COUNTRY REPORT UNITED KINGDOM 2008

1. Economic and Financial Background

Table 1: Key Economic and Financial Indicators		
	2006	2007
Population (million)	60.587	60.975
GDP (GBP billion)	1,303	1,382
Real GDP growth (%)	2.8%	3.1%
Inflation rate (%)	2.3%	2.3%
Unemployment rate (%)	5.3%	5.2%
Stock market capitalisation (GBP billion)	2,023	2,030
Stock market capitalisation (% of GDP)	167%	163%
Bond market capitalisation (EUR billion)	-	-
Bond market capitalisation (% of GDP)	-	-
Household gross savings ratio (%)	4.8%	3.1%
Household financial wealth[1] (GBP billion, net)	2,431	2,510
Average per capita financial wealth (GBP)	40,124	41,164

[1] Includes non profit institutions serving households

The UK economy grew 3.1% between 2006 and 2007 but growth has slowed more recently. In the second quarter of 2008, GDP was unchanged compared to the first quarter and up only 1.4% on the same quarter in 2007. Whilst output of the production industries is declining, there continues to be some growth in the services though at a much slower rate than last year.

Two key impacts on the economy have been the credit crunch and the rising price of commodities including oil. The latter has been reflected in an increase of 31% in the year to June 2008 in the price of materials and fuel purchased by manufacturing industries. This contributed strongly to the 10% increase in the output price index for manufactured products and the 3.8% increase in the consumer price index over the twelve months to June 2008 – the latter is well above the Government's 2% inflation target.

Average earnings rose by 3.4% in the year to June 2008, less than the increase in prices confirming the pressure on household budgets. By the first quarter of 2008, the household saving ratio had fallen to 1.1%, the lowest rate for more than 40 years.

Conditions in the credit markets have been extremely difficult over the past year. Liquidity in the secondary market has dried up as banks have conserved capital and dealing spreads have widened significantly. New issuance has been restricted to the highest quality names. The asset backed market has been totally moribund and is unlikely to improve until the economy begins to show an improvement. As a result, new lending by banks to companies and to the mortgage market is constrained by their need to conserve capital.

Against this background, and the decline in stock market values, it is not surprising that investors have had a reduced appetite for new investment in to funds. However, there were still net retail sales of £2.5bn into funds in the first half of 2008 – well down on £7.2bn in the same period of 2007 – but still positive. IMA's survey of investors in May 2008 showed that whilst more expected the market for investment to get significantly worse than better, only a minority thought that they were likely to withdraw investments in the following six months.

Asset Management

Most of the figures in this report, like those in the previous paragraph, relate to authorised investment funds, ie funds authorised by the UK Financial Services Authority (FSA) and domiciled in the UK. Some data is also provided for overseas domiciled funds authorised for sale to UK investors.

However, these funds, which amounted to £486bn at the end of 2007, represent only a small proportion of the total value of the assets managed by IMA members in the UK. Total assets managed by IMA members in the United Kingdom amounted to £3.4 trillion at the end of 2007. IMA's sixth Annual Management Survey reviewed this whole industry. The survey found that:

- IMA members run a full range of products out of the UK, including property and alternatives. Almost half of respondents run hedge funds.
- Institutional clients account for 76% of total assets under management, retail for 23% and private client money for 1%.
- Overseas clients (both institutional and retail) account for some 30% of total assets under management.
- Internationally, IMA member firms or groups of which they are a part managed a total of £15.8trn.
- UK-headquartered IMA firms managed £2.0trn in the UK as at December 2007, with a further £1.8trn managed internationally by these firms or groups of which they are a part.
- The industry remains relatively unconcentrated, with the top ten firms accounting for less than 50% of total assets under management. This has broadly been the case for the last five years.
- In terms of ownership, insurance-owned asset managers remain the largest single group, with 30% of assets under management. Asset / fund managers are the second largest group (27%).
- Of the £3.4trn under management by IMA firms, 52% was invested in equities, 32% in fixed income, 9% in cash / money market instruments and 4% in property. The remaining 3% is accounted for by a variety of alternative asset classes, currency overlay and structured products.
- UK equities under management continue to fall, with quite a sharp drop over the 12 months to December 2007. Headline numbers show that UK equities accounted for only 51% of total equity exposure.

2. **Data on funds under management and portfolios**

Table 2: Net assets of the funds industry in UK (GBP billion)					
	2004	2005	2006	2007[1]	2008 H1
Home-domiciled UCITS	259.7	331.0	392.3	447.9	405.7
Home-domiciled non-UCITS	18.9	22.5	17.8	20.2	19.6
Funds domiciled abroad and promoted by national providers[2]	-	-	12.2	18.0	16.4
Total AuM	278.6	353.5	422.3	486.1	441.6

[1] From January 2007 IMA has included additional institutional funds which partly account for the increase in FUM. This also affects sales figures.
[2] Overseas funds comprise open-ended funds which are domiciled outside the UK, FSA recognised and sold into the UK with distributor status. Collection of information commenced in July 2006 and number of funds providing information increased during 2007.

Table 3: Net Sales of Investment Funds in United kingdom (GBP million)					
	2004	2005	2006	2007[1]	2008 H1
Home-domiciled UCITS	7,399	13,308	16,704	595	2,323
Home-domiciled non-UCITS	1,158	285	4,069	3,269	177
Funds domiciled abroad and promoted by national providers[2]	-	-	545	1,648	-938
Total Net Sales	8,557	13,593	21,318	5,512	1,562

[1] From January 2007 IMA has included additional institutional funds which partly account for the increase in FUM. This also affects sales figures.
[2] Overseas funds comprise open-ended funds which are domiciled outside the UK, FSA recognised and sold into the UK with distributor status. Collection of information commenced in July 2006 and number of funds providing information increased during 2007.

Table 4: UCITS Assets by Fund Type (GBP billion)					
	2004	2005	2006	2007	2008 H1
Equity	193.3	244.9	290.8	312.4	272.6
Bond	41.5	51.9	58.7	80.1	79.1
Balanced	24.6	25.5	30.7	35.1	33.1
Money market	2.2	2.7	3.6	5.1	5.0
Fund-of-funds[1]	14.9	23.3	21.3	24.9	23.9
Other	4.4	5.3	8.5	15.2	16.0
Total	266.0	330.3	392.3	447.9	405.7
of which					
➢ Guaranteed	1.0	1.0	0.6	1.0	1.0
➢ ETFs[2]	-	-	-	-	-

[1] Funds-of-funds are not included in the total in order to avoid double counting.
[2] IMA do not collect information on ETFs.

Table 5: Net Sales of UCITS by Fund Type (GBP million)					
	2004	2005	2006	2007	2008 H1
Equity	4,111	3,955	5,088	-5,682	-2,568
Bond	2,327	5,261	5,953	576	2,943
Balanced	1,629	2,531	2,732	2,791	917
Money market	-498	488	1,012	1,275	-130
Fund-of-funds[1]	1,599	2,933	2,739	2,298	986
Other	-170	1,073	1,919	1,634	1,162
Total	7,399	13,308	16,704	595	2,323
of which					
➢ Guaranteed	-33	-2,018	750	350	236
➢ ETFs[2]	-	-	-	-	-

[1] Funds-of-funds are not included in the total in order to avoid double counting.
[2] IMA do not collect information on ETFs.

Table 6: Assets of Other Nationally Regulated Funds[1] (GBP billion)					
	2004	2005	2006	2007	2008 H1
Real estate (open-ended)[2]	3.1	6.1	11.3	11.3	10.0
Alternative management[3]	0.1	0.2	-	-	-
Special funds[4]	15.6	16.2	6.6	8.9	9.6
Other	-	-	-	-	-
Total	18.9	22.5	17.8	20.2	19.6

[1] Excludes investment trust funds, which are not represented by IMA.
[2] Figures relate to open ended real estate funds. Real Estate Investment Trusts are not included.
[3] Funds included here to 2005 (futures and options funds and geared futures and options funds) are included from 2006 in other lines as appropriate.
[4] From 2006, covers all non-UCITS funds that are not property funds. Prior to 2006, figures include “exempt institutional funds” that have since become UCITS.

Table 7: Net Sales of Other Nationally Regulated Funds[1] (GBP million)					
	2004	2005	2006	2007	2008 H1
Real estate (open-ended)[2]	1,615	2,452	3,009	1,389	-416
Alternative management[3]	-32	-1	-	-	-
Special funds[4]	-425	-2,166	1,060	1,880	593
Other	-	-	-	-	-
Total	1,158	285	4,069	3,269	177

[1] Excludes investment trust funds, which are not represented by IMA.
[2] Figures relate to open ended real estate funds. Real Estate Investment Trusts are not included.
[3] Funds included here to 2005 (futures and options funds and geared futures and options funds) are included from 2006 in other lines as appropriate.
[4] From 2006, covers all non-UCITS funds that are not property funds. Prior to 2006, figures include "exempt institutional funds" that have since become UCITS.

Table 8: Number of Funds[1]					
	2004	2005	2006	2007	2008 H1
Home-domiciled UCITS					
➢ Funds	2,014	2,156	1,920	2,054	2,118
➢ Units	-	-	-	-	-
➢ Classes	-	-	-	-	-
Home-domiciled non-UCITS	64	69	114	124	130
Foreign funds registered for sales [2]	-	-	506	615	569
Fund launches	188	189	177	215	95
Fund liquidations (defined as closed funds)	192	230	148	143	74
Fund mergers (defined as closed funds)	-	-	-	-	-
Average fund size[3] (GBP million, median)					
➢ Equity	66.9	82.7	91.5	90.2	78.8
➢ Bond	58.7	77.0	94.0	94.4	98.1
➢ Balanced	29.9	46.9	53.1	54.6	44.9
➢ Money market	10.3	13.4	18.3	39.0	53.2
➢ Real estate (open-ended)	271.6	286.6	309.8	83.6	70.7
➢ Special	-	-	53.4	67.2	53.4

[1] Table excludes investment trust funds, which are not represented by IMA.
[2] Overseas funds comprise open-ended investment funds which are domiciled outside the UK, FSA recognised and sold into the UK with distributor status. Figures represent funds reporting statistics to IMA.
[3] Based on all UK domiciled funds, both UCITS and non UCITS.

3. Key trends in flows and assets under management

Home Domiciled Funds

Total funds under management of home domiciled UCITS and non-UCITS funds at the end of June 2008 were £425bn. This represented a decrease of over 9% compared to the level seen at year end 2007 and a decline of just under 9% when compared to June 2007.

Gross sales of funds (both UCITS and non-UCITS) were £54.4bn in the first half of 2008, little changed from the same period in 2007 (£55.6bn) and down slightly from the £58.0bn recorded in the second half of 2007. Total net sales for the first half of 2008 were just under £2.5bn, with retail sales at just over £2.5bn and institutional sales showing a small net outflow (£23m). This £2.5bn net retail investment compares to nearly £6.7bn for the same period in 2007, a decrease of over 60%. November and December 2007 along with January 2008 saw net retail sales turn negative – the first monthly retail outflows since 1992 highlighting that retail investors became more cautious as financial markets and the economic outlook deteriorated.

During the first six months of 2008 net sales of UCITS funds at £2.3bn accounted for 93% of total home domiciled net sales. This contrasts with 2007 as a whole when net sales of non-UCITS funds represented 85% of the total.

In terms of net retail sales, the Specialist sector was the most popular sector during the first half of 2008 taking in more than £2.5bn, commodity funds accounting for more than 40% of this, or £870m. As may be expected during times of stock market declines and increased volatility, equity sectors were hardest hit and the UK All Companies sector was the worst selling sector over this period with outflows of close to £1.5bn. This was closely followed by the Europe Excluding UK sector which registered net retail outflows of £1.1bn.

Non-UK Domiciled Funds

Defined as open-ended investment funds which are domiciled outside of the UK, and are FSA recognised and sold into the UK with distributor status, the IMA has collected data on these funds since July 2006.

At June 2008 funds under management for these funds were £16.4bn representing data from 31 fund companies consisting of 569 funds.

Net outflows of nearly £1bn were recorded for the first half of 2008 with both retail (£370m) and institutional (£570m) clients redeeming. However, total net sales of offshore funds within the recently created IMA Absolute Return were positive, totalling over £115m. Overall total gross sales of non-UK domiciled funds into the UK were over £4.6bn in the first six months of 2008.

UCITS funds

In terms of UCITS funds, as an asset class equities continue to dominate accounting for 67% of all UCITS assets at end June 2008. This figure has decreased from just under 70% at December 2007 and from 71% in June 2007. The proportion of UCITS assets held within UK Equities has also slipped to 37% at the end of the first half of 2008 from 41% at the same point in 2007. At end June 2008 bond funds represented over 19% of UCITS assets, followed by balanced funds at 8%.

Total net sales of UCITS funds were positive for the first six months of 2008 at £2.3bn although there were large outflows of £2.6bn from equity funds by both retail (£900m) and institutional (£1.7bn) investors. During the first half of 2008 bond funds had net inflows of £2.9bn, more than five times the amount recorded for the whole of 2007 as investors sought a safer haven from volatile equity markets. The period January to June 2008 also saw net inflows for ‘balanced’ and ‘other’ funds while money market funds saw a modest outflow due to institutional selling.

UCITS fund of funds have performed relatively well in comparison to the overall UCITS market. Funds under management at end June 2008 of £24bn have fallen only 4% from the December 2007 value while UCITS funds under management in general have fallen by more than 9% over the same period. Although total net sales for the first half of 2008 at £986m were down 27% compared to the same period in 2007 they were slightly higher (4%) than that recorded for the second half of 2007.

Other nationally regulated funds

Non-UCITS funds had £19.6bn funds under management at the end of June 2008 representing around 4% of total funds under management (UCITS and non-UCITS). Non-UCITS funds consist of two groups: open-ended real estate funds and special funds each of which now account for about one-half of the funds under management. Whilst there were strong sales of the real estate funds during 2006 and the first half of 2007, this was followed by net outflows of £1.1 billion in the second half of 2007 and £420 million in the first half of 2008. Special funds, however, continued to experience net inflows amounting to £593 million in the first half of 2008 compared with a total of £1.9 billion for the whole of 2007.

4. Regulatory and self-regulatory developments

4.1 UCITS

In implementing the Eligible Assets Directive, it has become clear that there are some areas where clarification by the Directive and within guidelines issued by the Committee of European Securities Regulators (CESR) has not go far enough and that different Member States are still interpreting some measures differently. For example, some States allow open-ended hedge funds within their 10% limit for non-listed instruments, the CESR's guidelines which potentially allowed the physical shorting of stock (now resolved), and the application of the "concentration" limits to umbrella structures differs. These are matters that are being discussed at national level and within CESR.

We issued revised guidelines for members on "Derivatives Risk Management Processes". The FSA rules recognise that funds with a more 'complex' risk profile should employ a more sophisticated risk management process. However, there is no regulatory definition of what is sophisticated or what is un-sophisticated.

After IMA lobbying on a regulated covered bond regime, a more robust regime has been introduced, instruments falling within which will be eligible assets for UCITS.

4.2 Non-UCITS Authorised Funds

The FSA is to extend the investment restrictions for non-harmonised retail funds to allow for funds of alternative investment funds ("FAIFs"). This will enable a much wider range of funds to be authorised in the UK for marketing to retail investors, including funds of offshore property funds and funds of hedge funds.

In the light of extreme conditions in the real estate market over the turn of the year, the Financial Services Authority (FSA) has reviewed the rules for property funds on valuations and suspension of dealing. Despite the very difficult conditions experienced by fund managers, liquidity was well-managed and no authorised fund suspended dealing. Also, valuations used for pricing purposes were constantly monitored and adjusted, so fund prices remained as sound as possible in the circumstances. The FSA has therefore proposed no more than minor amendments to the rules to reflect what happened in practice.

4.3 Disclosure and Distribution

"Best execution" is to be applied to intermediaries distributing UCITS funds in the UK from 1 November 2008. All other aspects of MiFID relating to fund distribution were already in place by virtue of existing Conduct of Business and it has, therefore, had little impact.

The two key topics over the past twelve months were the FSA's approach to and focus on the regulatory principle of "Treating Customers Fairly" (TCF) and its "Retail Distribution Review" (RDR). We succeeded in developing a common understanding with the FSA on the practical implementation of TCF for authorised funds, which led to publication of "good practice illustrations"; and a series of good practice workshops have helped members develop their responses to this initiative. On the RDR, we spent time developing a position with our members to reflect best the industry's needs in what is a rapidly changing distribution landscape. No new rules have been introduced by the FSA to date, but it has published hundreds of pages of text expanding on its views and requirements, which has resulted in accusations of "regulation by the back door". New FSA top management has acknowledged these concerns.

Investor protection measures and transparency continued to occupy the FSA and discussions within Europe. We have consistently made the case for a level playing field between all products, so that the simplified prospectus (to be re-named the Key Information for Investors) and proposals around "substitute" retail investment products do not disadvantage open-ended funds.

We published comprehensive guidelines on Yield Calculation and Disclosure by UK Authorised Funds and revised guidance on TER Calculations and the preparation of "Short Reports".

4.4 Fund Accounting and Operations

We have undertaken a review of our "Statement of Recommended Practice" (SORP) for the accounting of authorised funds. At this stage there is to be no further convergence with IFRS and the main changes are, therefore, to address the expansion in the range of investment powers available to funds, demand for greater clarity regarding the split of income and capital, and text on real estate.

We issued a reference document for members on issues to consider when launching hedged currency share classes.

Amending legislation to allow paperless renunciation and transfer of fund units/shares is to be introduced imminently, as a direct result of IMA lobbying. We have drawn up guidance for members on the "reasonable steps" they might take to ensure the validity of disposal or transfer instructions received via electronic means. We are also involved in a number of other developments in relation to fund processing, in the interests of achieving greater industry efficiency, not only within the UK but on a pan-European basis. In particular, domestically, the IMA is assisting Euroclear UK & Ireland (the UK Central Securities Depositary) as it develops plans to provide cash and stock settlement of fund transactions in its CREST system."

4.5 **Taxation**

Personal tax changes impacting fund investors

A significant change in the UK tax code over the last year is the reform of capital gains tax. From 6 April 2008, individual investors in UK authorised funds (UCITS or non-harmonised retail funds) and distributing offshore funds will be taxed at a flat rate of 18% on capital gains. Investors in non-distributing offshore funds will continue to be subject to income tax on gains.

The Government announced in the Budget that the 10% tax credit granted to UK investors on domestic dividends would be extended to dividends received from overseas companies. It has since withdrawn this benefit on distributions from foreign companies that are Offshore Funds, as the draft legislation would have caused inadvertent and adverse effects for UK bond funds and cash deposits. However, it is committed to discussions with the industry on how to refine the proposals to deliver the policy objective of a level playing field.

Changes to the taxation of authorised funds

We have been working with HM Treasury ("HMT") on a number of aspects of the tax regime for authorised funds, which are now coming to fruition.

The Government published an initial discussion paper on tax elected funds (or "TEFs"). The TEF regime aims to move taxation from the fund level to the level of the investors. Under the proposals, authorised funds would be able to make an irrevocable election to become a TEF, assuming certain conditions are met. The TEF would remain technically subject to tax, but each income stream would be exempt. It is expected that the effective exemption from tax would improve the marketability of UK funds, despite the minimal tax leakage for most investors under the current rules. The discussion paper is light on detail as many aspects of the regime are dependent on other outstanding consultations. However, it is clear that TEFs would make at least two types of distributions and be required to withhold tax according to the nature of the distribution and the tax position of the recipient.

HMT proposes to replace the qualified investor scheme ("QIS") 10% substantial holding test with a purposive "genuine diversity of ownership" requirement. The proposed QIS genuine diversity of ownership condition has no quantitative threshold or element, but requires funds to make declarations in their constitutional documents and abide by these. Currently, there is a requirement that no investor should own 10% or more of a QIS, with exclusions for UK pension funds, life funds and charities (so called "excluded investors"). Ensuring compliance by investors that are subject to the measure places an operational burden on the fund, carries reputational risk and is unnecessarily restrictive.

A new regime for property funds has been introduced this year, following an in-depth consultation process with the industry. The property authorised investment fund ("PAIF") regime is an authorised, unlisted, open-ended alternative to UK REITs. If a fund elects to be within the PAIF regime, property and other income will be exempt from tax in the fund on the basis of it being fully distributed and withholding tax will be applied on distributions. Income will retain its underlying nature on distribution to investors - property income, UK dividends and other income. The regime has been in place since 6 April 2008, but the systems work necessitated by the need to pay a three-line distribution means it is unlikely that managers will be able to take advantage of the new regime immediately. Meanwhile we are discussing with HMT what more might be needed to assist offshore institutional funds to repatriate.

The proposals to allow for funds of alternative investment funds ("FAIFs" – see above) have tax implications. If the underlying funds are not income-distributing funds, then the FAIF would have been taxed on gains in those underlying funds. HMT therefore agreed to the IMA's request for an immediate amendment to the AIF tax regime to facilitate FAIFs predominantly invested in non-distributing funds. They have also committed to discuss with us a more flexible solution once the Offshore Fund rules are finalised (see below).

The IMA continues to lobby for abolition of Schedule 19 Stamp Duty Reserve Tax, which is a charge to the fund in addition to SDRT payable on acquisitions of UK equities. It is a cumbersome tax that raises little revenue, is costly to administer and audit, and discourages foreign investors. The Government is committed to "working further with industry on options for reform".

In October 2007, HM Revenue & Customs ("HMRC") published a statement on the tax treatment of financial derivatives, which provided much needed clarification regarding whether funds investing in those instruments would be treated as investing or trading for tax purposes. IMA welcomed this development and we are discussing with HMT whether more might be done, given that the tax consequences are severe.

Non-UK funds

The IMA submitted a response to the partial draft regulations on the proposed revised offshore fund regime ("OSFR"). The OFSR is an anti-avoidance regime designed to prevent UK taxpayers from gaining a tax advantage from the accumulation of income offshore via holdings in non-UK investment vehicles. The current regime is administratively burdensome and in many cases is no longer in line with regulation or commercial reality. Under the proposed revisions, an offshore fund would be categorised as a reporting fund, if the fund satisfies the conditions laid out in the regulations, or a non-reporting fund. Investments in non-reporting funds would be subject to less favourable tax treatment.

The IMA welcomed changes announced in the Budget to the investment manager exemption ("IME"), which allows non-domestic funds to use UK investment managers without tax disadvantages for the funds. The changes should alleviate much of the remaining uncertainty faced by the industry and evidence the new approach being taken by HMRC.

Following the outcome in the *JP Morgan Fleming Claverhouse* case, HMT announced in the Budget that the VAT exemption for investment management would be extended to include all collective investment schemes available for direct investment by the general public. The new rules now include investment management of offshore funds, so that input VAT attributable to the investment management services can no longer be recovered, increasing the cost to the investment manager. We understand that the policy intent is that the exemption should apply only to sub-funds marketed to UK investors. However, there is concern that the drafting of the Order means that the exemption would apply at the umbrella level of the offshore fund. IMA is involved in discussions with the Government to resolve the issue.

Other matters

The IMA continues to liaise with HMT and other interested parties on developments in the European Savings Directive and take the view that some stability is preferable in this area, although we support calls for a level playing field with competing products.

The IMA has provided comment to HMT on current Double Tax Treaty ("DTT") issues and input into the current project to include provisions in the OECD Model DTT in order to provide improved terms for the recovery of withholding tax for AIFs and other collective investment vehicles.

4.6 Pensions

Legislation is currently passing through Parliament which will result in a major reform to patterns of private pension saving in the second and third pillars:

- From 2012 all employees who are not already in a good employer scheme (either defined benefit or defined contribution) will be auto-enrolled into such a scheme. For those without access to one (including the self-employed), a new system of Personal Accounts will be established under a quasi-state structure. Auto-enrolment means that employees will have the right to opt out if they prefer not to contribute.

- A minimum contribution of at least 8% of gross qualifying earnings (between around £5,000 and £33,000) must be made. Of this 8%, employers must contribute at least 3%.

There are a number of potential opportunities for the investment management industry. Firms will be able to supply investment services to the Personal Accounts system, which will operate entirely with private sector expertise. Investment managers may also see increasing flows as a result of greater numbers of employees becoming members of existing pension schemes, whether trust or contract-based.

5. Corporate governance - major developments

IMA has regularly undertaken a survey of members' engagement with investee companies to demonstrate the industry's adherence to the Institutional Shareholder Committee's Statement of Principles and various other matters, for example, voting disclosure. Four surveys have been completed to date: 3 months to 30 June 2003 and the years ended 30 June 2004, 2005 and 2006. A survey was not undertaken for 2007 as the exercise is quite resource intensive for both the industry and the secretariat, and the escalation in the level of engagement evidenced in the past was levelling off. However, as Government's interest in this area, particularly in relation to voting disclosure – see below, is apparent and the industry needs to continue to demonstrate progress, we consider that we should conduct a further survey for the two years ended 30 June 2008.

The Companies Act 2006 gives the Treasury power to require institutional investors to disclose how they vote. IMA and others secured Government agreement that the power would not be used if the existing voluntary approach could be seen to be working. In this respect, there has been an increase in the publication of voting records. From our annual engagement survey as at 30 June 2003, only 2 fund managers disclosed voting information on their websites. This rose to 10 in 2004 and 15 in 2006. An update for the 33 managers that participate in our survey showed that, as at February 2008, 20 managers disclosed information on how they had voted publicly – some disclosing every resolution whereas others provide summaries - and one discloses that it will disclose voting information to clients on request. Furthermore, the Institutional Shareholders Committee (ISC), of which IMA is a member, has published a voluntary framework on voting disclosure which aims to encourage public disclosure and, where there is a policy not to disclose, that the reasons are explained – a "comply or explain" approach.

The Companies Act 2006 also enables auditors to limit their liability by contract from 6 April 2008. The FRC has issued guidance on the form of such contracts which have to be approved annually by shareholders. The ISC also issued guidance on what investors will expect in such agreements.

IMA continues to provide the secretariat for the Shareholder Voting Working Group which plans to issue a further report on impediments to voting UK shares. Following the fourth report of July 2007, 13 FTSE 100 Chairmen asked if they would trace their votes for their 2007 AGMs to see if any had been lost and report back. The next report will follow up the results from five FTSE companies that participated in the exercise as it is apparent that votes still go missing.

6. Fund governance

The IMA and the Depositary and Trustee Association (DATA) have issued to their members a code for disclosure of brokerage commissions, where those commissions cover execution and other (e.g. research) services supplied by the broker. It is based on IMA's disclosure code for pension funds. The FSA prefers a model whereby the depositary receives, analyses and questions these disclosures in an assumed capacity as "investor representative". However, the FSA has not introduced rules to this effect, so the Code is voluntary.

7. Product Developments

Property funds have been the subject of much attention over the last few years however it looks as though mid 2007 marked a turning point. Funds under management (UCITS and non-UCITS) at end June 2008 were £11.1bn, down 11% on year end 2007 and 31% down on June 2007. The fall in funds under management is a combination of fund performance and net outflows – around £1.4bn net was withdrawn from property funds over the period July 07-June 08. The first half of 2008 saw a slowing in the pace of total net redemptions compared to the second half of 2007, with institutional investors withdrawing over £420m while retail investors have actually contributed £50m to net sales.

Absolute Return funds have grown in popularity and, in April 2008, IMA launched an Absolute Return sector which for the first time in IMA sector history contains both onshore and offshore domiciled funds. Total funds under management at end June 2008 stood at £2.8bn. The first half of 2008 saw strong demand for this product type with total net sales of nearly £1.2bn. Demand from retail investors was particularly high for UK domiciled funds which saw net inflows of £870m whilst offshore funds saw a slight outflow (£20m).

Demand for ethical funds from both retail and institutional clients has remained relatively robust both in second half of 2007 and first half of 2008 despite funds under management declining 11% from year end 2007 to end June 2008 to stand at £5.2bn. Total net sales for the period July 07-June 08 were £450m compared to £500m for the previous twelve months.

8. Other major issues and developments

We have been heavily involved in lobbying and debates around Personal Accounts, an important milestone in helping people to save for retirement. The Government endorsed the position taken by IMA, giving us a high degree of credibility in this area and establishing us – and by extension the investment management industry – as major participants in future debates about long-term saving. IMA lobbying was a significant factor in keeping low limits on annual contributions and transfers in to personal accounts.

We published a discussion paper and a research paper on alternatives to annuities for producing retirement income. The papers argue that people should not be required to buy an annuity by the age of 75 because it limits choice, and we quantified the potential benefits of abolishing the age 75 rule and the scope for improved returns.

Our research programme for 2008 includes work on the impact of the credit market squeeze on investors, with an analysis of possible outcomes in terms of market structure, a piece on pensions focusing on default fund design in DC schemes, research on consumer behaviour and an analysis of the impact of new players and product offerings in the institutional asset management market.

We commissioned KPMG to produce a report, “The Value to the UK Economy of UK-Domiciled Authorised Investment Funds". It calculates the revenue cost when funds move offshore, putting the tax loss to HMT at £720,000 for every £1 billion of funds domiciled offshore instead of in the UK.

During 2007 we ran four seminars for staff at the FSA, HMRC and HMT. These events covered Property Investment, Use of Derivatives, Outsourcing to Fund Service Providers and Money Markets. We also facilitated another series of three secondments from the FSA to member firms.

Our two-day introductory training courses on retail and institutional business remain very popular and as a result we increased the number of courses provided during 2007. We have worked closely with the Securities and Investment Institute to help them provide more relevant qualifications for our sector. A working group of IMA members helped the Institute develop “Introduction to Investment – The Foundation Qualification” and IMA’s board have recommended this qualification for all new staff joining the industry.

Our 2007 programme of workshops and seminars was again well attended by members. “MiFID unravelled”, designed to help members train their staff in-house, was a major success. We also ran events on Outsourcing to Fund Service Providers, Training in Derivatives and seven workshops and a seminar on “Treating Customers Fairly”. We have published good practice materials on all these topics, including current market practice and checklists of pointers and pitfalls on our website.

We also supported the Financial Services Skills Council in accrediting both training and providers, and are helping them develop National Occupational Standards and an Endorsement Scheme for T&C.

IMA has continued to collect and publish monthly investment fund statistics. As a part of an overhaul of our funds data, we are negotiating the collection of information from fund platforms with a view to publication. We launched our Data Exchange service for members who choose to view one another's fund level statistical data. By June 2008, there were 16 firms participating including some of biggest fund managers. We also run our Asset Management Survey for the seventh year with a record 77 firms participating.

In relation to IMA sectors, IMA definitions in the fixed income sectors were amended on 1st September after a period of consultation with IMA members. Funds have until the end of the year to comply with any new parameters. Progress has also been made on assessing whether offshore funds can be classified into IMA sectors. There is also a project underway to create an IMA property sector(s). We have written to CESR in a bid to influence their proposals for the presentation of performance data in Key Investor Documents in the event of a material change in a fund. Our independent third party monitoring is due to be put out to tender.