scrutiny of files of UCIs under the law of 19 July 1991***

With a view to speed up the processing of files of UCIs under the law of 19 July 1991, the CSSF has decided to stress the aspects "promoter" and "investment policy" (including investment restrictions and risk mitigation).

Given the spirit of the law, the CSSF considers that institutional investors can assess themselves the requirements for participation, rights and obligations inherent in these participations and equal treatment of participants. The CSSF reserves however the right to intervene where it deems it necessary.

7.4.2. Enforcement of the legislation concerning UCIs

- ***Credit Default Swaps (CDS)***

In its 2003 Annual Report, the CSSF had mentioned the conditions it imposed on UCITS under Part I to use these CDS. These requirements remain valid, but as regards UCITS under the law of 20 December 2002 as amended, the CSSF decided to adopt a more liberal approach and to accept that UCITS fix the maximum limit of inherent commitments to CDS to more than 20% of net assets. The CSSF requires that UCITS that decided to use this option submit a comprehensive description of the situation and all the documents justifying the application of an adjusted risk management.

- ***Open real estate UCIs***

As far as the possibility for a UCITS to invest in open real estate UCIs is concerned, the CSSF considers that an open real estate UCI is not an eligible investment under article 41(1)e) of the law of 20 December 2002 as amended, as it does not fulfil the conditions laid down under article 1 paragraph 2, first and second indents, of Directive 85/611/EEC. On the other hand, the CSSF considers that, under article 41(2)a), a UCITS can invest 10% of its net assets in a regulated open real estate UCI subject to an equivalent supervision.

- ***Gold Bullion Securities***

As regards the eligibility of Gold Bullion Securities as investment of a UCITS, the CSSF considers that a UCITS cannot invest in such securities, as article 40(2)d) of the law of 30 March 1988 as amended or article 41(2)c) of the law of 20 December 2002 as amended provide that a UCITS may not acquire either precious metals or certificates representing them.

- ***Real Estate Investment Trusts Funds (REIT funds)***

As regards the eligibility of Real Estate Investment Trusts (REITs) as investment of a UCITS, the CSSF considers that REITs are comparable to UCIs whose exclusive purpose is to invest in real estate securities. Consequently, in order to be able to fix the thresholds, it should be determined whether or not the REITs are closed to redemption.

- ***Multi-manager UCIs and investor information***

The CSSF decided that UCIs whose prospectus state that they are multi-manager UCIs are not required to notify the press in the event of a change in management.

The CSSF stressed that UCIs that make use of the multi-management principle must, as in the past, apply for a prior authorisation by the CSSF as regards the appointment of a new manager. They are not obliged to update their prospectus immediately. However, investors must be able to obtain from the central administration, at any moment, and if possible via Internet, information relating to the managers in charge of the effective management of one or several compartments of the UCI concerned. The financial statements must identify the managers during the given period.

Department Supervision of UCIs

First row, left to right:
Martine KERGER | Géraldine APPENZELLER | Thierry QUARING | Patricia JOST

Second row, left to right:
Jean-Claude FRAITURE | Damien HOUEL | Jean-Marc LEHNERT | Thierry STOFFEL | Dave REUTER

Third row, left to right:
Marc DECKER | Tom EWEN | Guy MORLAK | Charles THILGES | Marc SIEBENALER | Francis LIPPERT

Absent:
Marie-Rose COLOMBO | Dominique HERR | Vic MARBACH

| *Department Supervision of UCIs*

First row, left to right:
Christiane STREEF | Joëlle HERTGES | Pascale SCHMIT | Evelyne PIERRARD-HOLZEM

Second row, left to right:
Angela DE CILLIA | Roberta TUMIOTTO | Carole LIS | Nathalie REISDORFF | Francis GASCHE | Yolanda ALONSO

Third row, left to right:
Fabio ONTANO | Anica GIEL-MARKOVINOVIC | Stéphanie BONIFAS | Francis KOEPP | Claude WAGNER | Pierre REDING

Absent:
François HENTGEN | Nadine PLEGER | Daniel SCHMITZ | Michèle WILHELM

Department Supervision of UCIs

First row, left to right:
Claudine THIELEN | Géraldine OLIVERA | Jolanda BOS | Anne-Marie HOFFELD

Second row, left to right:
Claude STEINBACH | Danièle CHRISTOPHORY | Nico BARTHELS | Eric TANSON

Third row, left to right:
Christiane CAZZARO | Pierre BODRY | Pascal BERCHEM | Claude KRIER | Suzanne WAGNER

Absent:
Marie-Louise BARITUSSIO | Anne CONRATH | Pascale FELTEN-ENDERS | Danielle NEUMANN

| ***Department Supervision of UCIs***

First row, left to right:
Sandy BETTINELLI | Simone KUEHLER | Carole EICHER | Sabine SCHIAVO

Second row, left to right:
Roberto MONTEBRUSCO | Martin MANNES | Nathalie CUBRIC | Irmine GREISCHER | Ralph GILLEN | Joël GOFFINET | Marc RACKE

Third row, left to right:
Adrienne ANDRE-ZIMMER | Isabelle DOSBOURG | Diane REUTER | Alain STROCK | Laurent CHARNAUT | Karin HOFFMANN

Absent:
Carla DOS SANTOS | René SCHOTT