May 2012

Asset Management in Europe

Facts and Figures

5th ANNUAL REVIEW

efama

European Fund and Asset Management Association

Table of Contents

Key Findings

- **Assets under Management (AuM) in Europe enjoyed strong growth of 10% in 2010 to reach EUR 14.0 trillion at year end.** This growth was driven by strong growth in equity and bond assets during the year. In relation to GDP, total AuM in Europe reached 104% at end 2010. We estimate that total AuM decreased in 2011 to EUR 13.8 billion, reflecting renewed tensions on stock and sovereign debt markets. Europe ranks as the second largest market in the global asset management industry, managing 33% of global assets under management.

- **Discretionary mandate assets represented EUR 7,131 billion or 50.8% of AuM at end 2010, whereas investment funds accounted for the remaining EUR 6,904 billion.** Typically, asset managers receive mandates from institutional investors and high-net-worth individuals, whereas investment funds serve the retail and institutional markets.

- **More than 3,100 asset management companies are registered in Europe employing about 85,000 people directly at end 2010.** Taking into account related services along the asset management value chain, the level of direct and indirect employment would increase to a significantly higher figure.

- **Asset management plays a key role in the financing of the European economy, thereby supporting economic growth.** Asset management provides an important link between investors and corporations, banks and government agencies that have funding needs. On the basis of data published by the European Central Bank and EFAMA's calculations, European asset managers held 23% of the debt securities issued by euro area sectors at end 2010, and 31% of euro area companies' total equity. As leading buy-side entities, asset managers also provide the liquidity needed for the good functioning of financial markets, thereby contributing to lower cost of capital and higher levels of investment.

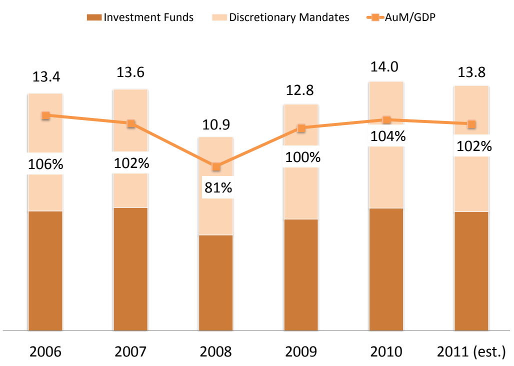
- **Asset management is highly concentrated in a limited number of countries.** The top three countries -- the UK, France and Germany -- together accounted for 65% of total AuM in Europe at end 2010. The large pool of savings available in the most populated countries in Europe has facilitated the development of local asset management industries to offer their wholesale services to foreign investors.

- **Institutional investors, acting on behalf of millions of end consumers, represent the largest client category of the European asset management industry, accounting for 69% of total AuM in Europe.** Insurance companies and pension funds accounted for 42% and 27% of total AuM for institutional clients at end 2010, respectively.

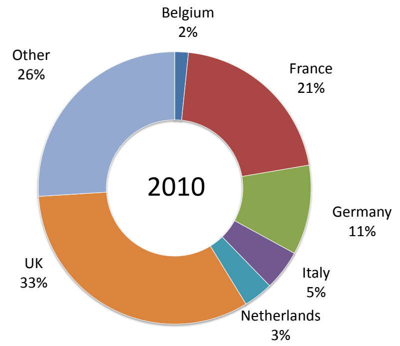
- **Holdings of bond and equity assets remain asset managers preferred asset classes at end 2010, with 44% and 31% of total AuM at end 2010, respectively.** Mandates exposure to bond assets amounted to 54%, compared to 32% for investment funds, whereas investment funds had a greater share of equity assets (33% compared to 29% for mandates) in their asset allocation.

Key Figures

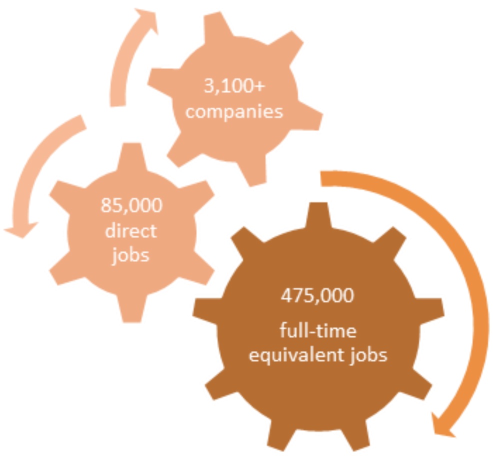
Total AuM (EUR billion)



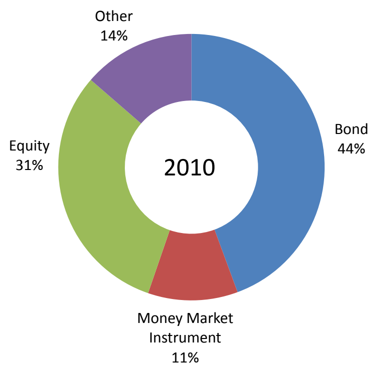
Market Share in Total AuM



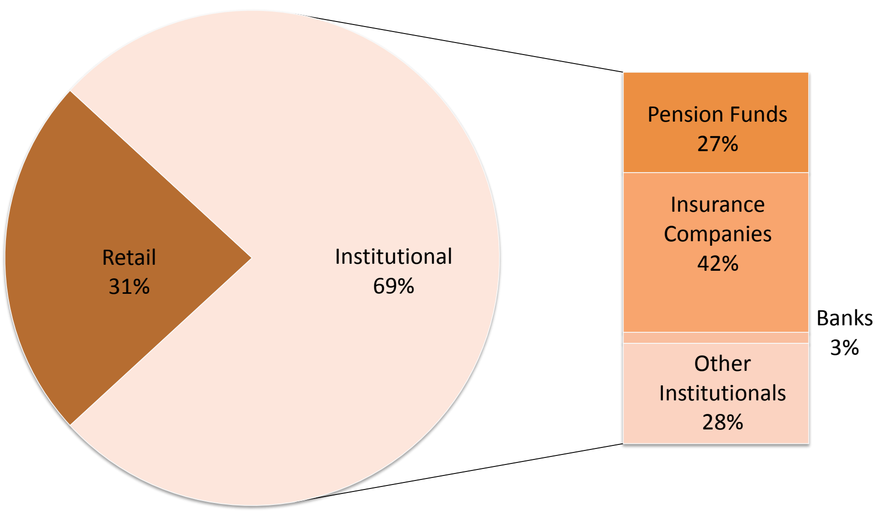
Industry Size (end 2010)



Asset Allocation in Total AuM



Client Type in Total AuM (end 2010)



1 The EFAMA Annual Asset Management Report

This is the fifth annual report undertaken by EFAMA with the collaboration of its members. The Report represents an effort to provide a snapshot of the European asset management industry across both the retail and institutional landscape. Its focus is on the value of assets professionally managed in Europe, rather than on the domiciliation of assets, and with a distinction between investment funds and discretionary mandates assets.

The report is primarily based on responses to a questionnaire sent to EFAMA member associations covering data at end 2010. The questionnaire methodology has focused around the coverage of data on assets under management (AuM) split by products, clients and assets types. Twelve associations provided us with data on the value of the assets managed in their countries: Austria, Belgium, Bulgaria, France, Germany, Greece, Hungary, Italy, Netherlands, Portugal, Turkey and the UK.[1] According to our estimations, these countries account for 76% of the AuM in Europe. To compensate for those associations unable to answer the questionnaire or those who can only provide partial information, additional internal and external data were used to estimate the value of total AuM in Europe presented in the next section.[2]

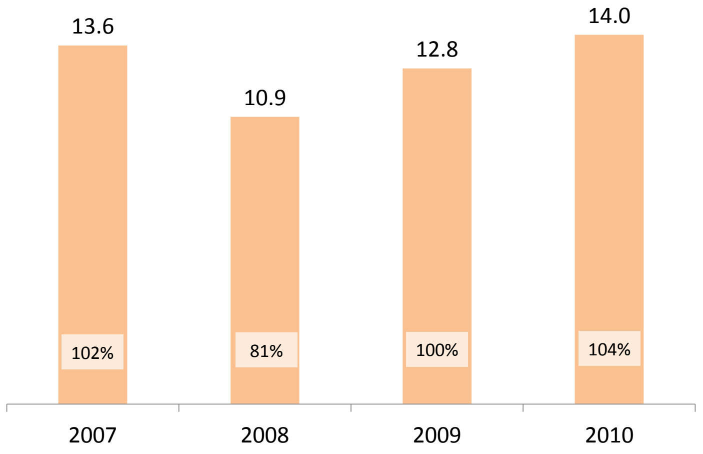
The purpose of section 2 is to provide an overview of the European asset management industry in terms of its size and importance in the European economy. Thereafter, section 3 discusses European asset management in terms of products offered and delegation of asset management. In section 4, the report continues by providing an overview of the industry's clients, while section 5 focuses on the asset allocation of European asset managers. Section 6 looks at the contribution of euro area investment funds in particular and European asset managers in general to the financing of the euro area economy. Finally, section 7 presents a first estimation of the AuM for 2011.

2 AuM, Employment and Industrial Organization

2.1 Assets under Management in Europe

The professionally managed assets of the European asset management industry recorded growth of 10% in 2010 to stand at EUR 14,035 billion, compared to EUR 12,757 billion at end 2009 (see exhibit 1).[3] This growth came during a volatile year on European stock markets and despite the mounting challenges in the euro zone. At end 2010, total AuM in Europe stood 3% higher than at end 2007 and 29% higher than at end 2008. In relation to aggregate European GDP, total AuM/GDP recovered to 104% at end 2010, a significant increase since end 2008 when this ratio amounted to 81%.

Exhibit 1 Evolution of European AuM (EUR trillion) and AuM/GDP (percent)



The rebound in total AuM reflected strong growth in two asset classes: equity and bond. The stock market performance around the globe played an important role in the evolution of equity assets, whereas bonds benefitted from the pressure on long-term interest rates and sustained net inflows from institutional investors. On the other hand, the pool of assets invested in money market instruments was affected by the low interest rate environment coupled with fierce competition from the banking sector for deposits.

Exhibit 2 Asset allocation growth and share in Global AuM

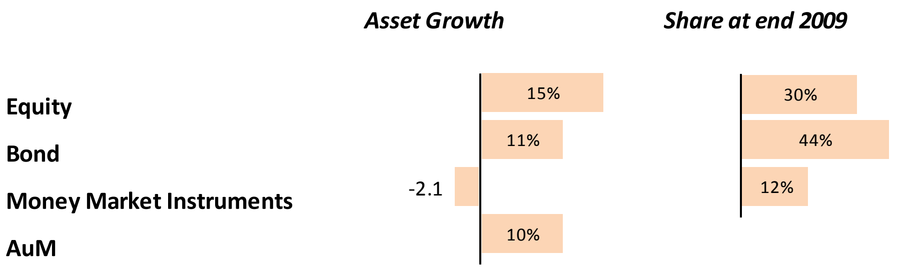
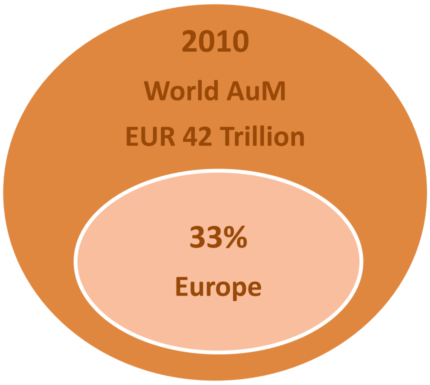


Exhibit 3 Share of Europe in Global AuM



On the world stage Europe ranks as the second largest market (behind the United States) in the global asset management industry – managing 33% of the EUR 42.2 trillion global AuM at end 2010[4]. The European asset management industry has retained a steady share of approximately one-third of the global industry.

Elsewhere in the world, the United States saw an increase in AuM of 9% in 2010 to stand at EUR 19.4 trillion, driven by a continued recovery in equity markets. Emerging markets witnessed strong growth during 2010. In Asia (ex–Japan and Australia), assets recorded growth of 11%, whilst Latin America enjoyed growth of 18% in AuM (see Exhibit 4).[4] Stock market performance around the globe played an important role in the evolution of global AuM in 2010.

Exhibit 4 Global AuM and equity indices evolution in 2010

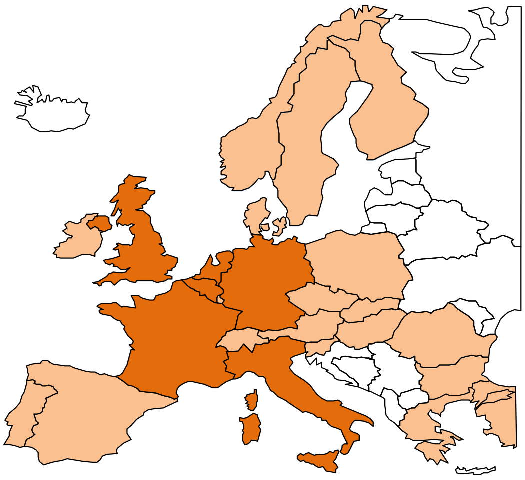
	Asset Growth	*Equity Index Change* [(1)]	*AuM end 2009 (EUR trillion)*	*AuM end 2010 (EUR trillion)*
Japan	3%	2%	3.1	3.2
Australia	5%	2%	1.3	1.3
United States	9%	13%	17.8	19.4
Middle East and South Africa	10%	13%	0.7	0.7
Asia, ex-Japan and Australia	11%	16%	1.8	2.2
Europe	13%	9%	12.4	14.0
Latin America	18%	1%	0.8	1.0

Source: McKinsey (2010), Boston Consulting Group (2010) and EFAMA
(1) DJ Euro Stoxx 600 Price Index (Europe); S&P 500 USD (United States); S&P Asia 50 (Asia); Topix Price Index Yen (Japan); MSCI Australia Price Index AUD (Australia); MSCI GCC Price Index USD (Middle East); and Bovespa Brazil (Latin America).

2.2 Assets under Management across Europe

Exhibit 5 highlights the importance of the major centers of asset management in Europe. The combined AuM in the UK, France, Germany and Italy amount to EUR 9,669 billion or 69% of the total for Europe. There are also significant asset management operations carried out in the Netherlands and Belgium.

Exhibit 5 European AuM per country (end 2010)



UK
EUR 4,599 bn

France
EUR 2,904 bn

Germany
EUR 1,496 bn

Italy
EUR 670 bn

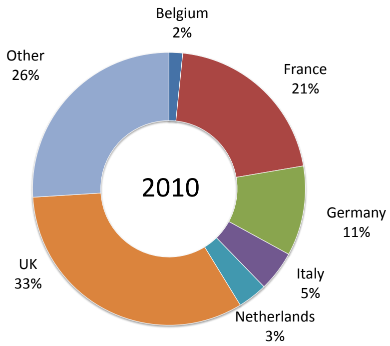
Netherlands
EUR 492 bn

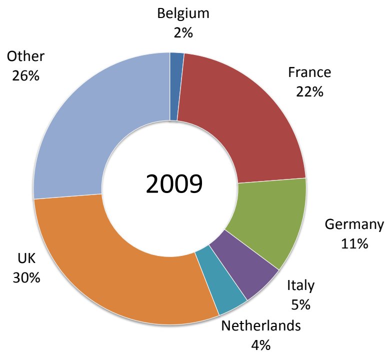
Belgium
EUR 227 bn

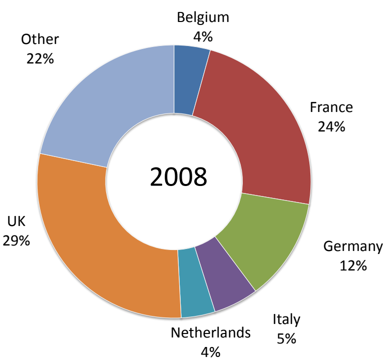
Other
EUR 3,647 bn

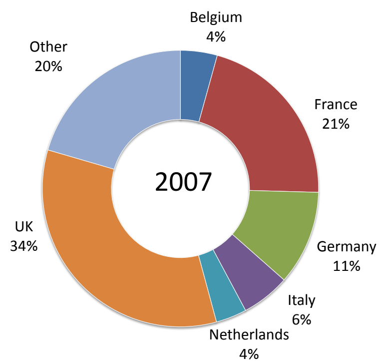
The distribution of market shares in the pool of assets managed in Europe at end 2010 is very similar to that of 2007 (see exhibit 6). Market shares have returned to this pre-crisis situation on the back of new highs in stock markets. The UK remained the largest asset-management market, with a market share of 33% at end 2010, up from its market share at end 2009 (30%). France, the second-largest asset management center in Europe, saw its market share slightly decrease from 22% to 21% at end 2010. The market share in Germany and Italy remained stable during the year at 11% and 5% respectively. The importance of the UK, France and Germany mirrors their population and GDP, their status as international financial centers and the outsourcing of asset management by institutional investors in favour of asset managers located in these countries.

Exhibit 6 European AuM – Country market shares









Looking at the evolution in 2010, it can be seen that AuM varied significantly across Europe. In relation to GDP, the total AuM stood at 104% at end 2010. This average hides the wide spectrum that exists across Europe (see Exhibit 7). The AuM/GDP ratio was well above the European average in the UK (270%) and France (150%). These high ratios give an indication of the relative importance taken by third-party asset managers in these countries and the responsibility they have taken in managing institutional investors' assets. Elsewhere in Europe, the AuM/GDP ratios were considerably lower, including in Germany (60%) and in Italy (43%).

Exhibit 7 **European AuM at end 2010 (EUR billion) and AuM/GDP (percent)**

Countries	AuM	AuM % change	Market Share	AuM / GDP
UK	4,599	22%	33%	270%
France	2,904	3%	21%	150%
Germany	1,496	2%	11%	60%
Italy	670	2%	5%	43%
Netherlands	492	4%	4%	84%
Belgium	227	5%	2%	64%
Portugal	81	-1%	1%	47%
Austria (1)	85	3%	1%	30%
Hungary	34	19%	0.2%	35%
Turkey	21	11%	0.1%	4%
Greece	10	-26%	0.1%	4%
Rest of Europe	3,416	9%	24%	85%
TOTAL	14,035	10%	100%	104%

(1) Investment fund assets only.

All the largest asset management centers continued to experience growth in AuM in 2010, albeit at differing levels (see exhibit 8). The UK enjoyed asset growth of 22% in euro terms. This growth is partly due to the UK's large exposure to equity assets (46%), good stock market performance, sustained large inflows into bond funds and the 3% appreciation of the sterling vis-à-vis the euro. The other major centers of asset management recorded more modest rises in assets. France enjoyed asset growth of 3% in 2010 thanks to its large holdings of bond funds which experienced growth of 6% during the year. However, equity and money market instruments suffered during the year. Germany and Italy both saw an increase in AuM of 2%. Germany recorded a large increase in holdings of money market instruments, but saw a decrease in holdings of equities (5%) and bonds (3%). In contrast, in Italy equity holdings performed well during the year increasing by 8%, whilst bond holdings increased by 6%. Elsewhere, Hungary enjoyed a significant increase in growth amounting to 19% in 2010, partly attributable to new outsourcing contracts of pension funds due to strong net inflows into second pillar funds.

Exhibit 8 Asset breakdown and asset allocation of largest financial centers in Europe

France	AuM growth 2010	Share at end 2009
Equity	11%	16%
Bond	7%	42%
Money Market Instruments	-7%	21%
Total	3%	100%

Germany	AuM growth 2010	Share at end 2009
Equity	-5%	19%
Bond	-3%	61%
Money Market Instruments	24%	5%
Total	2%	100%

Italy	AuM growth 2010	Share at end 2009
Equity	8%	19%
Bond	6%	61%
Money Market Instruments	-26%	13%
Total	2%	100%

UK	AuM growth 2010	Share at end 2009
Equity	20%	46%
Bond	26%	35%
Money Market Instruments	4%	10%
Total	22%	100%

2.3 Employment and Industrial Organization

An important indicator of the asset management industry to the overall economy is the employment numbers in asset management companies. The number of people directly employed in asset management companies in the UK, France and Germany alone is estimated to reach some 55,000 at end 2010, compared to 51,000 at end 2009. Given these countries account for 65% of total AuM in Europe, we estimate that the asset management companies directly employ around 85,000 individuals in Europe.

Exhibit 9 Direct Employment in the Asset Management Industry

However, the outsourcing of activities in the industry has become a regular occurrence. Exhibit 10 sets out the main services related to asset management. Therefore when looking at the number of people employed by the asset management industry, it is also necessary to take the employment associated with the related services of the core function of asset management into account such as accounting, auditing, custodianship, marketing, research, order processing, as well as distribution.

Exhibit 10 Asset Management and Related Services

In estimating total employment generated by the asset management industry in Europe, one also needs to include the jobs in Luxembourg and Ireland, the two leading cross-border centers for fund administration and distribution inside and outside Europe. In Ireland, more than 11,000 people were employed directly in the investment fund industry at end 2010 providing a range of value-added services including fund administration, transfer agency, custody, legal, tax, and audit services.[5] In Luxembourg, 10,500 people were directly employed in the investment fund industry in Luxembourg in 2008, whereas employment in fund accounting and administration, transfer agents, custodians, trustees, client relationship management and related fund services was approximately 7,800.[6]

Taking into account this wider scope of the industry, the French asset management association (AFG) has estimated that in France every direct position in asset management gives rise to 4.6 full time equivalent employees in related services[7]. AFG has estimated that 48,300 of the additional jobs are related to the marketing and distribution of asset management products[8]. One way to get an estimation of the level of indirect employment in the European asset management industry is to apply this 4.6 ratio to the 85,000 people directly employed by asset managers across Europe. This would take total indirect employment of the asset management industry in Europe to approximately 390,000 jobs.

Exhibit 11 **Total employment in the European asset management industry in 2010**

(1) In the sense of full-time equivalent jobs.

The number of asset management companies in Europe remained steady over the course of the year. At end 2010 there were more than 3,100 asset management companies in Europe, a similar level compared to end 2009. At end 2011 there were over 3,200 asset management companies operating. Exhibit 12 shows the number of firms in each country, although this is an underestimation of the total number of asset management companies in Europe as the figure reported for some countries refers to the number of companies that are members of the local trade association and not the number of companies that are registered in those countries. Also, in most countries, hedge funds and private equity asset managers are only included in the reported figures if they are members of the local trade association.[9]

Exhibit 12 **Number of asset management companies (1)**

Countries	2010	2011
Austria *	30	29
Belgium	84	87
Bulgaria	34	33
Czech Republic	23	21
Denmark	15	16
Finland	35	35
France	592	600
Germany	304	293
Greece	45	60
Hungary	35	35
Ireland	388	431
Italy	302	282
Liechtenstein *	24	23
Luxembourg	357	361
Netherlands	130	196
Norway	20	22
Poland	45	36
Portugal	83	82
Romania	20	21
Slovakia *	13	13
Slovenia	13	11
Spain	123	115
Sweden	83	78
Switzerland	113	119
Turkey	28	32
United Kingdom *	186	180

(1) The figures give the number of management companies registered in the countries concerned, except for the countries marked with an asterisk (*) where the figures refer to the members of the local trade associations.

France, Ireland, Luxembourg, Italy and Germany are home for the highest number of asset management companies. It must be highlighted that the figure for some associations relates only to members of the association.[10] The increase in the number of asset management companies in Greece relates to a change in the licensing of asset management activities. The high figure for France reflects the large number of independent and specialized asset managers, including management companies of private equity funds. The high number of asset management companies operating in Ireland and Luxembourg reflects the role of these two countries in the cross-border distribution of UCITS[11] and the regulatory requirement that was in place until the introduction of UCITS IV[12] that require fund houses to have a management company in each country where they have funds domiciled. This does not mean that Luxembourg and Dublin have become asset management centers similar to London, Paris and Frankfurt. Indeed, most global asset management groups with a fund range from Luxembourg or Dublin operate under a "delegation model", whereby the pure investment management functions are carried out in their asset management centers.

Since the introduction of UCITS IV in July 2011, management companies have been permitted to manage funds cross-border, and are no longer required to appoint service providers in the domicile of the fund, except the custodian bank. Potentially, this could reduce their number of management companies of cross-border UCITS and centralize their asset management, administration and risk management operation.

An estimation of the average amount managed by asset management companies can be calculated using the figures from Exhibits 7 and 12. On average an asset management company managed EUR 4.5 billion of assets at end 2010. Exhibit 13 below shows the average assets under management in each respective country. These figures are an arithmetic mean, which do not take into account the large variations in levels of assets managed by different companies.

Exhibit 13 Average AuM per asset manager at end 2010 (EUR billion)

Countries	Average AuM
UK (1)	6.4
Germany	4.9
France	4.9
Europe	4.5
Netherlands	3.8
Austria	2.8

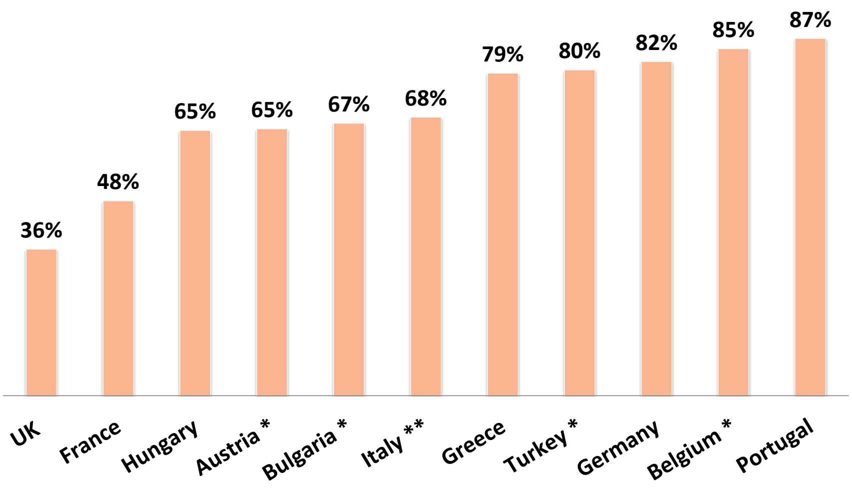
Countries	Average AuM
Belgium	2.7
Italy	2.2
Portugal	1.0
Hungary	1.0
Turkey	0.8
Greece	0.2

(1) Average calculated on the basis of the estimated total assets managed in the UK (€5.1trn) and the estimated total number of firms managing assets, including niche firms outside the IMA membership (800).[13]

As a large number of large or small asset managers skew the average in one direction or the other, it is more beneficial to know the median, i.e. the value of the assets under management separating the higher half of the asset managers from the lower half. In the UK, the IMA calculated the median assets under management at £7.4 billion (EUR 8.6 billion), with 10 IMA member firms each managing in excess of £100 billion and 28 firms managing less than £1 billion.[14] In Germany, according to the German Association of Investment and Asset Management Companies (BVI), 3 firms were managing more than EUR 100 billion, whilst 12 firms managed less than EUR 1 billion, with the BVI estimating the median at EUR 6.2 billion.[15] 6 AFG member firms were managing more than EUR 100 billion in France, with 273 firms managing less than EUR 1 billion at end 2010.

The European investment fund industry is dominated by large players across countries. As one of the main aims of European economic integration is the achievement of the Single market, it is useful to look at the concentration of the top five asset managers in each country, as an indicator of the level of financial integration in the asset management industry in Europe. Exhibit 14 shows the degree of concentration of individual portfolio management/mandates of the top 5 asset managers/fund companies in each country. The top five asset managers in the UK and France control less than half the total market. This shows an element of how diversified, competitive and advanced these markets are.

Exhibit 14 **Concentration of the top 5 asset managers**



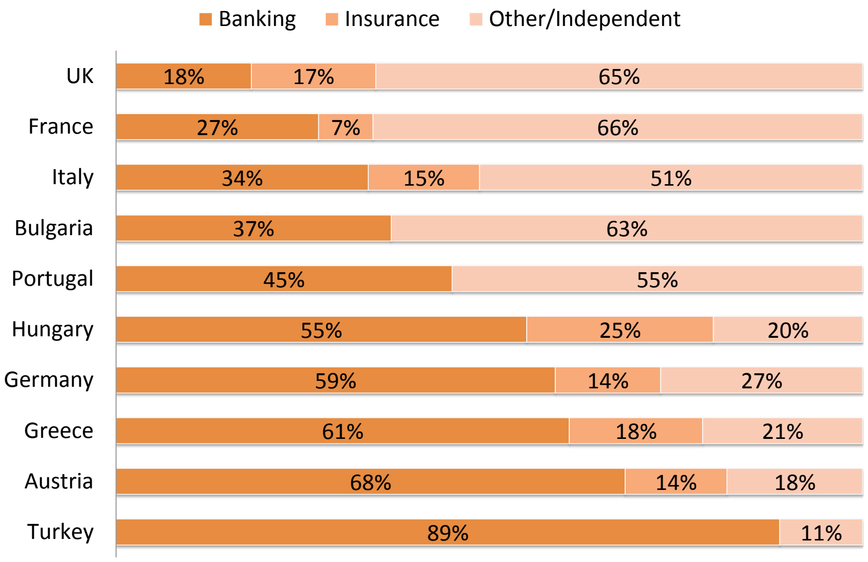
(*) = Top 5 asset managers of investment funds only
(**) = Refers to managers of discretionary mandates only
Source: EFAMA Fact Book 2011

Another dimension of the industrial organization of the European asset management industry is the extent to which asset management firms operate as stand-alone companies, or form part of financial services groups. Such groups may be dominated by a certain type of financial services, or may consist of a mix of asset management firms, banks, and insurance companies, etc.

As an indication of the dominant industrial organization across countries and an overview of the nature and importance of financial services groups, Exhibit 15 shows the relative importance of asset management companies belonging to a banking group or an insurance group. The companies that are independent or controlled by other types of financial firms are regrouped in the other category. It is important to note that Exhibit 15 relates to the number of firms, and not their AuM.

Banking groups represent the dominant parent category of the asset management scope in most European countries, controlling half or more of all asset management companies in Hungary, Germany, Portugal, Greece, Austria and Turkey. The main exception to the bank dominated model is the UK. In the UK, only 18% of asset managers are owned by banking groups, with insurance groups controlling 17%. In France, the majority of firms represent independent asset managers. Banks retain ownership of 27% of asset managers and insurance companies consist of 7% of total asset managers in France.

Exhibit 15 **Number of asset management companies by parent group categories (end 2010)**



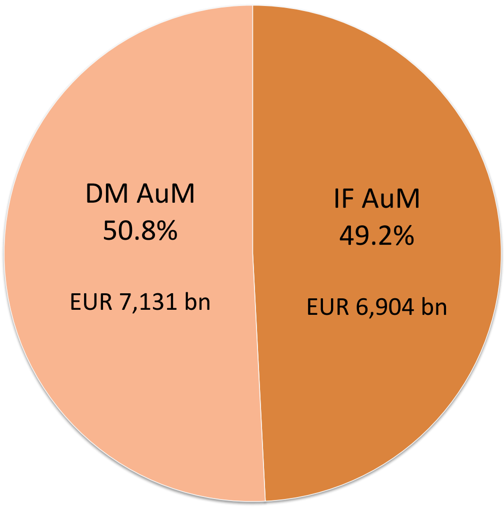
The remainder of this report seeks to outline general patterns of European asset management and explain differences between the asset management industries across countries in terms of products offered and their management (Section 3), clients served (Section 4) and differences in asset allocation (Section 5).

3 AuM in Investment Funds and Discretionary Mandates

The assets under management that are professionally managed in Europe can be broken down into two main categories; investment fund assets and discretionary mandate assets. Investment funds are pools of assets with specified risk levels and asset allocations, into which one can buy and redeem shares. Discretionary mandates give asset managers the authority to manage the assets on behalf of a client in compliance with a predefined set of rules and principles, on a segregated basis and separate from other clients assets. This section of the report provides a general overview of the evolution of assets managed through investment funds and discretionary mandates.

Discretionary mandate assets represented just over half of total assets representing 50.8% or EUR 7,131 billion at end 2010. Investment fund assets accounted for the remaining portion of total AuM amounting to EUR 6,904 billion or 49.2% (see Exhibit 16). The breakdown between investment fund assets and discretionary mandates remained relatively steady in 2010, as compared with 2009.

Exhibit 16 **Discretionary mandates Vs investment funds (end 2010)**



Both investment fund assets and discretionary mandate assets increased by 10% during 2010. Overall, total AuM of professionally managed discretionary mandates have surpassed their end 2007 level. Discretionary mandate AuM stood 7% higher at end 2010 than at end 2007, whilst standing 29% higher compared to end 2008. However, despite the growth in investment funds AuM in 2009-2010 (28%), investment fund assets still remained slightly lower at end 2010 compared to end 2007 (see exhibit 17).

Exhibit 17 **Evolution of investment funds and discretionary mandates AuM (EUR billion)**

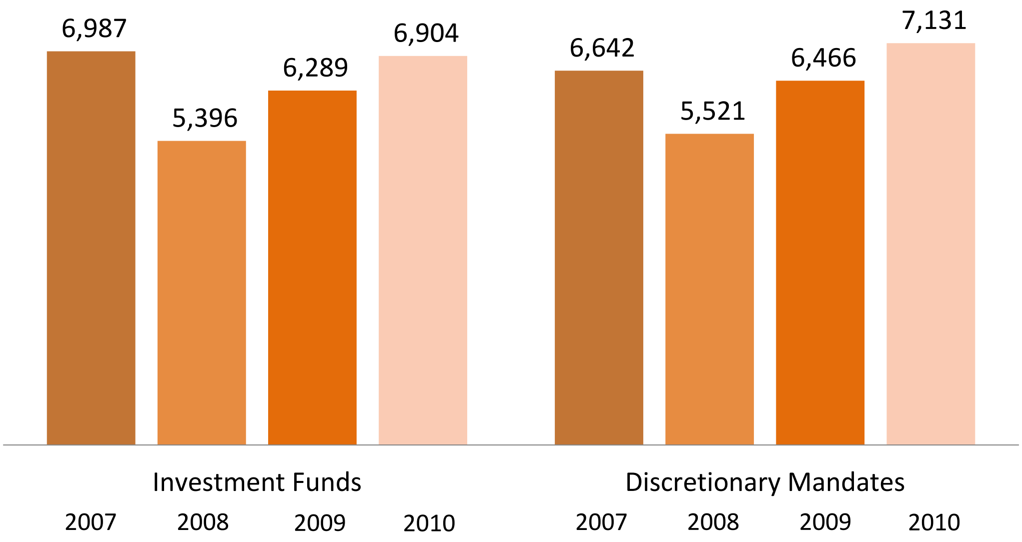
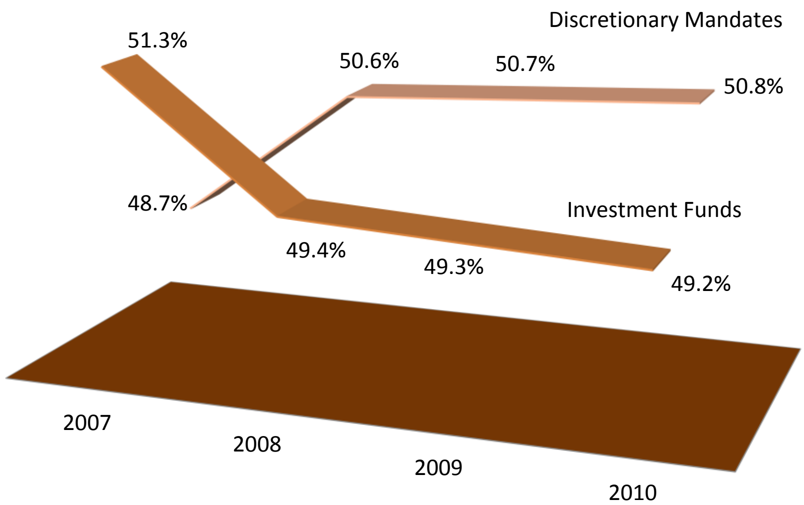


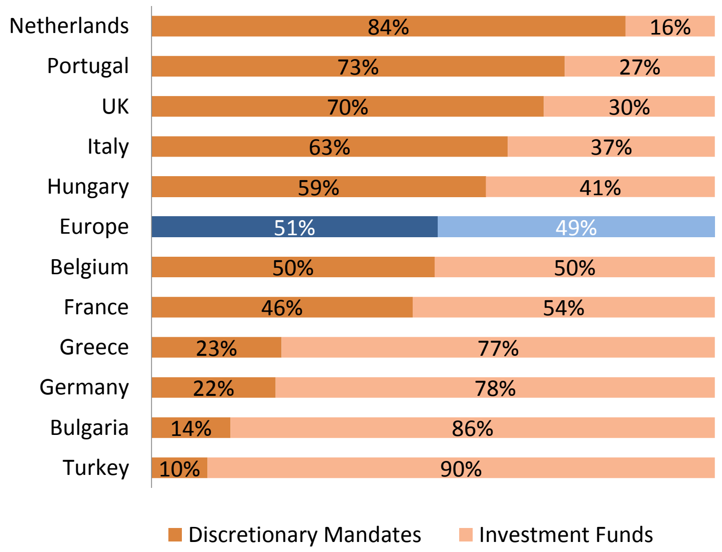
Exhibit 18 highlights the share of discretionary mandates and investment fund assets in total AuM. It can be seen that after the onset of the financial crisis in 2007, the share of discretionary mandate assets in total AuM jumped somewhat, and continued to increment, albeit at a miniscule pace. Discretionary mandates tend to be more risk averse than investment funds as they invest a higher proportion of assets into fixed-income securities and face a lower exposure to equities than investment funds. Discretionary mandates depend primarily on business-to-business relationships, and so are influenced heavily by growth in the institutional client segment of the market, which has continued to grow at a faster pace than the retail segment of the market, which is dominated by retail clients (see section 4). These two factors contributed to the shift in the distribution of AuM between investment funds and discretionary mandates.

Exhibit 18 **Share of discretionary mandates and investment fund assets in total AuM (2007-2010)**



Regarding the split between investment funds and mandates observed at national level, quite a number of countries cluster around the European average. However, one may contrast between the two extremes of the spectrum; whereas in the UK, Portugal and the Netherlands discretionary mandates represented more than 70% of total AuM at end 2010, the corresponding figures for Greece and Germany were 23% and 22%, respectively, whilst Turkey (10%) and Bulgaria (14%) had even a lower share of discretionary mandate assets. (see exhibit 19).

Exhibit 19 Share of discretionary mandates and investment fund assets in total AuM in 2010



This shows that there are important differences in terms of the dominant product solutions offered in different European countries. For instance, the vast dominance of discretionary mandates in the UK and the Netherlands reflects the important role played by occupational pension schemes in asset management in these countries. The key factor behind the large proportion of discretionary mandates in Portugal is that a lot of business groups operate an asset management company, which performs the asset management of the group generally in the way of discretionary mandates.

While looking at the figures shown in exhibit 19, it is important to bear in mind that the border between different product types is blurred. Apart from the frequent allocation of discretionary mandates to investment funds, certain investment funds display similar characteristics as discretionary mandates. Vice versa, discretionary mandates may also be retail oriented and mimic the investment strategies and structures of investment funds. Thus, product types with similar properties may be categorized differently, although differing primarily in terms of the wrapper used for their distribution. For example, German investment fund assets include special funds reserved for institutional investors. If the investment fund assets managed for institutional investors are treated as discretionary mandates, the share of discretionary mandates in total AuM would increase to 75% for Germany.[16] Conversely, it should be noticed that the discretionary mandate figure for the UK includes a share of pooled vehicles that in many respects correspond closely to investment funds.

3.1 Investment Funds

Investment funds are pools of assets with specified risk levels and asset allocations, into which one can buy and redeem shares. By pooling savings from various sources, they offer investors a number of advantages, particularly in terms of risk diversification and lowered costs by economizing on scale. The market for European investment funds is highly internationalized. In essence, it is organized around domestic markets, served predominantly by domestic players, and cross-border activities, where funds can be domiciled in one country, managed in a second and sold in a third, either within Europe or overseas. The statistics reported in this report on investment funds refer to UCITS and non-UCITS.

UCITS are products offered in accordance with the UCITS Directive, and thereby regulated in terms of supervision, asset allocation and separation of management and safekeeping of assets to ensure the highest level of investor protection. The UCITS label has become a globally recognized brand and the ideal vehicle for promoters wishing to distribute their funds throughout the European Union and elsewhere in the world.

Non-UCITS, on the other hand, represent collective investment vehicles set up in accordance with specific national laws, such as real estate funds and special funds dedicated to institutional investors; only regulated hedge funds are reported in our statistics. Non-UCITS have no European "passport" for sale in other EU Member States (even when they are submitted to similar rules as UCITS), and thus are rarely distributed to retail investors across borders. However, this will change with the introduction of the Alternative Investment Fund Managers Directive (AIFMD)[17], which is currently transposed in the EU Member States and will take effect as of July 2013. The aim of the AIFMD is to create a one-size-fits-all approach to all non-UCITS funds and their managers. The AIFMD will apply to any fund which is either an EU fund or has an EU manager, or is marketed to EU investors. The AIFMD foresees a UCITS-like regime with authorization and ongoing supervision and a European Passport for distribution of these non-UCITS investments to professional investors. The AIFMD is likely to create a second European quality label for asset managers and funds, next to the already well-established UCITS label.

Exhibit 20 shows the investment fund assets professionally managed in Europe at end 2010. Investment fund assets increased 10% in 2010 totaling EUR 6,904 billion at year end. This growth came during a year of when the demand for investment funds remained strong, as evidenced by strong net sales, but also a reflection of market movements.

Growth of investment funds AuM varied throughout Europe. The UK enjoyed an exceptional year increasing investment funds assets by 26%, on account of the largest net inflows ever recorded in the UK driven by both retail and institutional investors. Growth rates in excess of 20% were also recorded in Hungary and Bulgaria. The rest of Europe also saw large growth (15%) in assets under management during the year. Of the large financial centers, Germany recorded growth of 6% in net assets, whereas France and Italy recorded a modest decline in assets managed of 1% and 5% respectively.

Overall, France, the UK and Germany managed 60% of investment fund assets in Europe at end 2010 (exhibit 20). In both the UK and France, AuM in relation to GDP surpasses the European average (52%) considerably. This situation reflects the importance of the asset management industry in general in these countries as well as the ability of their asset managers in attracting assets domiciled abroad. The relatively high ratio of AuM to GDP for the rest of Europe is largely attributable to other countries with large fund management industries in relation to their population, such as Switzerland and the Nordic countries.

Exhibit 20 **Investment fund assets by geographical breakdown of AuM at end 2010 (EUR billion)**

Countries	AuM	AuM % change [1]	Mkt Share	AuM/ GDP
France	1,558	-0.6%	22.6%	81%
UK	1,396	26.0%	20.2%	82%
Germany	1,166	5.6%	16.9%	47%
Italy	246	-4.6%	3.6%	16%
Belgium	113	2.2%	1.6%	32%
Austria	85	3.4%	1.2%	30%
Netherlands	78	-1.1%	1.1%	13%
Portugal	22	-2.6%	0.3%	13%
Turkey	19	9.3%	0.3%	3%
Hungary	14	21.8%	0.2%	14%
Greece	8	-30.5%	0.1%	3%
Bulgaria	0.2	26.8%	0.0%	1%
Rest of Europe	2,199	14.7%	31.9%	55%
TOTAL	6,904	9.8%	100.0%	52%

(1) End 2010 AuM compared to end 2009 AuM.

In order to portray a more comprehensive picture of the extent to which countries manage investment fund assets domiciled abroad, Exhibit 21 illustrates the relative degree to which AuM in a particular European country is originating from funds domiciled abroad.

Exhibit 21 **Share of foreign domiciled investment funds in total investment fund AuM (end 2010)**

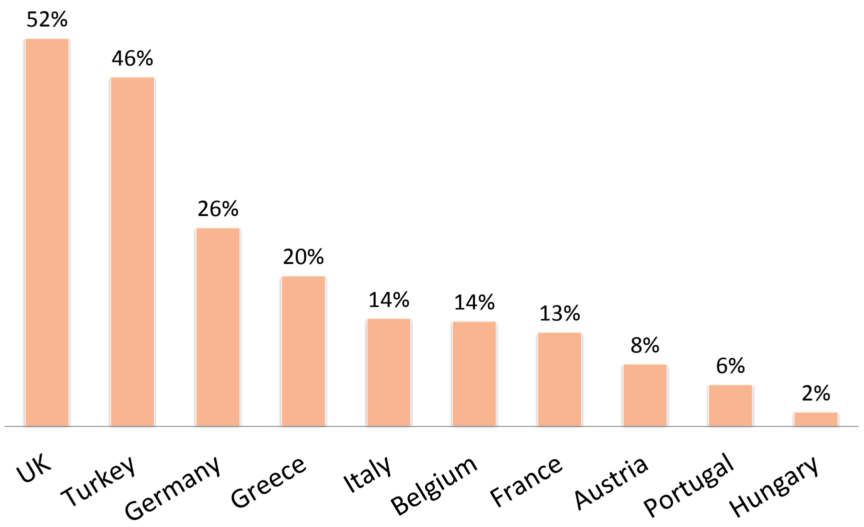
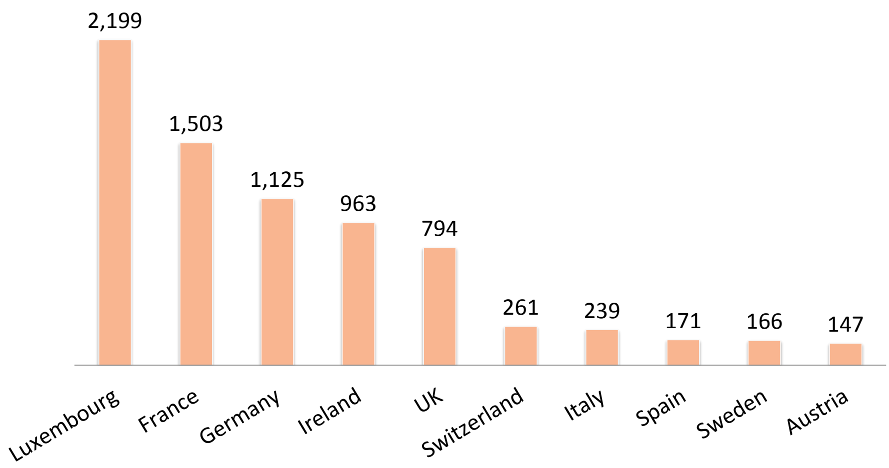


Exhibit 21 shows that a significant share of the investment fund assets managed in the UK and Turkey relates to foreign domiciled funds. By contrast, roughly 86% of investment fund assets in Italy, Belgium and France are both domiciled and managed in these countries, whilst this figure rises to 98% in Hungary. Thus, Exhibit 21 confirms the notion that there is a spectrum across Europe in terms of whether investment funds are primarily domiciled in the country where they are managed, or whether domiciliation abroad is common.

It is worth keeping in mind that the focus of this report is to highlight and analyze facts and figures on the asset management industry from the perspective of where the assets are managed. There is therefore a clear distinction between the data presented in this report and the data on investment funds analyzed in other research reports from EFAMA, such as the EFAMA Fact Book and the EFAMA Monthly Fact Sheet. In general these reports compare the European countries' market shares in terms of investment fund domiciliation. The top 10 fund domiciles at end 2010 are reported in Exhibit 22.

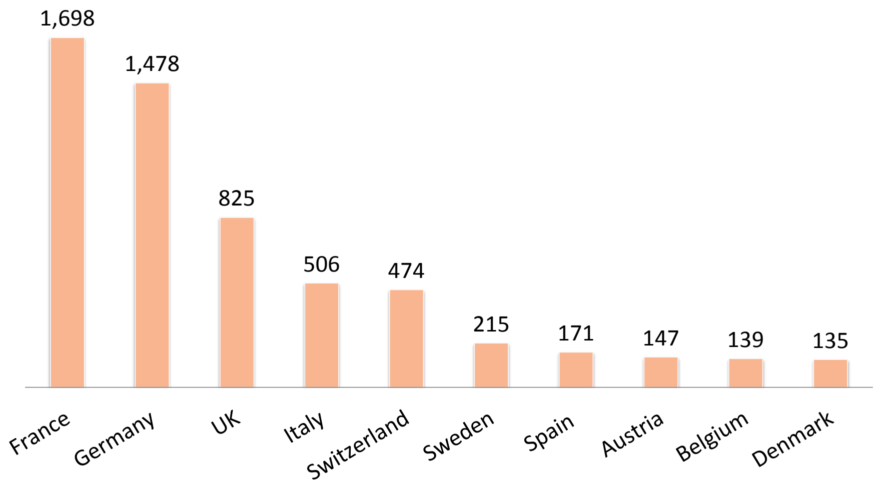
Exhibit 22 Investment fund assets by country of domicile at end 2010 (EUR billion)



Source: EFAMA Fact Book 2011

It is also possible to measure the size of the investment fund market in terms of total demand for investment funds. This is shown in exhibit 23. It can be seen that France, Germany, the UK, Italy and Switzerland were the top five domestic markets for investment funds at end 2010. Whereas investment funds domiciled in the UK, France and Germany account for 43% of the European investment fund market, asset managers in these countries manage 60% of investment fund assets in Europe. The difference between market shares in domiciliation and management of fund assets demonstrates further the degree of specialization of certain European countries which have become important exporters of investment management.

Exhibit 23 Investment fund assets by country of sales at end 2010 (EUR billion)



Source: EFAMA Fact Book 2011

3.2 Discretionary Mandates

Discretionary mandates give the asset management company the sole authority to buy and sell assets and execute transactions on benefit of the client, which can be a pension fund, insurance company or other institutional client such as non-financial companies, banks, government, local authorities, endowments and others. The investment strategy of the portfolio is then agreed with the client, including the risk profile and asset allocation. The asset manager then manages the account within the mandate set out by the client. In certain situations the asset manager may need the approval of the client regarding a change in the guidelines agreed with the client or to alter the asset allocation or risk profile of the mandate.

The two largest countries in terms of discretionary mandate assets (the UK and France) managed approximately 64% of total European discretionary mandates (see Exhibit 24). The Netherlands, Italy and Germany follow the line with market shares of between 5% and 6%. The significant market share of the UK (45%) can be related to the very large base of pension fund assets managed there for both the UK and overseas pension funds, the treatment of some pooled vehicles as discretionary mandates rather than investment funds, and the role of London as an international financial center. In France, the market share of 19% reflects the size of the French insurance industry and the high level of asset management delegation by institutional investors to asset managers.

It is important to note that the degree of geographical concentration is higher than in the investment fund industry. Whereas the mandates segment of the asset management market essentially depends on business-to-business relationships between professionals – asset managers on one side, and institutional investors on the other, investment funds are different in nature as they are primarily targeted at retail investors and their distribution requires stricter administration and notification procedures. For this reason, at least until recently, investment fund assets have tended to be managed closer to their country of distribution.

Exhibit 24 **Discretionary mandates AuM at end 2010 (EUR billion and percent)**

Countries	AuM	AuM % change (1)	Mkt Share	AuM/ GDP
UK	3,203	19.7%	44.9%	188%
France	1,346	7.9%	18.9%	70%
Italy	424	6.0%	5.9%	27%
Netherlands	414	4.8%	5.8%	70%
Germany	330	-7.4%	4.6%	13%
Belgium (2)	114	8.7%	1.6%	32%
Portugal	60	-0.6%	0.8%	35%
Hungary	20	16.6%	0.3%	21%
Greece	2	-3.7%	0.03%	1%
Turkey	2	44.5%	0.03%	0.4%
Rest of Europe	1,217	1.0%	17.1%	30%
Total	7,131	10.3%	100.0%	53%

(1) End 2010 AuM compared to end 2009 AuM
(2) Figure for Belgium includes unit linked insurance products and pension funds

Finally, it should be remembered that discretionary mandates are often investing in investment funds, thereby taking advantage of the benefits they offer in terms of diversification and cost efficiency (see Exhibit 25).[18] In Hungary, the share of discretionary mandate assets invested in investment funds amounted to 29%, followed by Greece with 20%. In Italy 17% of discretionary mandate assets are invested in investment funds, whereas in France this number drops to 14%, 9% in Portugal and to 7% in Germany.

Exhibit 25 **Share of DM assets invested in IF at end 2010**

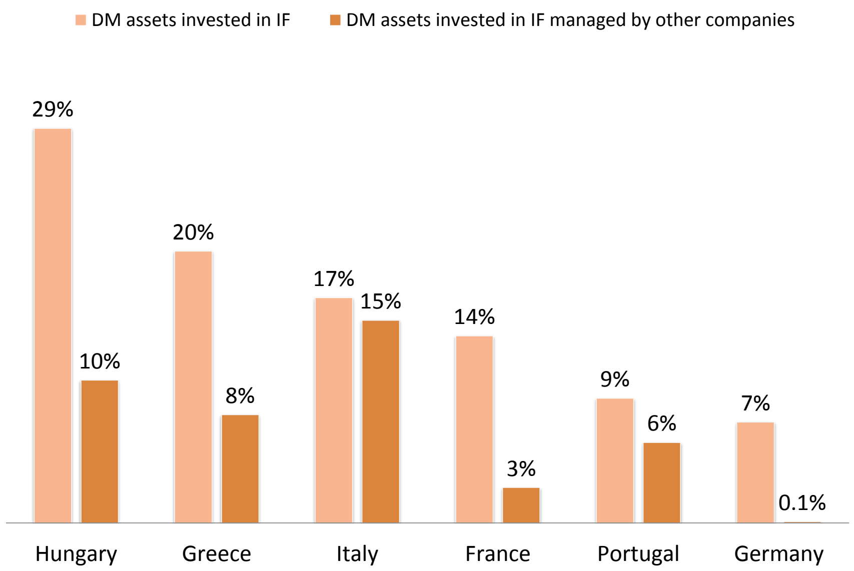


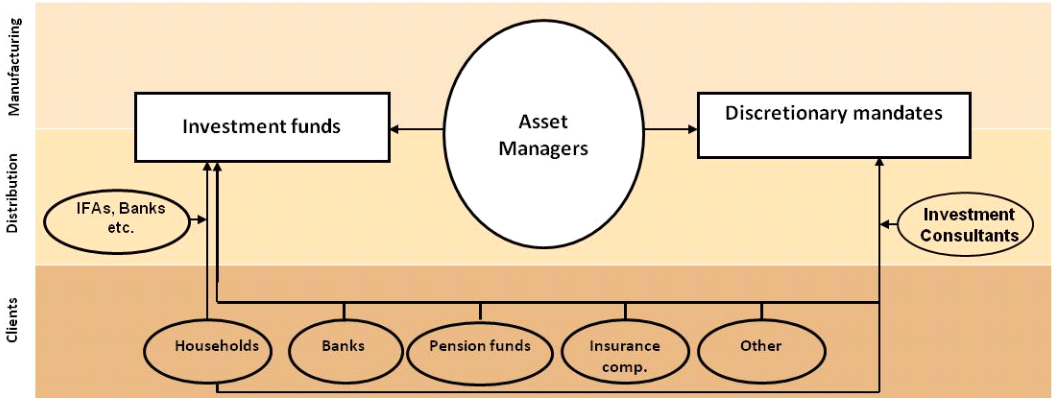
Exhibit 25 above identifies the extent to which discretionary mandates are invested in investment funds managed by the asset managers themselves or by other asset managers. By way of illustration, in Italy 15% of discretionary mandates were invested in investment funds managed by other asset managers, compared to only 3% in France and less than 1% in Germany.

4 Clients of the European Asset Management Industry

The European asset management industry serves retail and institutional clients alike. Institutional clients represent the dominant segment of the European asset management industry. Two key institutional client categories include insurance companies and pension funds. Although these investors continue to manage assets in-house, increasingly many of them rely on the expertise of third-party asset managers. In addition, asset managers serve other institutional clients by managing financial reserves held by non-financial companies, banks, government, local authorities, endowments and others. Many of these clients invest through a combination of investment funds and discretionary mandates. In providing these solutions, asset managers have become a key part of financial services clusters (together with international capital markets and the investment bank industry).

Exhibit 26 below illustrates the principal clients and product solutions of the asset management industry as well as the important role played by distribution channels. In this regard, fund managers are often dependent on the quality and independence of advice given to the end investor at the point of sales by distributors. It is also important to note that many of the institutional clients of the industry provide intermediary services for households. For example, apart from direct investment by households in asset management products, households also account for a significant share of the institutional client segments through their ownership of unit-linked products offered by insurance companies, or defined contribution schemes offered by pension funds and others. Moreover, retail investors increasingly access investment funds through platforms, funds of funds and similar approaches that are considered as institutional business. This is an important reason why institutional investors represent the largest client category of the European asset management industry.

Exhibit 26 Main clients and distribution of asset manager services

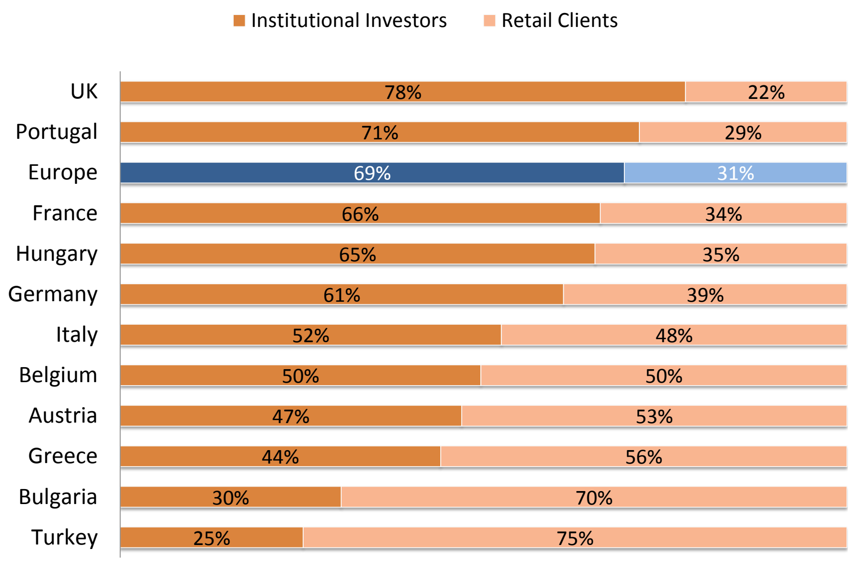


4.1 Institutional and Retail Clients

On aggregate, institutional investors accounted for 69% of total European AuM in 2010, with retail clients accounting for the other third. Institutional investors often act as financial intermediaries and channel the investments of retail clients to asset managers.

There are significant variations in the importance of institutional investors across countries. In the UK, Portugal, France, Hungary, and Germany institutional clients account for 61% or above of all clients (see Exhibit 27). This reflects the ability of these countries to attract large institutional mandates from pension funds (in Hungary and the UK), insurance companies (in Portugal, France and Germany).

Exhibit 27 AuM by client type at end 2010



Turning to the importance of institutional and retail client types across investment funds and discretionary mandates, Exhibit 28 demonstrates that institutional investors dominate the discretionary mandate segment of the market in all European countries. In Hungary and Germany they account for more than 90% of discretionary mandate assets, and in France they represent 87%. In Italy, Portugal and Greece, institutional investors make up for approximately three-quarters of the assets managed in discretionary accounts. Such specialization can be attributable to two factors. First, mandates are typically associated with minimum assets under management thresholds, making them less attractive investment vehicles for retail investors. Second, mandates can offer specific investment solutions to the investor' particular needs, such as asset-liability management, liability driven investments and separation of alpha and beta. In general, asset managers can only deliver such customized solutions and services to clients with a relatively high level of investable assets, i.e. institutional investors and high-net-worth individuals.

The distribution between institutional and retail clients' shares of AuM in investment funds displays a more heterogeneous picture across the European landscape (see Exhibit 29). In Belgium, Turkey, Greece, Hungary and Italy, funds appear predominantly targeted at retail clients. In France and Germany, institutional investors account for a significant share (over 50%) of ownership of investment funds. In France the large degree of institutional clients is partly due to the popularity of unit-linked and other wrapper products investing their assets in UCITS, as well as the important role played by money market funds in cash management of many French corporations. In Germany, special investment funds (Spezialfonds) are very popular investment vehicles dedicated exclusively to institutional investors, i.e. insurance companies, pension funds and municipal agencies.

Exhibit 28 **Discretionary mandate assets managed for institutional investors**

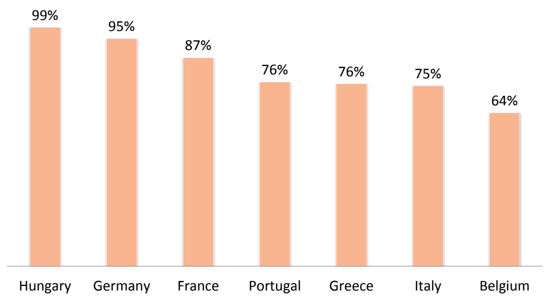


Exhibit 29 **Investment fund assets managed for institutional investors**

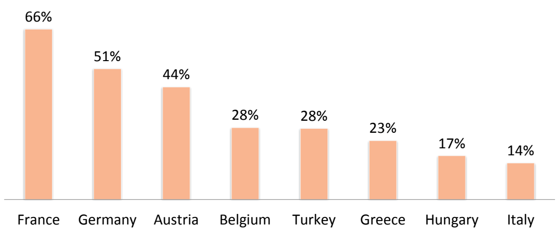


Exhibit 30 below depicts the evolution of AuM by client type. It can be seen that AuM for institutional clients enjoyed a second year of strong growth increasing by 12% in 2010 after recording growth of 11% in 2009. This growth was driven by the pension and insurance segments. AuM for retail clients also increased, albeit at the lower rate of 5% in 2010.

Exhibit 30 **AuM growth (1) (2)**

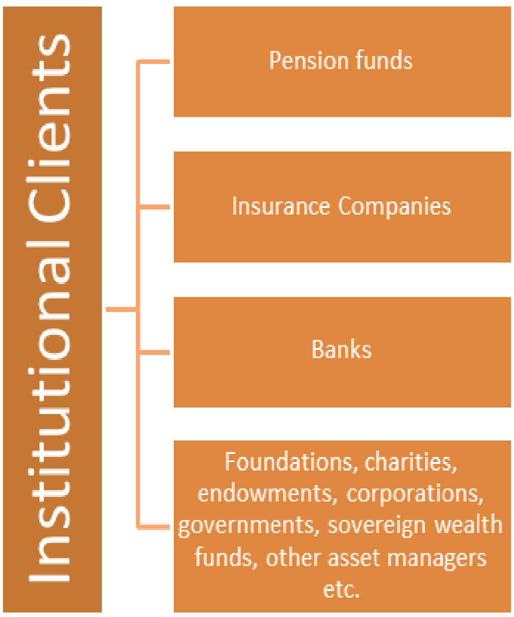
(1) Based on the assets managed by firms that reported the breakdown by client type in 2008, 2009 and 2010.
(2) Keeping the exchange rates constant from end 2007 until end 2010.

Two factors explain why the assets managed for retail clients suffered a much sharper fall in 2008 and more modest growth rates since, than those managed for institutional clients. First, the equity exposure of the financial portfolio tends to be higher for retail clients than for institutional investors in general. This is explained by the fact that European households tend to hold the bulk of their financial wealth in bank deposits, savings accounts and life-insurance products, which tend to be low-risk investment vehicles. In this context, retail clients tend to call upon the expertise of asset managers for managing the portion of their savings that is invested in equity and balanced funds, shares and other types of risky assets. On the other hand, insurance companies, and pension funds –the two largest categories of institutional clients – hold the bulk of their portfolio in debt securities and investment funds, which are managed in house or by third-party asset managers.

Second, pension funds and insurance companies continued to attract new money between 2008 and 2010 as retirement saving tends to be more resilient to financial crisis and economic downturns especially when it is supported by tax incentives and employer contributions or when participation in pension funds are mandatory like in some Central and Eastern European countries. This contrasted with the investment pattern of households who flew out of risky assets in 2008[19] and withdrew more modestly from investment funds in 2010[20].

4.2 Assets Managed for Institutional Investors

Exhibit 31 **Institutional Clients**



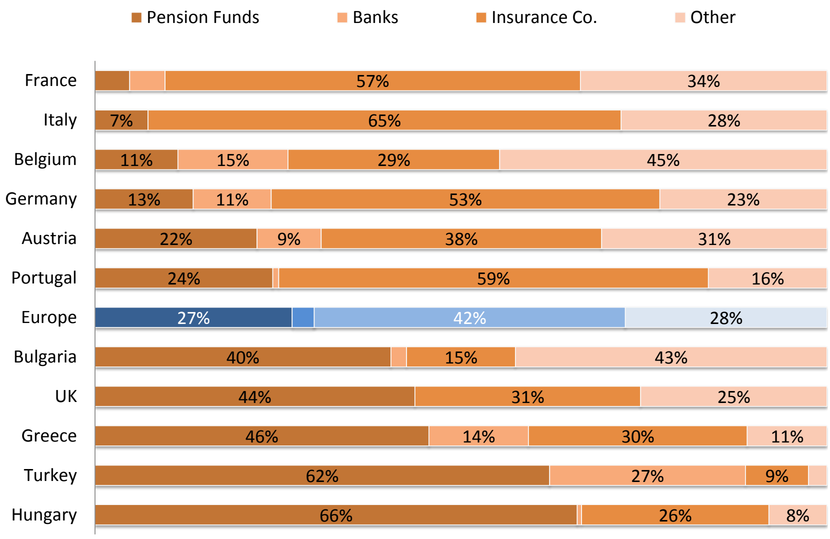
Turning the focus to the different kinds of institutional clients, insurance companies and pension funds accounted for 69% of total AuM for institutional clients in Europe at end 2010, slightly lower than at end 2009 and lower than the 72% seen at end 2008 and at end 2007 (see Exhibit 32). Insurance companies held the top position with 42% of the AuM at end 2010, down from 45% in 2009, and matching the 42% recorded at end 2007. Pension funds held 27% of total AuM for institutional investors, up from 25% at end 2009. This is still less when compared to 2007, when pension funds held 30% of total AuM for institutional investors. This outcome reflected the higher equity exposure of pension funds at the beginning of the crisis and the subsequent shift of assets out of pension schemes and into safer asset classes during the crisis.

Other institutional investors represent a diverse range of clients, such as corporations, foundations, sub-advisory and sovereign wealth funds (see exhibit 31). The aggregate share of this type of investor increased during the year to stand at 28% at year end, up from 27% in 2009 and up from the 24% seen in 2007 and 2008. This increase can be attributed to the positive impact of a number of legislative and technical factors on the demand for Spezialfonds in Germany, as well as the growing importance of newer areas of business in the UK such as sub-advisory whereby the fund advisors, the company or companies that have primary responsibility for managing a fund, will hire another company, called the sub-advisor, to handle the fund's day-to-day management.

Exhibit 32 Breakdown of AuM for institutional investors

Exhibit 33 below illustrates the breakdown of the institutional client category into insurance companies, pension funds, banks and others on a country basis. It can be seen that the relative importance of each type of institutional client varies much across countries, reflecting differences in the importance of insurance products in long-term savings, the structure of national pension systems and the role of banks in the distribution retail investment products. Another influential factor is the degree to which asset managers in a particular country attracts capital from certain categories of foreign investors.

Exhibit 33 **Breakdown of AuM for institutional investors at end 2010**



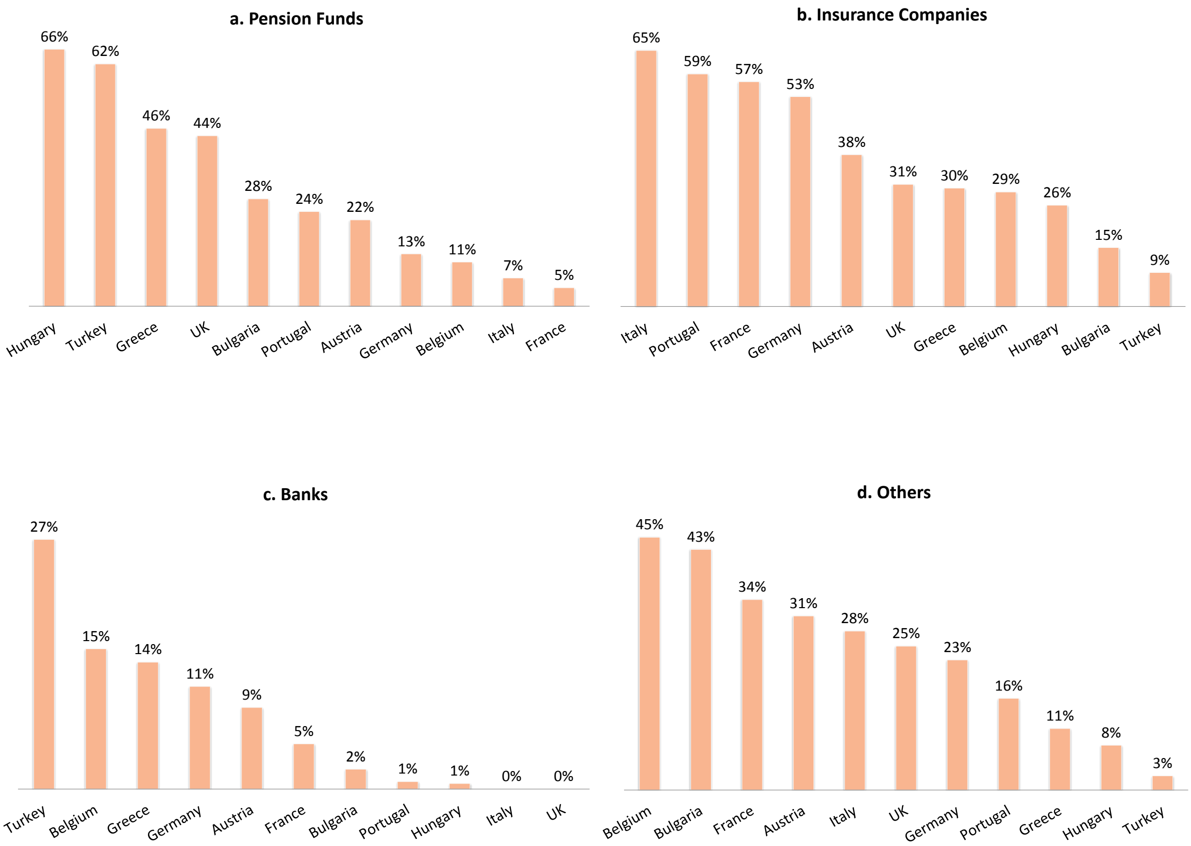
The importance of pension fund assets varies across countries (see Exhibit 34a). Whereas they account for less than 10% of total institutional AuM in France and Italy. In contrast they represent the largest type of institutional mandates in the UK, Greece, Turkey and Hungary. These differences are largely determined by the nature of the pension system. In countries with a tradition of relying on funded pensions, pension fund assets have accumulated over time to form a substantial source of institutional money.

Contrary to the situation for pension funds, insurance companies represent a large source of institutional AuM in all countries. Insurance companies accounted for more than half of institutional clients in Italy, Portugal, France and Germany and above 30% of institutional clients in Austria, the UK and Greece (see Exhibit 34b). This reflects the sheer volume of assets controlled by insurance companies and managed by asset managers.

In most countries, banks represent a small part of the total institutional AuM, except in Turkey where the share of banks represented about 27% at end 2010 (see Exhibit 34c). Still the share of banks is not unimportant in Belgium (15%), Greece (14%), Germany (11%) and Austria (9%).

Finally, it can be seen that the share of other institutional clients is rather significant in a number of countries (see Exhibit 34d). This is attributable to a number of different factors. In Belgium, other institutional clients account for 45%, consisting of fund of fund managers and also corporate companies. In Austria, other clients account for 31% all institutional clients, consisting primarily of large corporations or foundations. In France, the relatively high share of other institutional investors reflects partly the role played by money market funds in the cash management of French corporate treasurers, as well as the importance taken by multi asset management. In the UK, ‘in-house insurance’ and local authorities account for a significant proportion of other institutional investors.

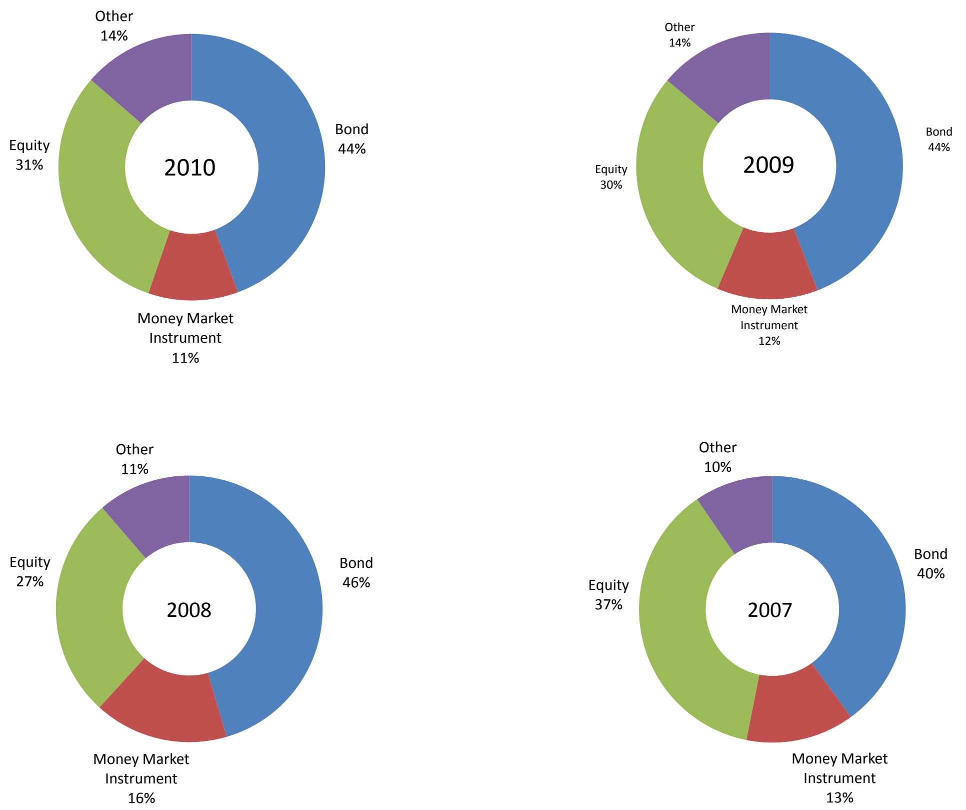
Exhibit 34a-d **AuM for institutional investors**
Breakdown by investor type and country



5 Asset Allocation

Depending on the type of clients, and their respective preferences in terms of risk level, time horizon and outcome target, the asset management industry provides a vast spectrum of solutions to meet the expectations of its diverse range of clients. As different client preferences necessitate different investment strategies, and since dominant client types vary across Europe, there are certain patterns in the way asset managers choose to allocate their portfolio across asset classes. Bonds continued to perform strongly in the asset mix amounting to 44% of all assets at end 2010. Equity assets also consist of a large proportion in the asset allocation, accounting for 31% of total assets at end 2010. Money market instruments continued to see a decline in holdings falling to 11% at end 2010. This is the lowest holding of money market instruments since the series began in 2007, as investors diversified into higher yielding instruments as risk appetite increased. Overall, the asset allocation mix remained relatively stable during the year when compared to end 2009 as investors remained cautious during the year with regards to their portfolio allocation. Compared to end 2007, the share of bonds still remains high (44% at end 2010 versus 40% at end 2007), whereas the equity exposure remains rather low in 2010 (31%) compared to end 2007 (37%).

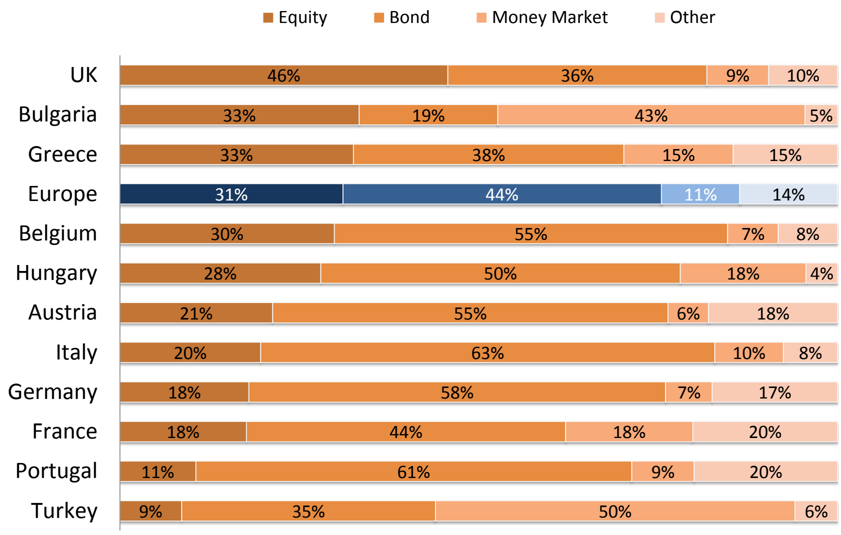
Exhibit 35 Asset allocation



5.1 Asset Allocation by Country

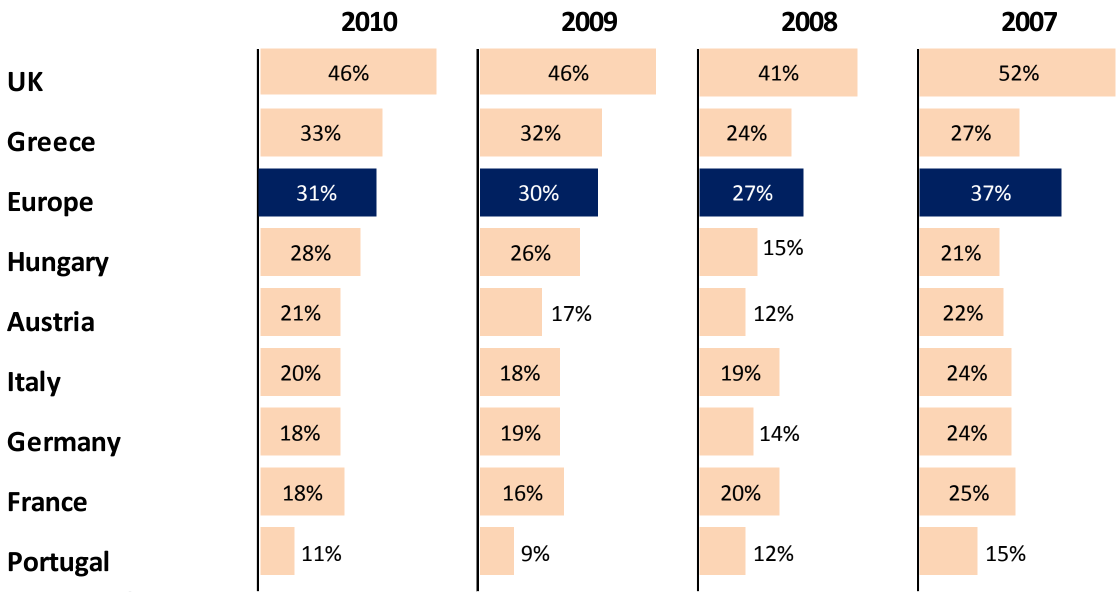
Exhibit 36 displays the differences between countries in terms of how asset managers allocate investments on behalf of their clients across different asset classes. The high share of equity in the UK (46%) can be attributed to a long established culture of equity investing in parallel with the growth of defined-benefit occupational schemes and more recently with the growth of the defined-contribution market. By way of illustration, according to the OECD, UK pension funds held 40% of their assets in equity at end 2009.[21] The strong equity bias stands in contrast to the asset allocation in all other countries (see Exhibit 37 and 38). As the UK accounts for roughly one third of total AuM in Europe, this strong weighting influences heavily the European average. Excluding the UK, the European average share of equity would merely amount to 19%, whereas the share of bonds would rise to 51%.[22]

Exhibit 36 Asset allocation by country at end 2010



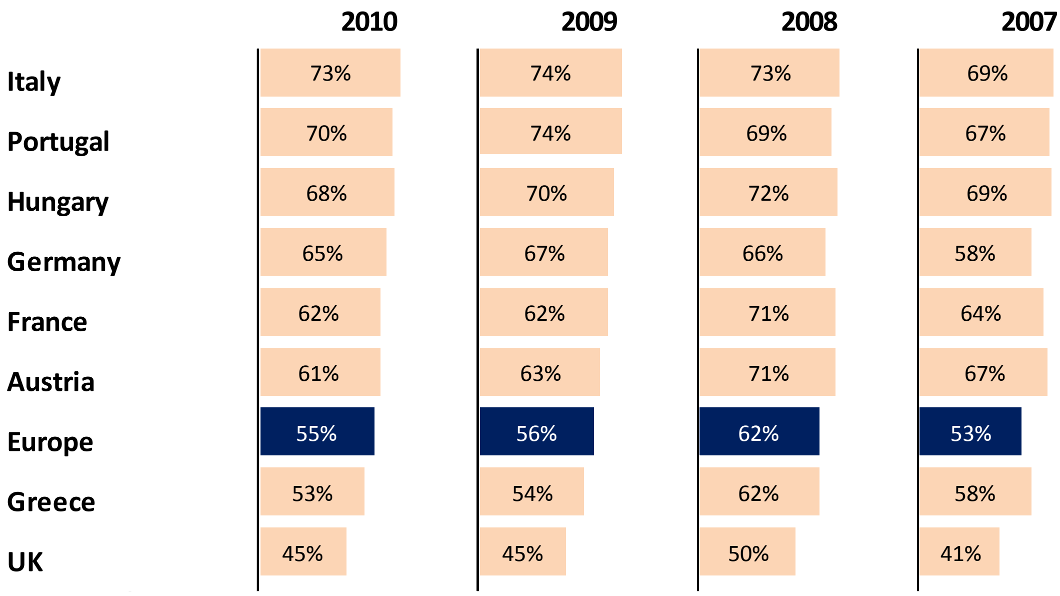
The share of equity assets in the total asset mix remained relatively steady during 2010, with most countries reporting a modest increase of 1%-2%. France registered an increase in the share of equity assets, up to 18% from 16% a year earlier. The equity allocation in the UK remained at 46%, whilst Germany recorded a slight decline falling from 19% to 18% during the year.

Exhibit 37 **Equity asset allocation by country**



Fixed income asset allocation continued to fall in most European countries during 2010, with the European average reducing to 55% from 56%. This comes as investors' appetite for money market instruments fell in 2010 on the back of low short-term interest rates, an improved economic outlook and intense competition from banking deposits.

Exhibit 38 **Fixed income and money market allocation by country**

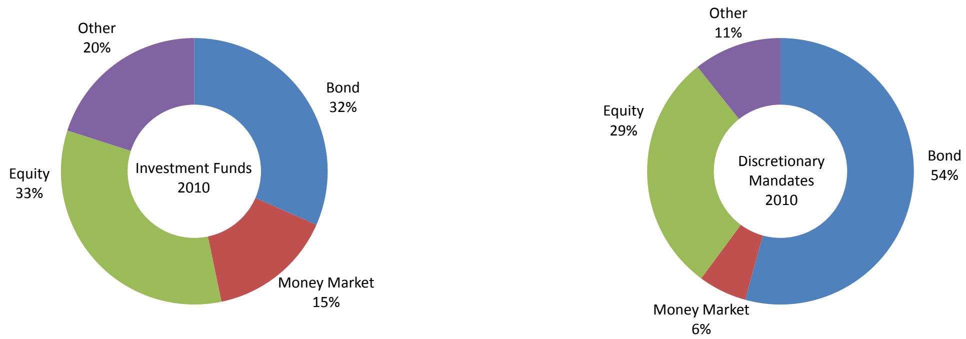


It should also be flagged that the share of other assets is not negligible in a number of countries. This reflects portfolio diversification towards a vast array of different assets, such as hedge funds, structured products and property.

5.2 Asset Allocation in Investment Funds and Discretionary Mandates

Exhibit 39 shows the difference in asset allocation between investment funds and discretionary mandates at end 2010 and 2009. Investment funds held on average 33% of their AuM in equity at end 2010, which is the same level as at end 2009. Investment fund held almost one-third of their portfolio in bonds during the year and 15% in money market instruments/cash. Another important observation is the large share of other assets held by investment funds. Some of these other assets would include mixed funds and funds of funds. Discretionary mandates remain to be more conservatively managed, with an average of 29% invested in equity and 54% invested in bonds. Money market instruments/cash made up 6% of discretionary mandates holdings at end 2010.

Exhibit 39 Asset allocation in investment funds and discretionary mandates at end 2010



Exhibits 40 and 41 show the large differences in asset allocations across countries in terms of investment funds and discretionary mandates.[23] Although the figures give some indication on the dominant risk preferences in various countries, it should be recalled that the European asset management industry is highly internationalized, with mandates and investment funds being often managed for foreign clients. For instance, investors in a country with predominantly low equity exposure product solutions may choose to appoint asset managers to manage their equity investments.

Despite the impact from cross-border selection of asset managers, certain patterns can be distilled from the data on asset allocation. In particular, asset allocation is affected by the type of clients that dominate the investment fund or discretionary mandate segments in the surveyed countries.

An historic reason also explains why France became Europe's largest center of money market funds: a regulation forbidding remuneration of banking accounts. Despite the abolition of this rule in 2005, money market funds remained an important segment of the French fund industry because their clients – mostly corporations, institutional investors and to a lesser extent households – continued to value their advantages in terms of services for cash management and net return compared to direct investment in other instruments. The existence of large and deep money markets also allowed a dynamic management of money market funds.

Exhibit 40 **Asset allocation in investment funds at end 2010**

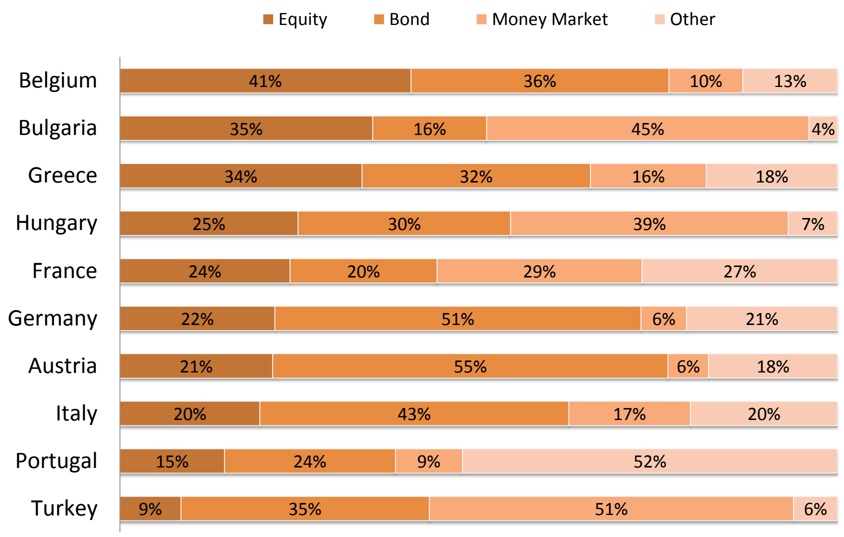
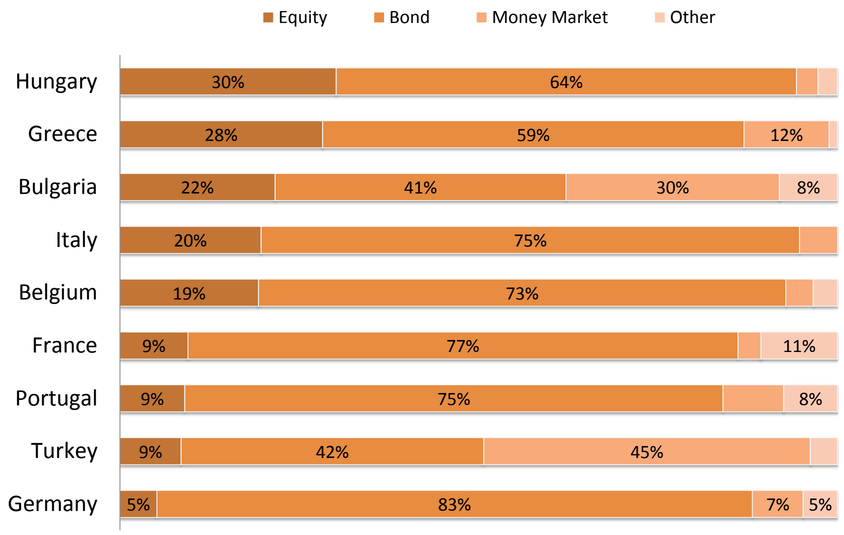


Exhibit 41 **Asset allocation in discretionary mandates at end 2010**



6 Financing of the Economy by European Asset Managers

Asset managers fulfill an essential function in the financing of the European economy by channeling capital from savers to governments, corporations and banks, helping these entities meet their short-term funding needs and long-term capital requirements. This section illustrates the importance of this function by providing some estimations of how much debt and equity securities issued in the euro area are held by European asset managers.

6.1 Financing Contribution of Euro Area Investment Funds

The European Central Bank (ECB) publishes statistics on the economic sector of the assets of investment funds domiciled in the euro area. It is therefore possible to measure the extent to which euro area investment funds are investing in debt and equity issued by euro area residents, including governments, monetary financial institutions (MFIs) and non-financial corporations.

Exhibit 42 below shows that the outstanding stock of securities other than shares issued by euro area residents amounted to EUR 15,877 billion at end 2010. Investment funds domiciled in the euro area held 12.3% of this total, or EUR 1,950 billion. The market share of euro area investment funds in the debt issued by euro area governments and MFIs reached 11.9% and 14.1%, respectively.

Exhibit 42 Holdings of securities other than shares issued by euro area residents and held by euro area investment funds (end 2010)

Euro area issuer	Securities held by euro area IF (EUR billion)	Total securities issued (EUR billion)	Share of euro area IF
General Government	774	6,485	11.9%
MFIs	742	5,246	14.1%
Other	434	4,146	10.5%
Total	**1,950**	**15,877**	**12.3%**

Source: ECB

Exhibit 43 shows that the total market value of quoted shares issued by euro area residents amounted to EUR 4,594 billion at end 2010. Out of this total, euro area investment funds held EUR 747 billion at end 2010, or 16.3%.[24] Using an estimation of the free-float market capitalization of euro area quoted companies calculated on the basis of the shares readily available in the market[25], i.e. excluding locked-in shares such as those held by governments, company officers, or controlling-interest investors, it can be estimated that euro area investment funds held 22.9% of the shares issued by euro area companies and available to public investors at end 2010.

Exhibit 43 Holdings of shares and other equity issued by euro area residents and held by euro area investment funds (end 2010)

Euro area issuer	Shares held by euro area IF (*) (EUR billion)	Total quoted shares issued (EUR billion)	Free-float euro area Mrkt Cap. (**) (EUR billion)	Share of euro area IF in	
				Full market	Free-float
	(1)	(2)	(3)	(4) = (1)/(2)	(5) = (1)/(3)
General Government	--	--	--	--	--
MFIs	77	458	--	16.8%	--
Non-financial corporations	606	3,802	--	15.9%	--
Other	65	334	--	19.5%	--
Total	**747**	**4,594**	**3,262**	**16.3%**	**22.9%**

(*) Excluding money market funds, which had a very limited equity exposure at end 2010 (EUR 6 billion).
(**) Estimation based on the ratio of the free-float market capitalization to total market capitalization calculated by STOXX Limited. This ratio is then applied to ECB data for the euro area as a whole.
Source: Data from ECB and from STOXX Limited for the free-float market capitalization data.

6.2 Financing Contribution of Asset Management

Estimating the overall contribution of European asset managers to the financing of the euro area, taking into account the debt and equity held by European investment funds domiciled outside the euro area and the discretionary mandates is more difficult due to lack of consistent data. To overcome this problem, we have extrapolated the share of euro area investment funds in the financing of the euro area economy. The methodology used is explained in the appendix at the end of the report.

According to our calculations, the outstanding amount of debt and equity issued by euro area residents and held by European asset managers stood at EUR 3,704 billion and EUR 1,418 billion, respectively. Exhibit 44 highlights that European asset managers held 23% of the securities other than shares issued by euro area residents at the end of 2010, and 31% of the share and other equity issued by euro area residents. Using the value of the free-float market capitalization calculated by STOXX limited, it can be estimated that European asset managers held 43% of the value of the shares issued by euro area companies that were readily available for trading in the market at end 2010.

Even if this percentage represents a first estimation of the contribution of European asset managers to the financing of the euro area, the order of magnitude of this estimation confirms the essential economic function played by asset managers in Europe in providing an essential link between investors seeking appropriate savings vehicles and borrowers who need funds to finance their activities and developments. By performing this function asset managers make a significant contribution to the overall development of the real economy.

Exhibit 44 **Holdings of debt and equity issued by euro area residents and held by European asset managers (end 2010)**

	Securities other than shares (EUR billion)	Shares and other equity (EUR billion)
Euro area assets held by European asset managers [(1)]	3,704	1,418
Securities/Shares issued by euro area residents [(2)] (Free-float Mkt Cap.)[(3)]	15,877	4,594 (3,262)
Total share of European asset managers (in % of Free-float Mkt Cap.)	**23%**	**31%** **(43%)**

(1) EFAMA estimations
(2) Data from ECB
(3) Estimation based on the ratio of the free-float market capitalization to total market capitalization calculated by STOXX Limited. This ratio is then applied to ECB data for the euro area as a whole.

7 Total AuM at end 2011

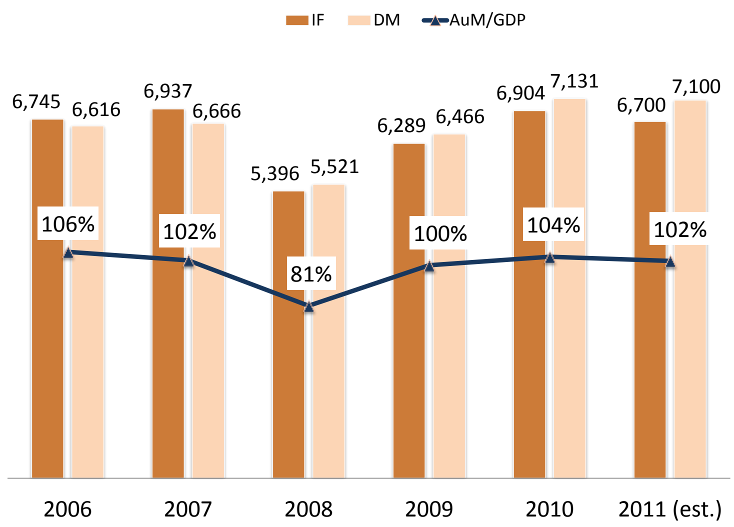
Investors began 2011 with increased confidence in the global economic outlook. This new found optimism was short-lived as the onset of the Arab Spring, increasing commodity prices and the earthquake in Japan at the beginning of the year increased caution amongst investors. However, the defining point in the year came during the Summer months when disappointing news on economic growth, the downgrading of U.S. debt and the intensification of the euro area sovereign debt crisis caused turmoil on financial markets, which triggered a strong resurgence in risk aversion. These developments made 2011 a tough year on stock markets in Europe, with most major stock market indices ending the year considerably lower. Reflecting these developments, equity funds experienced a strong asset decrease in 2011 (14%). In contrast fixed income funds experienced an increase in assets of 10%. Despite the STOXX Europe 600 index decreasing 12% during the year, the assets of investment funds domiciled in Europe withstood the turbulence on financial markets to end the year down 2.8% according to EFAMA statistics.[26]

Long-term UCITS experienced net outflows in 2011 as the rise in risk aversion led to strong withdrawals from equity and bond funds. In parallel, intense competition from the banking sector in a low interest rate environment enticed investors to shift assets away from money market funds. 2011 was also marked by an increase of 7% in the assets of special funds reserved to institutional investors. Insurance companies, pension funds and other institutional investors continued to use these vehicles to invest the recurrent contribution collected from their members. Applying these growth rates to the asset mix observed in the investment fund assets managed in Europe, those assets can be estimated to have decreased to EUR 6,700 billion in 2011.

To estimate the evolution of the AuM in discretionary mandates in 2011, we took into account the following factors. First, we extrapolated the observed market developments on to the asset class portfolio composition of discretionary mandates. Second, we assumed that discretionary mandates continued to attract funds during the year, in the order of 2% of AuM. This assumption is conservative considering more than 70% of discretionary mandate assets are managed for insurance companies and pension funds, which continued to draw net contributions from occupational pension plans and life-insurance contracts in 2010. Taken altogether, and according to our estimations discretionary mandate assets may remain at a steady level in 2011 to end the year at EUR 7,100 billion.

Following this approach it can be calculated that total AuM in Europe decreased by less than 2% in 2011 to EUR 13.8 trillion. Although the standing of the European asset management industry at end of 2011 will be analyzed in detail in next year's EFAMA Asset Management Report, it is possible to give some indication of the evolution in 2011. Exhibit 45 shows the estimated evolution of AuM in discretionary mandates and investment funds between end 2006 and end 2011. In relation to GDP, the value of AuM is estimated to reach 102% at end 2011, down from 104% in 2010. This modest decrease reflects a reduction in AuM (2%) as well as economic growth in Europe of 1.6% in 2011.

Exhibit 45 European AuM (EUR billion and percent)



Appendix

The purpose of this annex is to explain the approach used in section 6.2 to estimate the market share of the European asset management industry in the financing of the euro area.

The first step consisted of collecting ECB data directly relevant to the debt and equity issued and held by euro area investment funds. The data is presented in Exhibits 43 and 44 in the report and summarized in the table below.

End 2010 (EUR billion)	Euro area investment fund assets: held by euro area investment funds	issued by euro area residents	Share of euro area IF
Debt	1,950	15,877	12.3%
Equity	747	4,594	16.3%

According to the ECB, euro area debt (i.e. securities other than shares) and equity (i.e. shares other than equity) held by euro area investment funds represented 26.4% and 10.1% of their total portfolio assets, which totaled EUR 7,388 billion at end 2010. The rest of the portfolio was held in debt and equity issued outside the euro area, as well as other assets such as deposits, non-financial assets and financial derivatives.

The second step was to assume that the remaining part of the assets managed in Europe at end 2010, which was estimated at EUR 6,647 billion, i.e. total AuM (EUR 14,035 billion) minus total assets held in euro area investment funds (EUR 7,388 billion), had the same exposure to debt and equity issued by euro area residents as euro area investment funds, i.e. 26.4% and 10.1%, respectively. To support this assumption it may be argued that the population of euro area investment funds is extremely large and diversified both in terms of end investors and investment strategies and can therefore provide a proxy for estimating the asset allocation of the pool of financial assets held in investment funds and discretionary mandates across Europe. The fact that the pool of assets held in investment vehicles in the UK is more heavily exposed to equity than euro area investment funds may point to some limitation to this approach. This said, it is also quite likely that the market share of the shares issued in the UK tends to be high in the asset pools managed in the UK, given a home bias and the size of UK's market capitalization. This factor may compensate for the different asset allocation between the euro area investment funds and the overall UK asset management industry.

Following this approach, the holdings of debt and equity issued by euro area residents and managed by European asset managers in investment vehicles other than euro area investment funds, would total EUR 1,754 billion and EUR 671 billion, respectively.

The third step was to add up the assets calculated in steps 1 and 2, and to compare the figures with the total amount of securities other than shares and quoted shares issued by euro area residents at the end of 2010. The results are presented in Exhibit 44 in the report.

It should be possible to strengthen the methodology described in this Appendix in different ways: for instance, by using first-hand statistics on debt and equity issued by euro area residents and held by European investment funds domiciled outside the euro area, and/or by using data on discretionary mandates assets and the geographical location of the issuer of the assets. If available, these data would allow refining our estimation of the contribution of European asset managers to the financing of the euro area. It should also possible to extend our analysis to the financing of the European economy at large. This would require collecting data on the securities and shares issued across Europe and managed by European asset managers on behalf of their clients. This work would represent a meaningful extension of this report.

[1] We are grateful to our member associations for providing the data that allow us to produce this report. We would like to thank Ron Batten, Effie Bourboulas, Sergio Brito, Ivo Ivanov, Armin Kammel, Teresa Lapolla, Marc Leroux, Jonathan Lipkin, Carsten Lüders, Carlos Pardo, Andrea Pechova, Michael Pirl, Selin Sözer, Andras Temmel, Thomas Valli and Andy Vangenck for their contributions to the preparation of this report.

[2] Two main sources of information were used: the EFAMA 2010 Fact Book and the McKinsey&Company report: "Will the goose keep laying golden eggs, New normal – new strategy?!" (July 2010).

[3] Due to updated data provided for a number of countries included in the "other" category, total AuM in 2009 has increased to EUR 12.8 trillion from EUR 12.4 trillion as reported in the EFAMA Asset Management in Europe: 4th Annual Review, May 2011.

[4] See Boston Consulting Group report : « Global Asset Management 2010 : In Search of Stable Growth » (July 2010).

[5] See http://www.irishfunds.ie/fs/doc/publications/why_ireland_the_facts_web.pdf.

[6] See "Etude d'impact de l'industrie financière sur l'économie luxembourgeoise", version chiffres de 2008, Deloitte, October 2008. This study is available at the following address: http://www.cssf.lu/uploads/media/Etude_impact_2008.pdf

[7] See study "Les emplois dans la gestion pour compte de tiers" published by AFG in September 2011 at: http://www.afg.asso.fr/index.php?option=com_docman&task=doc_download&gid=2973&Itemid=158&lang=en

[8] This estimation represents the full-time equivalent jobs induced by the payments and compensations made by asset managers to distributors.

[9] By way of illustration, taking into account non-IMA member hedge funds and private equity funds, the total number of asset management companies in the UK would probably add to more than 400.

[10] For the UK, if non members of the IMA and in particular those of the hedge fund industry were included, the number of firms would be significantly higher than those reported in exhibit 12.

[11] UCITS ("Undertaking for a Collective Investment in Transferable Securities") refers to the EU Directive that established a "single license" regime for collective investment schemes exclusively dedicated to the investment of assets raised from investors. UCITS benefit from a "passport" allowing them, subject to notification, to be offered to retail investors in any jurisdiction of the European Economic Area once registered in one Member State. Generally speaking, UCITS are publicly offered open-ended funds investing in transferable securities and money market instruments.

[12] UCITS IV refers to the recast UCITS Directive 85/611/EEC (entered into force in 1988 as amended by UCITS III in 2002) which will bring a number of key enhancements to the UCITS regime, including the management company passport.

[13] The figure of total assets under management reported in this report for the UK (£3.9trn) corresponds to total assets under management by IMA members. Taking into account the assets managed by firms outside the IMA membership base, including hedge funds, private equity vehicles, property funds and discretionary private client managers, IMA estimated that the assets managed in the UK would total £4.4trn at end 2010.

[14] See Asset Management in the UK 2010-2011, The IMA Annual Survey, which can be downloaded from: http://www.investmentuk.org/research/ima-annual-industry-survey.

[15] Figures for median assets in the UK and Germany are taken from surveys undertaken by the IMA (UK) and BVI (Germany), covering a sample of firms and not the entire dataset as presented in Exhibit 12.

[16] More information about asset management data in Germany, and recent updates can be downloaded from the BVI website at: www.bvi.de/de/statistikwelt/Investmentstatistik/index.html.

[17] More information on AIFMD can be found on the European Commissions' website at: http://ec.europa.eu/internal_market/investment/alternative_investments_en.htm.

[18] The allocation of discretionary mandates to investment funds results in a certain degree of double counting. However, such double counting is negligible in relation to total assets (approx. 2%).

[19] According to ECB data euro area households withdrew EUR 152 billion and EUR 48 billion from investment funds and quoted shares in 2008, whereas euro area insurance companies and pension funds benefited from EUR 284 billion of net new money (see part 1.2 in EFAMA Fact Book 2009).

[20] See Fact Book 2011 (part 1.3).

[21] See "Pensions at a Glance 2011: Retirement-income Systems in OECD and G20 Countries", which can be found at http://www.oecd-ilibrary.org/finance-and-investment/pensions-at-a-glance-2011_pension_glance-2011-en

[22] The asset allocation for the UK is based on an estimate for the retail part of the UK managed funds.

[23] Excluding the UK due to a change in collection method of data, which would not allow a precise breakdown between investment funds and discretionary mandate.

[24] By way of comparison, investment funds domiciled in France held 12% of the total value of all outstanding shares of French publicly-traded companies at end June 2010: see "Contribution des OPCVM aux fonds propres des entreprises, C. Pardo and T. Valli, Cahiers de la Gestion, April 2011" available at http://www.afg.asso.fr/index.php?option=com_docman&task=doc_download&gid=2762&Itemid=158&lang=en

[25] Our estimation is based on the calculation of the free floating market capitalization related to the EURO STOXX Total Market Index (TMI) which is provided by STOXX Limited.

[26] See "Trends in the European Investment Fund Industry in the Fourth Quarter of 2011 and Results for the Full Year 2011", EFAMA's Quarterly Statistical Release N°48, February 2012, available at www.efama.org.