dutch fund and asset
MANAGEMENT ASSOCIATION

NETHERLANDS 2009 COUNTRY REPORT

1. Economic and Financial Background

Table 1: Key economic and financial indicators		
	2007	2008
Population (million)	16.4	16,4
GDP (EUR billion)	567	595
Real GDP growth (%)	3.5	2.0
Inflation rate (%)	1.6	2.5
Unemployment rate (%)	4.5	3.9
Stock market capitalisation (EUR billion)	958	456
Stock market capitalisation (% of GDP)	171.4	76.6
Bond market capitalisation (EUR billion)	-	735.6
Bond market capitalisation (% of GDP)	-	-
Household gross savings ratio (%)	-	-
Household financial wealth (EUR billion)	546.481	500.710
Average per capita financial wealth (EUR)	75,999.96	69,137.81

Table 2: Main assets of households (EUR billions)		
	2007	2008
Currency & Deposits	295.964	309.892
Debt securities	27.498	26.903
Quoted shares	30.668	16.684
Life & Pension funds	722.275	726.837
Investment funds	28.335	19.117
➢ Direct ownership	-	-
➢ Via life ins. policies	-	-
Other (money market + foreign funds)	23.913	14.581
Total financial assets	1.128.654	1.114.014
Total net wealth	546.481	500.710

The Dutch asset management market is dominated by collective pension fund schemes, which are by law obligatory for almost all Dutch citizens.

2. Data on funds under management and portfolios

Table 3: Net assets of the fund industry in the Netherlands (EUR billion)					
	2004	2005	2006	2007	2008
Home-domiciled UCITS	74.61	79.99	82.49	77.28	57.00
Real estate funds	14.19	15.77	19.36	13.68	10.5
Total AuM	88.80	95.76	101.85	90.96	67.50

Table 4: UCITS assets by fund type (EUR billion)					
	2004	2005	2006	2007	2008
Equity	33.47	39.17	43.51	40.69	38.5
Bond	19.54	15.96	15.17	12.86	18.5
Balanced	9.98	10.85	11.07	11.69	n.a.
Money Market	1.34	2.01	1.82	1.18	n.a.
Funds-of-Funds	-	-	-	-	n.a.
Other	10.28	11.99	10.93	10.85	n.a.
Total	74.59	79.98	82.50	77.28	57.0

2008 has been an unprecedented year in financial markets. What started out as a problem in credit markets inevitably made its way into other related markets, particularly equity and property. The extent of the problems has exceeded the worst case scenarios of investors worldwide. Like in many countries worldwide, 2008 was a poor year for the Dutch fund market. Net-redemptions in funds amounted to EUR 2.6 billion. Nevertheless, net outflows were substantially lower than in 2007, when an all time high was reached. The net Assets under Management in Dutch funds declined in 2008 with some 26% from 91 bn to 67 bn.

3. Key Trends in the UCITS Market

Table 5: Net sales of investment funds in the Netherlands (EUR millions)					
	2004	2005	2006	2007	2008
Home-domiciled UCITS	-2,078	-5,759	142	-4,119	-2,594
Real estate funds	-343	99	231	-356	-193
Total net sales	-2,421	-5,660	373	-4,475	-2,787

Table 6: Net sales of UCITS by fund type (EUR millions)					
	2004	2005	2006	2007	2008
Equity	-3,954	-3,087	537	-2,298	548
Bond	790	-3,619	-61	-1,815	-2971
Balanced	503	-300	17	636	-508
Money Market	4	438	451	-601	-267
Funds-of-Funds	-	-	-	-	-
Other	579	809	-802	-41	605
Total	-2,078	-5,759	142	-4,119	-2594

Note: Data concerning money market funds are up to 2008Q3 (three quarters). From 2008Q4 data about money market funds are not longer collected for the investment funds statistic, because money market funds are considered Monetary Financial Institutions (MFI's) under ECB regulation.

Net Acquisition by Households (EUR millions)		
	2007	2008
Currency & Deposits Investment funds	13.307 -3.726	9.894 -3.913
Total financial assets	n.a.	n.a.

Next to the abovementioned figures, Dutch invested capital in foreign investment funds (including institutional funds) declined by 17.5% from EUR 143 bn to 117 bn.
In 2007, 33% of those investments (EUR 48 bn) was held in Luxembourg based funds. This figure declined slightly to 30% (EUR 35.522 bn) in 2008. In 2007, EUR 20.6 bn (58%) of that amount was held by households. The 2008 figure for Dutch retail investors holdings in Luxemburg funds declined steeply to EUR 11.9 bn (33.5%).
Ireland's share was 11% (EUR 16,046 bn) in 2007, declining by 25% to EUR 11.984 bn in 2008 (10% of total). In 2007 of that amount EUR 1.5 bn was held by households. The 2008 figure for Dutch retail investors holdings in Irish funds declined to EUR 1.2 bn.
Total investments in funds from the European Union, excluding The Netherlands, were EUR 81,645 billion in 2007 and are EUR 62.335 bn in 2008.

Outside Europe, investments in US funds are largest. This figure went down from EUR 51,917 billion in 2007 (36,6% of total) to EUR 41,729 bn in 2008 (35,6%).

Table 7: Number of funds					
	2004	2005	2006	2007	2008
Home-domiciled UCITS	542	515	443	481	441
Home-domiciled non-UCITS	44	62	72	95	85

The number of Dutch funds does not show much difference with previous years. The drop in 2006 was particularly caused by migration of a number of funds from two international oriented fund promoters to Luxembourg. In The Netherlands, investment products are mainly distributed by the banks, who for obvious reasons show a growing appetite for structured notes. The lack of regulation of structured notes offers them a superior time-to-market environment throughout Europe. Retail investors are still not demanding more transparency for these competing investment products.

In fund distribution, the Dutch market already had an open architecture market before MiFID. Nevertheless, third party distribution is still a minor distribution model in The Netherlands with only a few fund supermarkets present. The large banks in The Netherlands do offer third party funds on the basis of guided architecture. Systems and personnel (best advice!) limitations make it impossible to offer all of the fund families available in the world.

4. Regulatory and self regulatory developments (including tax)

4.1 Asset management

In the framework of MiFID the government has in 2008 introduced a national regime for intermediaries for the distribution of investment fund related housing mortgages, which was followed by the MiFID inducements rules. The Dutch supervisor has consulted about how to supervise compliance with these rules, both for investment firms and other financial service providers, such as insurance intermediaries.

The Dutch Parliament is currently also discussing legislation to further de-materialize clearing and settlement of financial instruments in longtime existing laws. This is likely to lead to an abolishment of the remainder of bearer instruments and connected expensive administrative measures. The legislation will also improve the protection of the investors against bankruptcy of a custodian.

The Dutch regime for collective investment schemes is quite flexible. It is possible to have a Dutch based UCITS or non-UCITS which is either a legal entity (NV, BV, CV, etc) or a contractual type fund, an FGR. All of these types of funds can have the tax status of a 'Fiscale Beleggingsinstelling' ('FBI') or a 'Vrijgestelde Beleggingsinstelling' ('VBI') making the fund tax exempt when certain conditions are met. Obtaining a Dutch license for a UCITS or a NON-UCITS is not difficult, and if one has already a license as a fund management company, no elaborate procedures remain for individual funds, reducing time-to-market.

Building on this flexible framework, ahead of examples in Luxemburg and Ireland, a light supervisory regime is available for investment vehicles which are only offered to professional investors. Under this light regime there is little conduct-of-business supervision. Supervision is focused on prudential issues and fitness and properness of management.

As elsewhere in the EU, short selling of specific financial securities had been temporarily prohibited in the Netherlands. This prohibition has since been changed into an obligation to inform the supervisor about the details of the short transaction in case a threshold of 0,5% of the issued share capital is passed.

4.2 Pensions

The implementation of the IORP Directive is expected to be finalized by parliament soon. This will introduce the possibility of a 'general pension institution' with a European passport for defined contribution purposes to facilitate the cross-border pension business. In the near future also defined benefit regulation will follow. The Netherlands have built up a great expertise in pensions, since already after the Second World War state, industry and corporate pension funds were first introduced in The Netherlands. The Dutch pension funds are among the largest pension funds in the world, investing worldwide and applying a wide range of modern investment techniques. The Dutch skills in the area of retirement provisions include highly developed services on solvency and fiduciary management, liability driven investments, asset liability matching, actuarial techniques, pension fund management, administration and pension communication.

DUFAS in 2008 has developed a set of Principles regarding fiduciary management. The main driver is to add professionalism to the pension fund organisation. An asset manager looks only at the asset side of the equation. Because fiduciary management requires advising on both the asset and liability side of the pension funds' balance sheet, specific expertise and tasks have to be implemented by the external manager.

The concept of fiduciary management was described by Dr. Anton van Nunen in the Netherlands in 2001. Broadly, fiduciary management refers to the outsourcing of pension fund management to a single third party. This provider typically takes control of the pension fund from the scheme's trustees with responsibility for advice and implementation thereof, portfolio construction, asset manager selection, monitoring and reporting. Once the trustees adopt an overall investment strategy, the fiduciary manager takes responsibility for the asset mix, benchmark selection, risk budgeting and the hiring and firing of managers. Therefore, integrity and good governance of the fiduciary manager play also an important role in the DUFAS Fiduciary Management Principles.
DUFAS has also developed a template for a fiduciary management agreement, which can be found together with the Principles at www.dufas.nl

4.3 Tax rules

The Netherlands has a very favourable tax climate, which is attractive to both Dutch and foreign companies and investment vehicles. The advantages are:

- An extensive network of bilateral tax treaties all over the world with all major countries
- Corporate tax rate of 25.5%
- Return or exemption of foreign withholding tax (interest, dividends, royalties)
- Tax exemption for any holdings over 5%, meaning that any profits, losses, dividends and stock price gains can be received without withholding tax.
- Tax neutral fund solutions: Fiscale beleggingsinstelling (FBI) and Vrijgestelde Beleggingsinstelling (VBI)
- Tax incentives for foreign employees (30% arrangement)

The Vrijgestelde Beleggingsinstelling (VBI) is an alternative for the Fiscale Beleggingsinstelling (FBI). The FBI has an effective 0% corporate tax rate, which is tantamount to a tax exemption. There are some conditions that have to be met by an 'FBI' in order to qualify for the 0% corporate tax: the profits have to be passed on to shareholders annually after dividend withholding tax. Most foreign shareholders are able to reclaim the withholding tax. Shareholders have to meet certain criteria and there are limits to leverage. The FBI

is protected by the Dutch tax treaty network, which is especially important with respect to dividend withholding tax. All foreign withholding taxes, including dividend withholding taxes, are deducted from the Dutch dividend withholding tax.
There is no capital tax ("taxe d'abonnement"), wealth tax or any other tax on the assets of a fund in the Netherlands. This makes the FBI very appealing to – among others – institutional investors such as pension funds.

The Vrijgestelde Beleggingsinstelling (VBI) is quite similar to the Luxemburg SICAV. The 'VBI' is exempt from corporate tax, capital tax and dividend withholding tax. There are no shareholder requirements or leverage limits, but the VBI must be an open-ended fund, investing in liquid assets (no real estate). The VBI is however not protected by the Dutch tax treaty network.
This makes the VBI an interesting option for investments on which little or no withholding tax is levied. The VBI is especially popular for tradable bonds and financial derivatives, such as options, futures, forwards and swaps.

Neither the VBI nor the FBI has substance requirements, such as a fund manager based in the Netherlands, nor an accountant, administrator or custodian based in the Netherlands.

5. Corporate Governance

The Dutch government has proposed a bill requiring disclosure of voting rights in companies traded on Dutch markets in financial instruments starting at a 3% threshold (currently 5%, in accordance with the Transparency Directive), accompanied by a brief Yes/No statement on whether the shareholder supports the strategy of the corporation and its management or not. The same bill asks for identification of shareholders, foreign and domestic in companies traded on Dutch markets in financial instruments. Finally, this bill raises the threshold for putting items on the agenda of the shareholders meeting from 1% of voting rights to 3% of voting rights.

The Dutch government is considering legislation to create al "loyalty dividend" for shareholders who remain a shareholder for a certain period of time. They are also considering a disclosure requirement for economic long positions in cash settled financial instruments (cf. contracts for differences and total return equity swaps) and gross short positions.

6. Fund Governance

DUFAS in 2008 has developed a set of Fund Governance Principles, which allows all kinds of possible models of fund governance (as inventoried by IOSCO, and others). Execution of the principles is based on periodic review and reporting to the daily management, which are customary structures within fund management organisations already. Among others, the management of conflicts of interest, the segregation between investment decisions, settlement & administration and control, soft dollar arrangements and securities lending are topics for which a transparent policy needs to be developed by the fund manager. This policy should be published on the website of the fund manager.

Oversight on compliance with these self binding rules needs to be executed by an independent source, varying from supervisory directors, non-executive board members, depositary to external auditor. In terms of the application to day-to-day operations, the fund manager has the freedom and flexibility to select the most appropriate model and oversight entity for his organization. The appointed oversight entity will use the existing periodic review and reporting lines within the organization as an important source for its compliance assessment. The DUFAS Fund Governance Principles were approved by the Dutch Ministry of Finance.

7. Product developments

7.1 Socially Responsible Investing (SRI) Funds

Several SRI funds exist in The Netherlands. They are not distinguished in the government statistics, so figures on this fund type is not available. The major forces behind the SRI growth in the Netherlands are the public debate on the environment and climate change.

There is no special legislation regarding SRI funds in the Netherlands – al types of funds are treated equally.

7.2 Hedge funds

Hedge funds have started to create UCITS in the Netherlands, like in many other European countries. We also notice that plain asset managers are starting to use absolute return formulas and techniques.

8. Other major issues and developments

Globalisation and developments at financial institutions have led to a period of exciting and dramatic change in the financial sector that was unimaginable only a few years ago, as financial centres around the globe attempt to gain an increased share of the world's economy. Although the Netherlands has traditionally enjoyed a great deal of success in this field, there is a growing awareness that maintaining a high quality, competitive financial sector that can also grow, requires new tools, methods and solutions.

The Holland Financial Centre foundation ('HFC') is a joint initiative set up by organizations from throughout the Dutch financial sector. They include banks, insurers, trading firms, pension funds, asset managers, trade bodies, audit firms, law firms and the government. DUFAS, who's mission statement is the improvement of The Netherlands as a financial centre, also participates in this initiative. As a joint venture, the purpose of the Holland Financial Centre is to strengthen the Dutch financial sector and the attractiveness of the Netherlands as financial centre. To achieve this goal, Holland Financial Centre has chosen to focus on four priority areas: retirement management, financial sustainability services, financial logistics and Amsterdam Trading Venue. HFC has set up a counter function for foreign institutions who are interested in establishing themselves in The Netherlands. This counter offers them direct access to specialists from the Ministry of Finance, the Dutch financial supervisors and the Treasury for any questions companies might have in that respect.

More information about the purpose and procedures of HFC can be found at the web page: www.hollandfinancialcentre.com.

Holland Financial Center has opened the "HFC Plaza", a centre for start ups. HFC Plaza brings together education, research, starters and established companies for an average price that is 30% lower than the current Dutch market price. Innovation in the financial industry is different from innovation in other areas. Starting up an organization in the financial industry is relatively complex, due to the requirements of the regulators, the laws and regulations governing the industry and high entry barriers. In order to support starters in this situation, HFC Plaza was developed.

The creation of the Duisenberg School of Finance in Amsterdam in collaboration with some of the best universities in The Netherlands is another important initiative in this respect. Many foreign students are attracted. Lectures are in English. Amongst others, the Duisenberg School of Finance specializes in risk management techniques.

The Netherlands is a cheaper location for funds and fund management than many other jurisdictions.
- As stated earlier, little substance requirements;
- Very mature institutional market place;
- The Netherlands has tax treaties with a large number of other jurisdictions, reducing withholding taxes to zero in most cases;
- Short time to market for new funds due to efficient licensing procedure;
- Service providers to the financial sector are not as expensive as elsewhere;
- Wages in the financial sector are quite competitive on an international level
- The financial supervisor, the AFM, is easily accessible;
- The AFM is held in high regard internationally;
- Good and large financial infrastructure with highly qualified specialists.