COUNTRY REPORT DENMARK 2008

1. Economic and financial background

Growth in the Danish economy declined to 1.8 per cent in 2007 after a strong increase in the preceding years. Growth in domestic demand was sound and broad-based in 2007, albeit more subdued than earlier on in the upswing.

Regarding the development of the GDP in 2008, official figures are not available yet. However the slowdown is estimated to have continued in 2008. The Danish economy remains close to its capacity limit where labour and capital shortages limit the scope for further growth. Employment has risen to an all-time high, and unemployment fell equivalent to 2.1 per cent of the labour force. This is the lowest unemployment rate since the early 1970s. Business investments increased by 10.8 per cent in 2007, following strong growth in the preceding year. The high level of investment reflects the shortage of labour, which has led to substitution by way of capital.

The Danish krone is stable at a level close to its central rate. Danish monetary and foreign exchange policy is aimed at keeping the krone stable vis-à-vis the euro. Due to the euro area's low inflation policy, this creates a framework for low and stable inflation in Denmark. The nominal effective krone rate rose as the krone strengthened vis-à-vis a number of other currencies. At end-2007, the nominal effective krone rate was almost 3 per cent higher than the level was one year earlier, thereby contributing to the weakening of competitiveness. Inflation averaged 1.7 per cent in Denmark in 2007. Towards the end of the year, inflation rose to approximately 2.4 per cent due to large price increases on energy and food. In the beginning of 2007, the yield on the benchmark Danish 10-year government bond increased from approximately 3.9 per cent to approximately 4.4 per cent at year-end.

From mid-2007 to spring 2008, household wealth has fallen primarily due to declining stock and housing prices. Nevertheless, total wealth has grown substantially during the sustained upswing, amounting to around 170 tEUR per household against just under 120 tEUR at end-2003. At the same time, the upswing has allowed the households to considerably expand private consumption without a drain on total wealth. Overall, the finances of Danish households are therefore still sound. Despite the slowdown on the housing market, private consumption increased by 2.7 per cent, supported by strong income growth, high employment rate and the households' sound net worth.

2. Data on funds under management and portfolios

The total assets under management decreased 6% from 121.1 bio Euro end July 2007 to 114.1 bio Euro in June 2008. The decrease is primarily caused by losses due to depreciations and payouts of a historically large amount in dividends of more than 3.4 bio Euro. Total net issues amounted to 8.4 bio Euro.

Table 1. Total Assets in main categories

	June 2007	June 2008
Equity	*53,7*	*45,0*
Bond	*49,8*	*51,7*
Balanced	*17,2*	*16,6*
Other funds	*0,1*	*0,1*
Hedge	*0,2*	*0,7*
Total	*121,1*	*114,1*

Table 2. Relative distribution of assets

	June 2007	June 2008
Equity	*44,4%*	*39,4%*
Bond	*41,2%*	*45,3%*
Balanced	*14,2%*	*14,6%*
Other funds	*0,1%*	*0,1%*
Hedge	*0,2%*	*0,6%*

Denmark has a highly developed bond market with a large amount of mortgage bonds, for which reason the investors have always taken a high interest in bonds compared to equities. In 2007, the net asset value of equity funds as a percentage of the total exceeded bond funds, but mid 2008 the share of bond funds is again larger than equity funds. The main reasons are the huge losses in equities due to depreciations.

Hedge funds continue to grow in numbers and in assets under management, albeit from a very low level as it is a fairly new fund type in Denmark.

During the period July 2007 to June 2008, 45 new funds have been launched and in June 2008, there were 789 Danish funds in total. All fund types, except balanced, has increased in numbers.

Table 3. Distribution of funds

	June 2007	June 2008
Equity funds	413	423
of which ...		
Danish	*48*	*48*
Global	*105*	*106*
European	*68*	*71*
Emerging markets	*24*	*25*
Far East	*22*	*22*
Northern American	*32*	*36*
Bond funds	254	264
of which ...		
Danish	*128*	*125*
Foreign	*126*	*139*
Hedge funds	5	10
Foreign funds	5	7
Balanced	90	83
Total	**767**	**789**

3. Key trends in flows and assets under management

The net issues amounted to 8.4 bio Euros from July 2007 to June 2008. The level was approximately the same in Q3-Q4 2007 and in Q1-Q2 2008 (3.9 and 4.4 bio Euro, respectively).

A remarkable trend is that the Danish investors have invested large amounts in fund shares with foreign equities and foreign bonds, while Danish equities and Danish bonds have been sold out. Concerns about inflationary pressure leading to expectations about rising interest rates have led investors to turn away from traditional Danish bonds to bonds with higher yields. Furthermore, investors have been looking for alternatives because of the poor performance figures in the developed equity markets and they have turned to the emerging equity markets, among others Latin America, China and India.

Figur: Net issues in fund categories

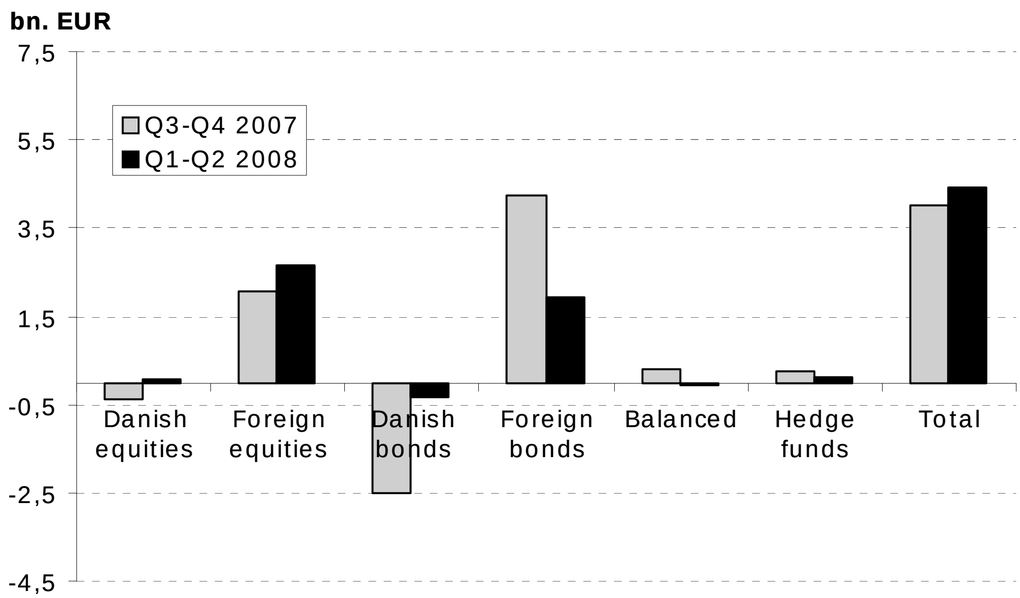
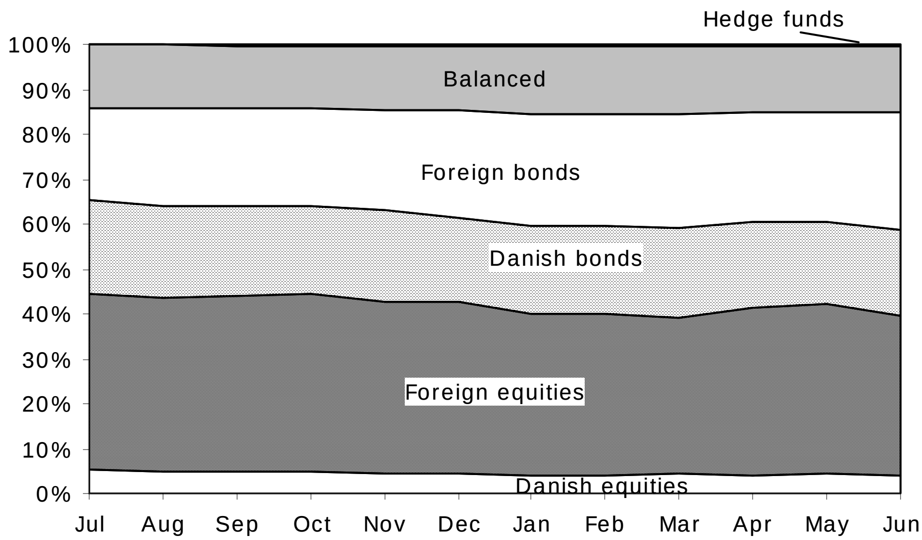
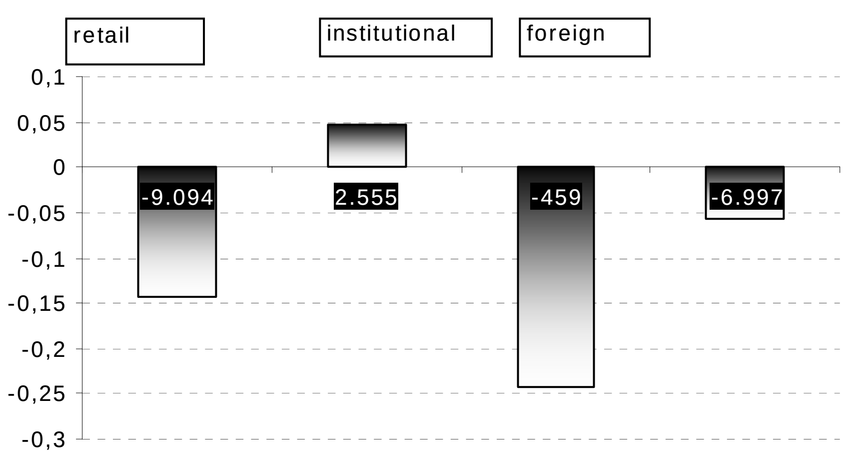


Figure 2: Relative asset distribution in major categories July 2007-June 2008



The Danish households invest smaller amount in fund shares compared to previous years, and in the first half of 2008 the net sales to the households was app. 0 bio Euro. Besides, the most retail funds are distributing and have paid out large dividends, but only a small part of the dividends have been reinvested. Therefore, the losses due to depreciations make the total net assets in retail funds decline 14% (9 bio. Euro). The institutional funds, however, continue to experience large inflows. In spite of losses due to depreciations they have had a growth rate of 4.5% (2.6 bio Euro).

Figure 3: Asset growth i percent for different investortypes June 2007 - June2008



Note: The number above each pillar shows the absolute decline in assets (in bn. EUR) for each investortype

4. Regulatory and self regulatory developments (including tax)

Civil law - Professional associations

In 2007, a new non-UCITS fund type called *Professional Associations* was introduced in Denmark

Due to the fact that only professional investors can invest in this type of fund, the rules regarding for instance registration, supervision and investor protection are not as strict as in UCITS. For instance, those funds are free to choose exposure limits in the fund.

Some investors, for example most institutional investors are per definition classified as professional investors. Others can apply for a classification as a professional investor. In order to be granted the status of professional investor, the investor must fulfil two of three requirements:

1) In average, the investor must have executed at least 10 substantial transactions in financial instruments per quarter during the last 4 quarters.

2) The investor portfolio of financial instruments and cash must exceed a value of EUR 0.5 million. .

3) The investor works or has worked for at least a year in the financial sector or in a position that requires knowledge of investment in financial instruments.

Tax rules

Only small adjustments of the tax legislation concerning investment associations have been introduced in 2007-2008.

5. Corporate governance (major developments)

No new major developments.

6. Fund Governance

No new major developments.

7. Product developments

Real estate funds

Based on an IFR report last year, describing how a legislation for regulated real real estate funds could be passed in Denmark, the IFR is still working on introducing open ended real estate funds in Denmark. As for now, it is only possible to invest in real estate via real estate companies that are quoted on the stock exchange or limited partnerships. Unfortunately, major problems with tax regulatory issues seem to be unsolved, and until these problems have been solved, the authorities will not pass any new legislation for real estate funds.

Share classes

In spring 2008, the IFR has succeeded in finding practical solutions with the authorities that make it possible for Danish investment associations to establish classes of shares. The relevant legislation is expected to be passed in the beginning of 2009. The Danish fund industry is very pleased that share classes are finally introduced on the Danish market, making it possible to use the same fund and portfolio as a basis for solutions tailor-made for different investor needs. The new possibility of using share classes is also expected to make it easier for the Danish fund groups to sell Danish fund shares in other countries.

8. Other major issues and developments

A new key ratio on investors' costs is improved

The IFR introduced in 2007 the APR - an abbreviation of Annual Percentage Rate - which is a unique Danish key ratio that gives investors an overall indication of the expenses of each fund on the market. It includes all expenses connected with trading in a mutual fund, including investors' maximum subscription fee and redemption fees.. Until now the APR has assumed that the investor was holding the investor shares for seven years, but in September 2008 a new APR calculator is released on the IFR website, making it possible for investors to select holding periods between 1-50 years. This makes it possible for investors to see almost the exact expenses for the preferred period, and the improvement of the APR will so enhance transparency on the fund markets which will benefit both investors and advisors.

New Danish website informs the investors about hedge funds

In January 2008, The IFR launched a website on hedge funds. The purpose was to provide Danish investors information on this new type of funds in Denmark. Danish registered hedge funds have only been sold to investors since 2005, and the Danish investors are still learning how hedge strategies work and can create positive return figures in declining markets.

Danish fund groups among first to be officially EFC-classified

In June 2008, the new EFC-classification (*E*uropean *F*und *C*lassification) was officially launched. Besides the fund groups that are founders of EFC, major Danish fund groups, representing 63 per cent of the Danish retail markets, were also officially classified at the launch of the EFC. The IFR and the Danish fund groups take an interest in making the EFC classication a success and will contribute to the process of making it a new European standard. Therefore, it is planned that the national Danish fund categories in 2009 will be based on the EFC categories. It is expected that Denmark will be the first country to adopt the EFC as a basis for the national classications.