

COUNTRY REPORT PORTUGAL 2008

1. Economic and Financial Background

Table 1: Key Economic Indicators		
	2006	2007
Population (million)	10.6	10.6
GDP (EUR billion)	155.1	162.8
Real GDP growth (%)	1.3	1.9
Inflation rate (%)	3.1	2.5
Unemployment rate (%)	8.2	7.8
Stock market capitalisation (EUR billion)	201.0	208.0
Stock market capitalisation (% of GDP)	129.5	127.7
Bond market capitalisation (EUR billion)	35.9	46.5
Bond market capitalisation (% of GDP)	23.1	28.1
Household gross savings ratio (%)	8.4	7.9
Household financial wealth (EUR billion)	173.4	197.8
Average per capita financial wealth (EUR)	16,353.0	18,632.2

Sources: INE – Portugal; Euronext Lisbon; Banco de Portugal

Portuguese economy continued to show, in 2007, signs of recovery, although the growth observed (1.9%) was still smaller than the one of the Euro Area (2.6%).

The effort of the Government in consolidating the Budget Deficit finally achieved the goal established, by lowering it below the 3% threshold.

Exports continued to be one of the main drivers although a deceleration was noted, when compared to the previous year.

Although a small reduction in the unemployment rate, it continues to show an high value, reflecting the weak economy.

Financial markets were affected by the turmoil caused by the subprime crisis and the second semester was negative in terms of performance. However, at the end of 2007, PSI-20, the index for the Portuguese Stock Market, registered a growth of 16.3%. In the first semester of 2008, the negative tendency worsened and the index registered a negative performance of 31.6%.

2. Data on Funds under management and portfolios

Table 2: Net Assets by the Fund Industry in Portugal (EUR billion)					
	Dec-2005	Dec-2006	Jun-2007	Dec-2007	Jun-2008
Home-domiciled UCITS	26.208	25.762	26.304	21.703	16.863
Home-domiciled non-UCITS	10.243	13.133	13.944	14.509	14.425
Total AuM	36.451	38.895	40.248	36.212	31.288

Table 3: Net Assets by Fund Type (EUR billion)					
	Dec-2005	Dec-2006	Jun-2007	Dec-2007	Jun-2008
UCITS:	26.208	25.762	26.304	21.703	16.863
Equity	2.202	2.971	3.781	3.307	2.097
Bond	11.184	9.783	9.732	7.574	5.514
Balanced	1.075	1.341	1.431	1.463	1.244
Money market	8.800	8.111	7.839	6.120	4.812
Fund-of-funds	1.794	2.061	1.846	1.507	1.107
Other	1.152	1.494	1.675	1.733	2.089
Non-UCITS:	10.243	13.133	13.944	14.508	14.425
Real Estate Funds	8.164	9.758	10.104	10.449	10.613
Other	2.079	3.375	3.840	4.060	3.812
Total	36.451	38.895	40.248	36.212	31.288

Table 4: Number of Funds					
	Dec-2004	Dec-2005	Dec-2006	Dec-2007	Jun-2008
Home-domiciled UCITS	199	202	208	212	210
Home-domiciled non-UCITS	90	121	236	283	301
Foreign funds registered for sales	636	891	1,179	1,576	1,649
Fund launches*	41	49	128	65	65
Fund liquidations*	17	9	3	8	16
Fund mergers*	1	6	4	6	9

* Includes only Home-domiciled Investment Funds. Occurred during the previous 12 months.

Portuguese Investment Fund Market was severally affected by the financial turmoil initiated in the second half of 2007. At the end of June 2007, total Assets under Management reached an historical high with more than 40 billion Euros. Since then, due to the depreciation of portfolios and, specially, to negative net sales, total net assets have reduced to 31 billion euros, which means a decrease of 22% in the past 12 months.

During the second half of 2007, Non-UCITS continue its ascending trend, growing 4%. The fact that a large percentage of these Funds have Investment policies aimed at guaranteeing the initial amount and, in some cases, a minimum return, explains this performance. In the same period, however, UCITS Funds fell 17.5%, Bond Funds and Money Market Funds being the categories the most "punished".

In the first half of 2008 the negative tendency intensified with both UCITS and NON-UCITS registering a negative growth: UCITS fell 22% while Non-UCITS dropped 0.6%.

One should mention, however, the evolution of "Other" UCITS because it was the only UCITS category that continue to grow. It comprises, fundamentally Funds with Flexible investment policies and because of this characteristic they have been enjoying great success amongst investors and, consequently, amongst managers who create more Funds of this type to satisfy investors' needs.

Also Real Estate Fund, perceived by investors as a safe haven, continue to show a positive performance, although the growth rate observed during the last 12 months reduced considerably to 5%, which compares with the 11% annual compound rate observed between December 2005 and June 2008.

3. Key Trends in flows and assets under management

Table 5: Net Sales by Fund Type (EUR million)					
	2004	2005	2006	2007	Jun-2007 to Jun-2008
UCITS:	617.2	2,010.4	-1,239.5	-4,594.6	-8,217.4
Equity	-9.5	80.5	303.1	97.5	-724.2
Bond	879.6	803.7	-1,533.5	-2,231.9	-4,085.1
Balanced	32.0	67.7	245.6	91.2	-117.8
Money market	-481.3	20.1	-732.4	-2,130.0	-3,113.1
Fund-of-funds	51.5	699.7	222.3	-553.6	-602.3
Other	144.9	338.6	255.4	131.8	425.2
Non-UCITS:	439.3	1,040.7	1,219.4	758.5	142.4
Real Estate	n.a.	n.a.	n.a.	n.a.	n.a.
Other Funds	439.3	1,040.7	1,219.4	758.5	142.4
Total	1,056.5	3,051.0	-20.1	- 3,836.4	-8,075.0

The financial turmoil started last year, as already mentioned affected negatively the Portuguese Investment Fund Market. While the first semester of 2007 ended with (small) positive net flows, in the second semester we observed large scale redemptions associated with the diminishing of new subscriptions causing a net outflow of 4.0 billion Euro. This trend continued in the first semester of 2008 and another 4.0 billion Euros of negative net sales were observed.

Non-UCITS, however, due to the reasons mentioned above, have been less affected, continuing to attract new money, although less than in previous periods.

UCITS suffered from the competition of alternative products, namely short-term bank deposits. With the financial crisis, banks needed alternative ways to finance themselves and the solution adopted was trying to capture more money from existing and new clients by offering very attractive rates of remuneration for short term deposits.

“Helped” by the volatility of the financial markets, investors saw in these products a safer way to invest their money withdrawing from other products, namely Investment Funds.

At the moment, redemptions seem to have stabilized at the levels registered before the beginning of the crisis, but net sales continue negative as new investment is very small, a trend that it is expected to continue while the volatility of the markets continues and banks continue to pay high interest rates for time deposits.

4. Regulatory and self regulatory developments

4.1. Better Regulation Initiative

One of the initiatives that has been on the Association's agenda, during the previous year, has been the exercise of “Better Regulation” in the Financial Sector. This challenge was issued, towards the end of 2006, to the National Council of Financial Supervisors by the Minister for Finance and it is intended to determine the obstacles, difficulties and barriers to perfecting the present regulation and supervision of the financial sector and to improving articulation between the various supervisors. The aim is to provide better services to the entities that are supervised and to the consumers of financial products and services.

It has already involved several public hearings on different matters and it has warranted the profound commitment of APFIPP and its Members, an effort, moreover, that is set to continue in the hearings still to be organized that will give rise to changes to the framework of the various activities represented by the Association.

4.2. MiFID implementation

The process of transposition of the Directive on Markets in Financial Instruments (MiFID) was fulfilled by means of Decree-Law 357-A/2007 of October 31.

With regard to the regulatory changes necessary to the implementation of the MiFID, which required the complete revision of some of the existing regulations – especially in the financial intermediation and markets areas – the Association followed with particular interest the various public hearings organized by the Securities Market Commission in this field and submitted its comments on the matters related with the sectors of activity that it represents.

APFIPP will continue to follow carefully this process and will also help its Members in those aspects raising doubts or greater difficulty in the adoption of the new rules imposed by MiFID

4.3. Eligible Assets for UCITS

The Commission Directive implementing the UCITS Directive regarding the clarification of certain definitions of eligible assets (2007/16/EC) has not yet been implemented in Portugal. However, a draft Decree-Law, amending Decree-Law 252/2003 of October 17th that rules the Mutual Fund activity, aiming to implement the Eligible Assets Directive was disclosed for public consultation during March 2008, but until now the final version has not been published.

APFIPP had the opportunity to submit its suggestions to the Supervisor Authority during the consultation period and has been monitoring the developments on this field, but no major impact is expected.

4.4. SICAV

The Portuguese Government intends to introduce Collective Investment Schemes of the corporate type (SICAV) in the Portuguese Legal Framework. The new instrument can be used either for Mutual Funds or Real Estate Funds and includes also SICAF – Closed-ended companies.

A draft Decree-Law has been submitted for public consultation and the final version is expected to come out until the end of this year.

Apparently SICAV / SICAF rules will not differ greatly from the ones that govern current Mutual and Real Estate Funds of contractual type and no official position has been advanced on what concerns the fiscal regime of the new product.

4.5. Taxation

With the Law of the State Budget for 2008, a positive sign was observed in the creation of the Extraordinary Urban Rehabilitation Support Scheme, an initiative that the Real Estate Management Members had awaited for some time and that may enhance their role on this field.

6. Fund Governance

6.1. Open Pension Funds Members' and Beneficiaries' Ombudsman

The recent changes on the Pension Fund legal and regulatory framework introduce the post of Ombudsman for Members and Beneficiaries of Individual Membership to Open-ended Pension Funds, who may be appointed by Pension Funds, Management Entities or Management Entity Associations.

Therefore, APFIPP appointed on behalf of its Members a unique Ombudsman of the Members and Beneficiaries of the Open-ended Pension Funds they manage. The option to designate a single Ombudsman for the various management entities ensures greater harmonization of the criteria employed in dealing with any claims lodged and also in making recommendations.

7. Product developments

As already mentioned above, some of the Funds categories that have been more successful among the domestic market have been Flexible Funds (UCITS Funds that are not bound to an investment policy) and also the Special Investment Funds (Non-UCITS Funds that can invest in nearly all types of assets and do not need to comply with the limits laid down in the UCITS Directive), since these type of funds offer a greater flexibility to adapt to the various market situations.

8. Other major issues and developments

8.1. Reform of the Social Security System

One of APFIPP's main concerns in 2007 has been the Reform of the Social Security Regime and the development of the Pension Funds market. Therefore, it submitted several proposals to increase the competitiveness and attractiveness of the Portuguese Pension Funds Market. It also organized a press conference to disclose the results of a comparative study ordered by APFIPP to measure the impact of the recently implemented Social Security Reform, both for the National Accounts and for the households (in terms of future expected Pension). This conference aimed at creating a conscience on the Portuguese Society that is fundamental to save for retirement if one wants to maintain or, at least, do not loose too much buying power after retiring.

8.2. 20th anniversary of Real Estate Funds

2007 was the year of the commemoration of the twentieth anniversary of the Real Estate Fund business in Portugal. To point out the date, APFIPP organized a seminar on "The 20th Anniversary of Real Estate Funds in Portugal - analysis and perspectives". The meeting brought together national and foreign specialists to reflect on the global evolution of the industry, on the recent developments of the domestic and European markets and on the new challenges facing the Real Estate market.

Another event related with the 20th anniversary of Real Estate Funds was the announcement of an award for the best academic study on this market that intends to incentive academic research and analysis on Portuguese Real Estate market, an area that is considered to need additional development.

The development of the Real Estate Funds in Portugal has been a topic on the Association agenda and for that purpose it organized a study to analyze the best practices in Europe, in order to determine future changes to propose to the Portuguese authorities that can increase Real Estate Funds competitiveness, both domestically and internationally. This study was driven by the growing integration of the European market in what concerns Investment Funds and by the reflection within the European Commission on the possible harmonization of Open-ended Real Estate Funds.