

The Electronic Funds market

The year 2004 recorded a strong expansion for both components of the Electronic Funds Market (MTF): closed-end funds (securities and real-estate) and Exchange Traded Funds (ETFs).

The total number of funds admitted to listing increased from 31 at 2003 year-end to 42 at the end of 2004 (+35.5%), of which 22 belonged to the closed-end fund category and 20 to the ETF category.

During 2004, the trading of ETFs and closed-end funds set new all-time highs in terms of number of listed instruments, trades and turnover

There was a growth in liquidity in terms of both trades, up from 73,364 in 2003 to 163,563 in 2004 (+123%), and turnover, up from 1.6 billion euro in 2003 to 3.4 billion in 2004 (+114%). More particularly, ETF trades represented 81% of the total trades executed (74% in 2003) and 95% of turnover (92% in 2003).

EXCHANGE TRADED FUNDS

2004 saw a confirmation of the interest, on the part of all market participants (issuers, members and investors), for the ETFs traded on the Italian market. Since these instruments began trading on September 30th, 2002, the trend indicators in terms of numerosness, trades and turnover have always showed positive performances. As regards category and reference benchmarks, the set of investment opportunities has now been extended to all the main geographical areas (Italy, Europe, United States and, from February 2005, also China and Japan) and instruments (shares, including the mid and small cap constituents, bonds and Government securities). The panorama of ETFs is completed with a worldwide index (Dow Jones Global Titans 50) and an ethical index (Ethical Index Euro).

- The interest of issuers can be seen from the growth in instruments listed and the number of issuers (table 14). There were seven new ETFs admitted to listing during 2004 and, with no delistings, this took to 20 the total number of ETFs listed at the end of the year (+53.8%).
- The market value of the ETFs rose from 2.9 billion euro at 2003 year-end to 3.9 at the end of 2004 (+32.9%). The largest funds continue to be those constructed on the Dow Jones Euro STOXX 50 index: iShares DJ Euro STOXX 50, with a market value of 1,088 million (28.2% of the overall market value of the ETFs) and DJ Euro STOXX 50 Master Unit, with a market value of 627 million euro (16.6% of the total). Market concentration has, however, decreased: the overall weight of the two funds went down from 55.1% in 2003 to 44.5% in 2004.

- The substantial rise in trades confirmed the interest on the part of investors (chart 13). The number of trades rose from 54,219 in 2003 to 133,039 in 2004 (+145%), while turnover increased by 120%, from 1.5 billion euro in 2003 to 3.2 in 2004. The daily averages followed the same trend: +141% for daily average trades (from 215 in 2003 to 518 in 2004) and +117% for daily average turnover (from 5.8 to 12.6 million euro).
- In the course of 2004 the all-time record in terms of trades was broken as many as four times, to reach the level of 1,435 trades executed on December 2nd. Likewise as regards turnover, for which the all-time high, having been exceeded three times, was recorded on October 28th, 2004, at 61.5 million euro.
- The most traded ETFs were, for daily average turnover, B1 - MSCI EURO issued by Nextra Investment Management (1.9 million euro) and, in terms of daily average trades, Lyxor's ETF S&P/MIB MASTER UNIT (daily average of 112 trades).

During the months of November and December 2004, Borsa Italiana achieved top place among the European stock exchanges for number of ETF trades

TABLE 14 - MTF: INVESTMENT MANAGERS AND EXCHANGE TRADED FUNDS - 2004 YEAR-END

INVESTMENT MANAGER	ETF	Type	BENCHMARK	COMMISSIONS	
				IN/OUT	TOT
Lyxor I. A.M. S.A.	S&P/MIB MASTER UNIT	Equity Italy	S&P/MIB	NO	0.350%
	DJ EURO STOXX 50 MASTER UNIT	Equity Europe (Euro Zone)	DJ Euro Stoxx 50	NO	0.350%
	DJ INDUSTRIAL AVG MASTER UNIT	Equity USA	DJ Industrial Avg	NO	0.500%
	MSCI US TECH MASTER UNIT	Equity USA Technology	Msci Usa Information Technology	NO	0.500%
	DJ GLOBAL TITANS 50 MASTER UNIT	Equity World	Global Titans 50	NO	0.400%
	EUROMTS GLOBAL MASTER UNIT	Government Bonds (Euro)	EuroMTS Global	NO	0.165%
Barclays Global Investors	EUROMTS 3-5 Y MASTER UNIT	Government Bonds (Euro)	EuroMTS 3-5 Master Unit	NO	0.165%
	EUROMTS 10-15 Y MASTER UNIT	Government Bond (Euro)	EuroMTS 10-15y	NO	0.165%
	ISHARES DJ STOXX 50	Equity Europe	DJ Stoxx 50	NO	0.350%
	ISHARES DJ EURO STOXX 50	Equity Europe (Euro Zone)	DJ Euro Stoxx 50	NO	0.150%
	ISHARES FTSEUROFIRST 100	Equity Europe	FTSEurofirst 100	NO	0.400%
Nextra Investment Management Sgr	ISHARES FTSEUROFIRST 80	Equity Europe (Euro Zone)	FTSEurofirst 80	NO	0.400%
	ISHARES S&P 500	Equity USA	S&P 500	NO	0.400%
	IBOXX EUR LIQUID CORPORATES	Corporate Bonds (Euro)	Iboxx Eur Liquid Corporate	NO	0.200%
Crédit Lyonnais AM	B1 - MSCI PAN EURO	Equity Europe	Msci Pan - Euro	NO	0.500%
	B1 - ETHICAL INDEX EURO	Equity Europe	Ethical Index Euro	NO	0.900%
	B1 - MSCI EURO	Equity Europe (Euro Zone)	Msci Euro	NO	0.600%
Nasdaq FPS Ltd	SPDR EUROPE 350 FUND	Equity Europe	S&P Europe 350 Fund	NO	0.350%
	SPDR EURO FUND	Equity Europe (Euro Zone)	S&P Euro	NO	0.350%
Nasdaq FPS Ltd	NASDAQ 100 EUROPEAN TRACKER	Equity USA	Nasdaq 100	NO	0.200%

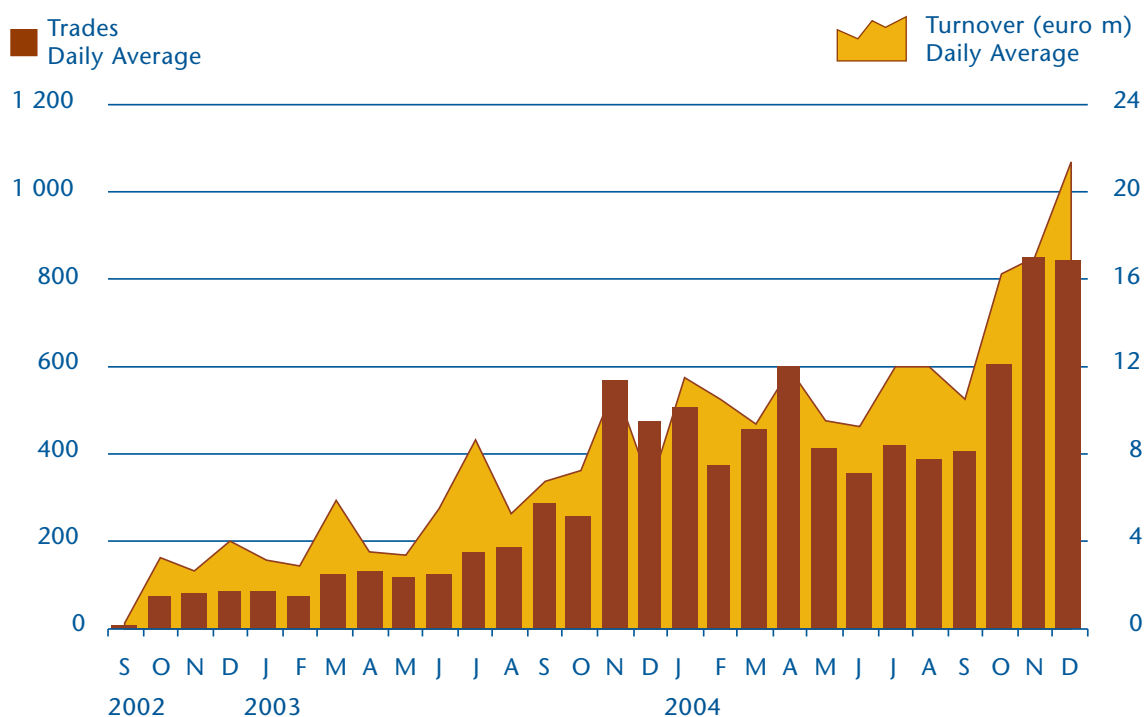
- The expansion of the ETFs market is also tied to the increase in interested investors. If on the one hand ETFs were created in the United States as instruments specifically designed for institutional investors, on the other, the retail sector was easily attracted to this form of investment. During 2004, the Italian market saw a progressive reduction in the average trade size, down from 40,146 euro in 2002 (September - December) to 27,102 in 2003, to reach 24,251 euro in 2004. This trend, which would seem to confirm the interest on the part of retail investors, appears even more significant, bearing in mind that during the same period the equity market experienced a different trend.

CLOSED-END FUNDS

Since 2002, the year in which the specific regulatory framework of the Electronic Funds Market was defined, closed-end funds have shown a growth trend in all the main market indicators (chart 14). As for ETFs, 2004 was a year of all-time highs: daily average trades reached their highest peak of 171 trades during the month of October (119 on a yearly basis, +56% compared to 2003) and during the same month daily average turnover reached 1.1 million euro (713,679 euro on a yearly basis, +45% compared to 2003).

- During 2004 the upward trend in the number of closed-end funds admitted to trading was confirmed, from 18 at 2003 year-end to 22 at the end of 2004 (+22.2%). With no delisting, the four new admissions all concerned the real-estate fund category and, at the end of the year, the market comprised 15 real-estate and 7 securities funds.
- On 30 December 2004, the capitalisation of the closed-end funds, intended as market value of the fund's assets, amounted to 3.5 billion euro, of which 91.3% ascribable to the 15 real-estate closed-end funds and 8.7% to the other 7 securities closed-end funds.

CHART 13 - MTF: MONTHLY TURNOVER OF EXCHANGE TRADED FUNDS UNITS



- Liquidity has grown in terms of both trades and turnover. On a yearly basis, the number of trades has risen from 19,145 in 2003 to 30,524 in 2004 (+59.4%) and turnover has increased from 124 million euro in 2003 to 183 million euro in 2004 (+47.8%).
- As regards the average size of trades, closed-end funds also show a dimension in keeping with the trading needs of retail investors: the average trade in 2004 was 6,009 euro, with a decrease compared to 2003 (6,467) and 2002 (6,211 euro).

CHART 14 - MTF: MONTHLY TURNOVER OF CLOSED-END FUNDS UNITS

