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Key Findings

Assets under Management (AuM) in Europe stood at EUR 13.8 trillion at end 2011, marking a slight decline on 2010, when AuM amounted to EUR 14.0 trillion. The reduction in net assets came on the back of a challenging year for the industry, in particular the retail segment of the market, as the crisis in the Eurozone took a turn for the worse during the year. In relation to GDP, total AuM in Europe equated to 99% at end 2011. We estimate that total AuM increased in 2012 to EUR 15.4 trillion, on account of reduced tensions on stock and sovereign debt markets, but also due to the positive effect of the European Central Bank (ECB) policy actions. Europe ranks as the second largest market in the global asset management industry, managing 31% of global assets under management.

Discretionary mandate assets represented EUR 7.3 trillion or 53% of AuM at end 2011, whereas investment funds accounted for the remaining EUR 6.5 trillion. Typically, asset managers receive mandates from institutional investors and high-net-worth individuals, whereas investment funds serve the retail and institutional markets.

More than 3,200 asset management companies are registered in Europe employing about 90,000 people directly and over 500,000 indirectly at end 2011. 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 is highly concentrated in a limited number of countries. The top three countries -- the UK, France and Germany -- together accounted for 67% of total AuM in Europe at end 2011. 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 households, represent the largest client category of the European asset management industry, accounting for 75% of total AuM in Europe. Insurance companies and pension funds accounted for 42% and 33% of total AuM for institutional clients at end 2011, respectively.

Holdings of bond and equity assets remain asset managers preferred asset classes at end 2011, with 46% and 29% of total AuM, respectively. Mandates exposure to bond assets amounted to 58%, compared to 33% for investment funds, whereas investment funds had a greater share of equity (33% compared to 26% for mandates).

Asset managers play a key role in helping their clients to reach their investment objectives, whilst contributing to 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 ECB and EFAMA’s calculations, European asset managers held 21% of the debt securities issued by euro area sectors at end 2011, 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.
Key Figures

Total AuM (EUR trillion)

<table>
<thead>
<tr>
<th>Year</th>
<th>Investment Funds</th>
<th>Discretionary Mandates</th>
<th>AuM/GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>13.4</td>
<td>106%</td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>13.6</td>
<td>102%</td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>10.9</td>
<td>81%</td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>14.0</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>14.0</td>
<td>104%</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>13.8</td>
<td>99%</td>
<td></td>
</tr>
<tr>
<td>2012 (est.)</td>
<td>15.4</td>
<td>108%</td>
<td></td>
</tr>
</tbody>
</table>

Market Share in Total AuM

- Belgium: 2%
- France: 20%
- Germany: 10%
- Italy: 4%
- Netherlands: 4%
- UK: 36%
- Other: 24%

Asset Allocation in Total AuM

- Bond: 46%
- Money Market Instrument: 11%
- Equity: 29%
- Other: 14%

Industry Size (end 2011)

- 3,200 companies
- 90,000 direct jobs
- 505,000 full-time equivalent jobs

Client Type in Total AuM (end 2011)

- Retail: 25%
- Institutional: 75%
- Pension Funds: 33%
- Insurance Companies: 42%
- Banks: 3%
- Other Institutionals: 22%
Industry Leaders’ Quotes

“The macro drivers for the asset management industry will clearly be the worldwide need for pension provisions as well as the rising wealth of private households, particularly in the developing countries.”

“The lack of stability on the tax and regulatory landscape will reduce investment in expanding the core competencies of EU asset management.”

“Asset managers that apply a prudent stewardship in their role as shareholders/investors are contributing, so that companies apply a sound and socially responsible business culture.”

“The asset management industry creates significant sources of employment, particularly in those jurisdictions which boast significant volumes of funds domiciled there.”

“The process of allocating capital and balancing risk is of paramount importance for an efficient functioning of the economy.”

“We don’t want to see investment decisions based on regulatory actions; rather it should remain focused on possible risk-adjusted returns.”

“The rise of the institutional client will continue through wrap products and pension products.”

“The industry is one of the most important providers of liquidity needed to ensure the smooth functioning of capital markets, and provides the means for its clients to diversify their portfolios and achieve their investment goals.”

“Asset managers should be able to give more investors access to long-term and less liquid assets via professionally managed mandates and regulated pooled vehicles.”

“Retail investment is likely to accelerate but institutional investors will represent the vast majority of invested assets for many years to come.”

“There should be no possibility of regulatory arbitrage by choosing the location of asset management.”

“The breaking down of barriers to 2nd pillar pensions market entails significant growth prospects. The establishment of a competitive market for retirement solutions for European households would give asset managers an opportunity to serve clients retirement needs.”
“UCITS provide members of the public with access to a fully transparent and highly regulated long-term investment vehicle providing them with a regulated savings solution to fund their retirement.”

“If the proposed FTT was adopted, it would deter the attractiveness and competitiveness of the European asset management industry as a whole.”

“The importance of personal savings is growing so accessing the individual either directly or via intermediaries will become increasingly important to asset managers.”

“UCITS continue to be recognized as a fund vehicle in many core markets in Asia and also now in Latin America as the level of wealth increases in those markets. The opportunities for growth and increased globalization are significant.”

“We do see merit in access for retail clients to less liquid assets such as property if an appropriate EU framework can be developed.”

“The new solvency regulation that keeps insurers from investing in alternative investments is inadequate.”

“If the proposed FTT was adopted, it would deter the attractiveness and competitiveness of the European asset management industry as a whole.”

“As wealth increases in emerging markets, new savings flows are expected to arise. Official institutions such as sovereign wealth funds and central banks will continue to accumulate assets and so will be an increasingly important institutional market segment.”

“The asset management industry is important provider of equity capital for companies, as well as an important provider of debt capital for companies and states. In the real asset sector, it is an important financier of infrastructure, renewable energy and real estate.”

“Going forward, the challenge for asset managers will continue to be the delivery of long-term returns in a low-yield environment.”

“Most suitable for institutional investors are alternative investments with a stable cash flow and higher yields, e.g. real estate, infrastructure and private equity.”

“Investment funds will continue to play an important role in portfolios of institutional investors.”

“Ageing of the European population will lead both individuals and pension funds to reduce exposure to riskier assets and shift towards more low-risk assets to preserve capital and provide a relative stable income stream.”

“The industry is a vital source of economic growth through its role of intermediary in the savings-investment channel.”

“Client demand for income generation and outcome orientated solutions continues as clients seek to minimize risk and increase income.”
1 The EFAMA Annual Asset Management Report

The sixth annual report undertaken by EFAMA on the European Asset Management industry represents an effort to provide a snapshot of the asset management industry in Europe. Its focus is on the value of assets professionally managed in Europe with a distinction between investment funds and discretionary mandate assets, and across both the retail and institutional landscape.

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/Quarterly Statistical Releases. In general these other reports compare the European countries’ market shares in terms of investment fund domiciliation.

The report is primarily based on responses to a questionnaire sent to EFAMA member associations covering data at end 2011. The questionnaire methodology has focused around the coverage of data on assets under management (AuM) split by products, clients and assets types. Thirteen 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, Romania, Turkey and the UK. According to our estimations, these countries account for 77% 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 Section 2.

This year’s asset management report includes quotes from industry leaders. EFAMA carried out a survey of CEO’s, investment managers and other industry experts to gain a better insight into the figures presented in this report and to better understand the opportunities and challenges currently facing the industry. Direct quotes from this survey are highlighted in the “Industry Leaders’ Quotes” section presented at the beginning of this report.

This year’s report is broken down into sections from 2-7. The purpose of section 2 is to provide an overview of the European asset management industry and put it into a global context. 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 key functions of the asset management industry and the role and contribution played by the industry in the European economy, in terms of employment and funding. Finally, section 7 presents a first estimation of the assets managed by the industry in Europe at end 2012.
2 European Asset Management Industry

2.1 AuM in Europe – Evolution between 2007-2011

2011 was a year of negative surprises, namely the earthquake in Japan, the onset of the Arab Spring and tensions in oil prices. These were followed by the intensification of the euro area sovereign debt crisis, the downgrading of U.S. debt and the worsening of the global economic outlook, which triggered a strong resurgence in risk aversion as investor’s confidence in the global economic outlook deteriorated. After two years of growth, the asset management industry recorded a modest decline in AuM in 2011 on account of these challenges. This said, there were nevertheless some pockets of growth in certain market segments which will be discussed later in the report.

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

Overall, the professionally managed assets of the European asset management industry in 2011 reduced by 1.8% to stand at EUR 13.8 trillion. Despite this decrease in net assets, total assets of the European asset management industry stood 27% higher than at end 2008 when assets amounted to EUR 10.9 trillion (see exhibit 1). In relation to aggregate European GDP, total AuM/GDP stood at 99% at end 2011, down from 104% in 2010.3

Exhibit 2: Asset Allocation of European AuM

The asset allocation of European AuM continued to shift in 2011 as shown in exhibit 2. Equity holdings suffered given the turmoil on financial markets and the uncertainty regarding the economic outlook. Such uncertainty gave rise to risk aversion, which helped boost the asset allocation of bonds in asset managers’ portfolios. The asset management industry continued to face competition from the banking sector in 2011, as interest rates reached new all time lows in the Eurozone and remained low elsewhere during the year. Nevertheless, the portfolio holdings of money market instruments remained relatively flat. When contrasting asset managers’ portfolio holdings at end 2011 with those at end 2007, it can be seen that bonds benefitted at the expense of equity/shares over the past five years, as a sense of investor caution lingered on the back of a lack of confidence regarding the strength of the economic recovery. Within the bond market, cautious investors looking for some reasonably low risk income also found corporate bonds attractive.

Institutional clients have increased their share of asset managers business from 69% in 2007 to 75% in 2011 (exhibit 3). It is clear
that there has been a gradual decrease in asset managers securing business directly from retail clients. The increasing share of institutional clients on asset manager’s books points to a growing tendency towards the institutionalization of the client base of the asset management industry, which reflects two evolutions. Firstly, over the course of the crisis retail customers have continued to make use of insurance companies and pension funds to fund their retirement or long-term savings needs, whilst reducing their exposure to investment risk. Secondly, insurance companies and pension funds tend to increase their use of the expertise of the asset management industry to manage their clients’ assets. This gradual, but clear shift towards institutional clients is likely to have long-term effects on asset managers business and strategies going forward.

Exhibit 3: Institutional Vs Retail Clients (Share in Total AuM)

2.2 A Global Comparison

On the world stage Europe ranks as the second largest market in the global asset management industry – managing 31% of the EUR 45 trillion global asset management industry at end 2011. The European asset management industry has retained a steady share of approximately one-third of the global industry over the past number of years.

The world’s largest market is the United States, which represents EUR 19.9 trillion in AuM and makes up approximately 44% of global AuM. Growth in the United States remained flat in 2011, as it did in other developed countries (Australia and Japan). In contrast, emerging markets remain the pinnacle of growth as Latin America recorded a 12% leap in AuM in 2011, despite volatility on financial markets. In Asia (ex–Japan and Australia), assets recorded growth of 5%.

Exhibit 4: Global AuM at end 2011

Stock markets around the globe suffered in 2011 as uncertainty and tensions escalated, in particular during the second part of the year in the United States and Europe. The evolutions of AuM in the main global regions are highlighted in exhibit 5. Here, the AuM are contrasted with the evolution of the stock market in each region. It can be seen that stock market performance around the globe plays an important role in the evolution of local asset management industries. The correlation is clearly identified with a general increase in stock market indices in 2009-2010, accompanied with a rise in AuM during this period. 2011 was a difficult year for stock markets as the sovereign debt crisis in Europe escalated and tensions in the Middle East and North Africa came to the fore, whilst Japan was heavily affected in the aftermath of the earthquake and tsunami in early 2011.

Source: BCG
2.3 Assets under Management across Europe

The pool of professionally managed assets in Europe remains centered around a small number of financial centers in the larger European countries. The combined AuM in the UK, France and Germany amounted to EUR 9,171 billion, representing approximately two-thirds of the total for Europe at end 2011. This high concentration is partly to do with larger populations, GDP and large pool of savings in these countries but also their well established reputation for financial services. Other centers where significant asset management operations are carried out include Italy and the Netherlands.

Country market shares of the largest countries in terms of assets under management between 2007 and 2011 are highlighted in exhibit 7. The distribution of market shares in the pool of assets managed in Europe at end 2011 is very similar to that of 2007 for many countries. One exception to this is the share of “other” countries, which have increased their market share from 20% in 2007 to 24% in 2011. This growth in market share was driven primarily by the growth in the asset management industries in the Nordic countries and Switzerland since 2007. These countries have been viewed as a
“safe haven” since the onset of the financial crisis, which has helped them to attract new funds during this period. The market share of the UK has increased to 36% in 2011. This is higher than the 34% market share held at end 2007 and considerably larger than the 30% market share held in 2009. This swing in market share could be related to the large equity holdings of UK asset managers. Stock market movements would therefore play a large role in these movements. Another factor is the exchange rate (EUR/GBP), which has fluctuated considerably over this period.

Nevertheless the UK has remained the largest asset-management market. France, the second-largest asset management center in Europe held a relatively stable market share since 2007, fluctuating between 20% and 22%.

Total AuM at end 2011 amounted to EU 13.8 trillion, which represented 99% of GDP. Exhibit 8 shows the AuM in Europe with a country breakdown. The yearly change in AuM, the market share and the AuM/GDP ratio are also displayed. The European AuM/GDP ratio stood at 99% at end 2011. This is considerably high in relation to most countries in Europe, due to the significant large AuM/GDP ratios in the UK and in France. This high average underlines the large concentrations of assets centered in these two countries. These high ratios also
Exhibit 8: European AuM at end 2011 (EUR billion) and AuM/GDP (percent)

<table>
<thead>
<tr>
<th>Countries</th>
<th>AuM</th>
<th>% change (1)</th>
<th>Market Share</th>
<th>AuM / GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>4,977</td>
<td>8%</td>
<td>36%</td>
<td>270%</td>
</tr>
<tr>
<td>France</td>
<td>2,756</td>
<td>-5%</td>
<td>20%</td>
<td>139%</td>
</tr>
<tr>
<td>Germany</td>
<td>1,438</td>
<td>-4%</td>
<td>10%</td>
<td>56%</td>
</tr>
<tr>
<td>Italy</td>
<td>611</td>
<td>-9%</td>
<td>4%</td>
<td>39%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>474</td>
<td>-4%</td>
<td>3%</td>
<td>78%</td>
</tr>
<tr>
<td>Belgium</td>
<td>217</td>
<td>-5%</td>
<td>2%</td>
<td>58%</td>
</tr>
<tr>
<td>Portugal</td>
<td>70</td>
<td>-13%</td>
<td>1%</td>
<td>41%</td>
</tr>
<tr>
<td>Austria (2)</td>
<td>75</td>
<td>-11%</td>
<td>1%</td>
<td>25%</td>
</tr>
<tr>
<td>Hungary</td>
<td>19</td>
<td>-44%</td>
<td>0.1%</td>
<td>19%</td>
</tr>
<tr>
<td>Turkey</td>
<td>18</td>
<td>-12%</td>
<td>0.1%</td>
<td>3%</td>
</tr>
<tr>
<td>Greece</td>
<td>7</td>
<td>-35%</td>
<td>0.0%</td>
<td>3%</td>
</tr>
<tr>
<td>Rest of Europe (3)</td>
<td>3,127</td>
<td>-8%</td>
<td>23%</td>
<td>77%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>13,789</td>
<td>-2%</td>
<td>100%</td>
<td>99%</td>
</tr>
</tbody>
</table>

(1) End 2011 compared with end 2010.
(2) Investment fund assets only.
(3) Including Bulgaria (EUR 215 million) and Romania (EUR 1.9 billion).

give an indication of the relative importance taken by third-party asset managers in the UK and France, and the responsibility they have taken in managing institutional investors’ assets. Elsewhere in Europe, the AuM/GDP ratios were considerably lower, including in Germany (56%) and in Italy (39%).

Growth in assets under management was reserved to the UK. The UK enjoyed asset growth of 8% in euro terms. The appreciation of the pound sterling vis-à-vis the euro by 3% is responsible for part of this growth. The IMA attributes growth of AuM in the UK to a mixture of flows and market movements during the year. All other countries registered a decline in total AuM.

The other major centers of asset management recorded decreases in AuM. France recorded a reduction in total assets of 5% in 2011, despite growth in discretionary mandate assets segment of the market. Total AuM in Germany decreased by 4% and total AuM in Italy reduced by 9%. Elsewhere, Hungary recorded a significant decrease in AuM (44%) primarily caused by the Hungarian government’s nationalization of all mandatory (2nd pillar) pension funds. This resulted in EUR 9 billion of pension fund assets being transferred to the State.

Exhibit 9 below depicts the evolution of AuM in the largest markets between 2007 and 2011. This graph confirms the relative static evolution of the largest markets in Europe, with the exception of the UK. Despite overall AuM standing 4% greater at end 2011 than end 2007, and 29% greater than end 2008, only the UK has managed to surpass end 2007 assets at end 2011. This said, the peak-trough in these other large financial centers was not as pronounced as in the UK.

Exhibit 9: AuM per Country (EUR billion)
2.4 Asset Management Companies

There were approximately 3,200 asset management companies operating in Europe in 2011, with this number lowering slightly in 2012 (due primarily to mergers and acquisitions). Exhibit 10 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. Hedge funds and private equity asset managers are only included in the reported figures if they are members of the local trade association.\(^5\)

France, Ireland, Luxembourg, Italy and Germany are home for the highest number of asset management companies. The high figure reported 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 is on account of the role played by these two countries in the cross-border distribution of UCITS.\(^6\) The regulatory requirement that was in place until the introduction of UCITS IV\(^7\) that required fund houses to have a management company in each country where they have funds domiciled also plays a role in the high number of firms in Luxembourg and Ireland.

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. Within the framework of the UCITS regime, 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. This has the potential of reducing the number of management companies of cross-border UCITS through the centralization of asset management, administration and risk management operations.

An estimation of the average amount managed by asset management companies can be calculated using the figures from exhibits 8 and 10. On average, an asset management company managed EUR 4.3 billion of assets at end 2011. Exhibit 11 shows the average assets under management in each respective country.

---

**Exhibit 10: Number of Asset Management Companies**\(^{(1)}\)

<table>
<thead>
<tr>
<th>Countries</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria (^*)</td>
<td>29</td>
<td>29</td>
</tr>
<tr>
<td>Belgium</td>
<td>87</td>
<td>87</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>33</td>
<td>32</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>21</td>
<td>21</td>
</tr>
<tr>
<td>Denmark</td>
<td>16</td>
<td>16</td>
</tr>
<tr>
<td>Finland</td>
<td>35</td>
<td>35</td>
</tr>
<tr>
<td>France</td>
<td>599</td>
<td>604</td>
</tr>
<tr>
<td>Germany</td>
<td>293</td>
<td>296</td>
</tr>
<tr>
<td>Greece</td>
<td>60</td>
<td>56</td>
</tr>
<tr>
<td>Hungary</td>
<td>35</td>
<td>35</td>
</tr>
<tr>
<td>Ireland</td>
<td>431</td>
<td>431</td>
</tr>
<tr>
<td>Italy</td>
<td>283</td>
<td>277</td>
</tr>
<tr>
<td>Liechtenstein (^*)</td>
<td>23</td>
<td>23</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>361</td>
<td>351</td>
</tr>
<tr>
<td>Netherlands</td>
<td>196</td>
<td>196</td>
</tr>
<tr>
<td>Norway</td>
<td>22</td>
<td>22</td>
</tr>
<tr>
<td>Poland</td>
<td>36</td>
<td>36</td>
</tr>
<tr>
<td>Portugal</td>
<td>81</td>
<td>81</td>
</tr>
<tr>
<td>Romania</td>
<td>21</td>
<td>21</td>
</tr>
<tr>
<td>Slovakia (^*)</td>
<td>13</td>
<td>13</td>
</tr>
<tr>
<td>Slovenia</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>Spain</td>
<td>115</td>
<td>107</td>
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<tr>
<td>Sweden</td>
<td>78</td>
<td>74</td>
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<tr>
<td>Switzerland</td>
<td>119</td>
<td>119</td>
</tr>
<tr>
<td>Turkey</td>
<td>32</td>
<td>34</td>
</tr>
<tr>
<td>United Kingdom (^*)</td>
<td>191</td>
<td>194</td>
</tr>
</tbody>
</table>

\(^{(1)}\) 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 association.
These figures are an arithmetic mean, which do not take into account the large variations in levels of assets managed by different companies.

Exhibit 11: Average AuM per Asset Manager at end 2011 (EUR billion)

<table>
<thead>
<tr>
<th>Countries</th>
<th>Average AuM</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK (1)</td>
<td>7.3</td>
</tr>
<tr>
<td>Germany</td>
<td>4.9</td>
</tr>
<tr>
<td>France</td>
<td>4.6</td>
</tr>
<tr>
<td>Austria</td>
<td>2.6</td>
</tr>
<tr>
<td>Belgium</td>
<td>2.5</td>
</tr>
<tr>
<td>Netherlands</td>
<td>2.4</td>
</tr>
<tr>
<td>Italy</td>
<td>2.2</td>
</tr>
<tr>
<td>Portugal</td>
<td>0.9</td>
</tr>
<tr>
<td>Turkey</td>
<td>0.6</td>
</tr>
<tr>
<td>Hungary</td>
<td>0.5</td>
</tr>
<tr>
<td>Greece</td>
<td>0.1</td>
</tr>
</tbody>
</table>

(1) Average calculated on the basis of the estimated total assets managed in the UK (£5.9trn) and the estimated total number of firms managing assets, including niche firms outside the IMA membership (800).

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 £7.6 billion (EUR 9.1 billion), with 12 IMA member firms each managing in excess of £100 billion. In Germany, according to the German Association of Investment and Asset Management Companies (BVI), 3 firms were managing more than EUR 100 billion, with the BVI estimating the median at EUR 6.4 billion. AFG calculates the median AuM of the 100 largest firms in France to be EUR 4.9 billion, with 5 firms managing more than EUR 100 billion in France at end 2011.

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 12 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 control less than half the total market. This shows an element of how diversified, competitive and advanced this market is.

Exhibit 12: Concentration of the Top 5 Asset Managers

<p>| | | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>35%</td>
<td>50%</td>
<td>65%</td>
<td>69%</td>
<td>90%</td>
</tr>
</tbody>
</table>

(*) = Top 5 asset managers of investment funds only
(**) = Refers to managers of discretionary mandates only
Source: EFAMA Fact Book 2012

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 types 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 13 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 13 relates to the number of firms, and not their AuM.

In most European countries banking groups represent the dominant parent company of
the asset management industry controlling half or more of all asset management companies. Nevertheless there are two big exceptions to this bank dominated model: the UK and France. In the UK, only 18% of asset managers are owned by banking groups, with insurance groups controlling 15%. In France, the majority of firms represent independent asset managers. Banks retain ownership of 23% of asset managers and insurance companies consist of 7% of total asset managers in France.

Exhibit 13: Number of Asset Management Companies by Parent Group Categories (end 2011)

(*): 34% for banking parent refers to banking/insurance parent company
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. A discretionary mandate is a mandate given by a client to an asset manager to manage a portfolio of assets and execute orders 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, which have made up the lion’s share of all assets under management in Europe since 2008, continued to strengthen its share in 2011 to 52.8% or EUR 7,275 billion. On the other side of the spectrum, investment fund assets decreased their share of total AuM in 2011 to 47.2% or EUR 6,515 billion (see exhibit 14).

During the year discretionary mandates experienced their third consecutive year of growth increasing AuM by 3.3%. At end 2011, discretionary mandate assets stood 10% higher than at end 2007 and 32% higher than at end 2008. On the other hand, investment fund asset decreased by 7% during the year. Despite registering two years of strong growth in 2009 and 2010, investment fund assets remain below 2007 levels, despite recording growth of 21% since end 2008.

Exhibit 15: Evolution of Investment Funds and Discretionary Mandates AuM (EUR billion)

Exhibit 16 depicts the evolution of the share of total assets held by discretionary mandates and investment funds. It can be seen that discretionary mandates continue to increase their share of the overall asset management market in 2011. 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. They depend primarily on a business-to-business relationship, and so are influenced heavily by growth in the institutional client segment of the market, which has grown at a faster pace than the retail segment of the market (see section 4).

Regarding the split between investment funds and discretionary 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 Portugal and the Netherlands discretionary mandates represented more than 70% of total AuM at end 2011, the corresponding figures for Romania and Turkey were less than 10%. An interesting observation is the difference between the largest markets for asset management. In Germany discretionary mandates accounted for 21%, whereas in France they represented 49% of total assets and in the UK, the represented 69% (see exhibit 17).

Exhibit 17: Share of Discretionary Mandates and Investment Fund Assets in Total AuM in 2011

<table>
<thead>
<tr>
<th>Country</th>
<th>Discretionary Mandates</th>
<th>Investment Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portugal</td>
<td>77%</td>
<td>23%</td>
</tr>
<tr>
<td>UK</td>
<td>69%</td>
<td>31%</td>
</tr>
<tr>
<td>Italy</td>
<td>66%</td>
<td>34%</td>
</tr>
<tr>
<td>Belgium</td>
<td>55%</td>
<td>45%</td>
</tr>
<tr>
<td>EU</td>
<td>46%</td>
<td>54%</td>
</tr>
<tr>
<td>France</td>
<td>47%</td>
<td>53%</td>
</tr>
<tr>
<td>Hungary</td>
<td>46%</td>
<td>54%</td>
</tr>
<tr>
<td>Greece</td>
<td>45%</td>
<td>55%</td>
</tr>
<tr>
<td>Germany</td>
<td>41%</td>
<td>59%</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>37%</td>
<td>63%</td>
</tr>
<tr>
<td>Turkey</td>
<td>33%</td>
<td>67%</td>
</tr>
<tr>
<td>Romania</td>
<td>99%</td>
<td>1%</td>
</tr>
</tbody>
</table>

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 17, 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 79% for Germany. 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.
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. The introduction of the Alternative Investment Fund Managers Directive (AIFMD) in 2013 will 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. It is expected that the AIFMD will create a second European quality label for asset managers and funds, next to the already well-established UCITS label.

Investment fund assets professionally managed in Europe at end 2011 amounted to EUR 6.5 trillion, representing a decrease of 7.0% in 2011 (see exhibit 18). This reduction in AuM came on the bank of a volatile year on financial markets, the escalation of the sovereign debt crisis in Europe and the downgrading of US debt.

Investment funds AuM declined throughout Europe, with the exception of the UK. The UK enjoyed another exceptional year of growth increasing 3%. The other large financial centers recorded reductions in investment fund assets of 3% in Germany and in France assets were down almost 10%, partly reflecting large outflows from money market funds.

Overall in 2011, the largest financial centers (the UK, France and Germany) increased market share of the total investment fund market, to 62%, up from 60% at end 2010. In both the UK and France, AuM in relation to GDP surpasses the European average (46%) 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 18: Investment Fund Assets by Geographical Breakdown of AuM at end 2011 (EUR billion)

<table>
<thead>
<tr>
<th>Countries</th>
<th>AuM</th>
<th>% change (1)</th>
<th>Mkt Share</th>
<th>AuM/GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>1,527</td>
<td>3%</td>
<td>23%</td>
<td>91%</td>
</tr>
<tr>
<td>France</td>
<td>1,407</td>
<td>-10%</td>
<td>22%</td>
<td>71%</td>
</tr>
<tr>
<td>Germany</td>
<td>1,129</td>
<td>-3%</td>
<td>17%</td>
<td>44%</td>
</tr>
<tr>
<td>Italy</td>
<td>206</td>
<td>-16%</td>
<td>3%</td>
<td>13%</td>
</tr>
<tr>
<td>Belgium</td>
<td>100</td>
<td>-12%</td>
<td>2%</td>
<td>27%</td>
</tr>
<tr>
<td>Austria</td>
<td>75</td>
<td>-11%</td>
<td>1%</td>
<td>25%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>64</td>
<td>-18%</td>
<td>1%</td>
<td>11%</td>
</tr>
<tr>
<td>Portugal</td>
<td>19</td>
<td>-13%</td>
<td>0.3%</td>
<td>11%</td>
</tr>
<tr>
<td>Turkey</td>
<td>16</td>
<td>-14%</td>
<td>0.2%</td>
<td>3%</td>
</tr>
<tr>
<td>Hungary</td>
<td>10</td>
<td>-24%</td>
<td>0.2%</td>
<td>10%</td>
</tr>
<tr>
<td>Greece</td>
<td>5</td>
<td>-38%</td>
<td>0.1%</td>
<td>2%</td>
</tr>
<tr>
<td>Rest of Europe  (2)</td>
<td>1,956</td>
<td>-11%</td>
<td>30%</td>
<td>48%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>6,515</td>
<td>-7%</td>
<td>100%</td>
<td>46%</td>
</tr>
</tbody>
</table>

(1) End 2011 AuM compared to end 2010 AuM.
(2) Including Bulgaria (EUR 179 million) and Romania (EUR 1.9 billion).
In order to portray a more comprehensive picture of the extent to which countries manage investment fund assets domiciled abroad, exhibit 19 illustrates the relative degree to which AuM in a particular European country originate from funds domiciled abroad.

Exhibit 19: Share of Foreign Domiciled Investment Funds in Total Investment Fund AuM (end 2011)

Exhibit 19 shows that a significant share of investment fund assets managed in the UK and Turkey relates to foreign domiciled funds. By contrast, 81%-86% of investment fund assets in Italy, Belgium and France are both domiciled and managed in these countries, whilst this figure rises to 89% in Portugal and 96% in Hungary. Thus, exhibit 19 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 2011 are reported in exhibit 20.

Exhibit 20: Investment Fund Assets by Country of Domicile at end 2011 (EUR billion)

Source: EFAMA Fact Book 2012

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 21. It can be seen that France, Germany, the UK, Italy and Switzerland were the top five domestic markets for investment funds at end 2011. Whereas investment funds domiciled in the UK, France and Germany account for 42% of the European investment fund market, asset managers in these countries manage 63% 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 21: Investment Fund Assets by Country of Sales at end 2011 (EUR billion)

Source: EFAMA Fact Book 2012
3.2 Discretionary Mandates

Discretionary mandates give the asset management company the sole authority to buy and sell assets and execute transactions on behalf 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 66% of total European discretionary mandates (see exhibit 22). The significant market share of the UK (47%) 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 French and foreign 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 investment fund assets have tended to be managed closer to their country of distribution.

Exhibit 22: Discretionary Mandates AuM at end 2011 (EUR billion and percent)

<table>
<thead>
<tr>
<th>Countries</th>
<th>AuM</th>
<th>% change (1)</th>
<th>Mkt Share</th>
<th>AuM/GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>3,449</td>
<td>11%</td>
<td>47%</td>
<td>191%</td>
</tr>
<tr>
<td>France</td>
<td>1,349</td>
<td>0.2%</td>
<td>19%</td>
<td>68%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>410</td>
<td>-1%</td>
<td>6%</td>
<td>68%</td>
</tr>
<tr>
<td>Italy</td>
<td>404</td>
<td>-5%</td>
<td>6%</td>
<td>26%</td>
</tr>
<tr>
<td>Germany</td>
<td>309</td>
<td>-6%</td>
<td>4%</td>
<td>12%</td>
</tr>
<tr>
<td>Belgium (2)</td>
<td>117</td>
<td>2%</td>
<td>2%</td>
<td>32%</td>
</tr>
<tr>
<td>Portugal</td>
<td>52</td>
<td>-13%</td>
<td>1%</td>
<td>30%</td>
</tr>
<tr>
<td>Hungary</td>
<td>9</td>
<td>-57%</td>
<td>0.1%</td>
<td>8%</td>
</tr>
<tr>
<td>Greece</td>
<td>2</td>
<td>-24%</td>
<td>0.02%</td>
<td>1%</td>
</tr>
<tr>
<td>Turkey</td>
<td>2</td>
<td>-23%</td>
<td>0.02%</td>
<td>0.3%</td>
</tr>
<tr>
<td>Rest of Europe (3)</td>
<td>1,173</td>
<td>-4%</td>
<td>16%</td>
<td>29%</td>
</tr>
<tr>
<td>Total</td>
<td>7,275</td>
<td>3%</td>
<td>100%</td>
<td>51%</td>
</tr>
</tbody>
</table>

(1) End 2011 AuM compared to end 2010 AuM.
(2) Figure for Belgium includes unit linked insurance products and pension funds.
(3) Includes Bulgaria (EUR 36 million) and Romania (EUR 10 million).
Overall in 2011, discretionary mandates AuM increased 3.3% to EUR 7.3 trillion. AuM growth was recorded in three countries: the UK (11%), France (0.2%) and Belgium (2%). Elsewhere, falls in discretionary mandate assets were recorded in Germany and Italy of 6% and 5% respectively. Hungary registered a sharp decline in assets of 57% on account of the nationalization of second pillar pension schemes in the country. In relation to AuM/GDP, the UK, France and the Netherlands have AuM/GDP ratios well above the European average of 51%.

Discretionary mandates often invest in investment funds to take advantage of the benefits offered in terms of diversification and cost efficiency (see exhibit 23). In Hungary, the share of discretionary mandate assets invested in investment funds amounted to 52%, followed by Italy with 16%. In France 14% of discretionary mandate assets are invested in investment funds.

Exhibit 23 also 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 14% of discretionary mandates were invested in investment funds managed by other asset managers, compared to only 3% in France.

Exhibit 23: Share of DM assets Invested in IF at end 2011
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 (75% in 2011) of the European asset management industry. Two key institutional client categories include insurance companies and pension funds. Although some investors continue to manage assets in-house, many do 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, and endowments to name just a few. 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 industry.

Exhibit 24 illustrates the principal clients of the asset management industry as well as the important role played by distribution channels to clients of the industry. 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, retail investors increasingly access investment funds through platforms, funds of funds and similar approaches that are considered as institutional business.

4.1 Institutional and Retail Clients

Institutional investors accounted for 75% of total European AuM in 2011, with retail clients accounting for the remaining 25%. Institutional investors often act as financial intermediaries and channel the investments of retail clients to asset managers. Exhibit 25 highlights that since 2007 institutional clients have been gradually increasing their share of the market. As explained above, a possible reason for the increase in institutional clients is that these clients, whose members include insurance companies, pension funds and other institutional investors have continued to use the expertise of the asset management industry to invest the recurrent contributions collected from their members throughout the financial crisis. Apart from direct investment by households in asset management products, households also account for a significant share of the institutional client segments through their
owners of unit-linked products offered by insurance companies, and defined contribution schemes offered by pension funds.

Exhibit 25: Share of institutional Clients

Exhibit 26 shows households financial asset allocation between 2001 and 2011. It is clear that over the past decade households have increasingly allocated funds towards retirement savings products. This shift supports the idea that households are increasingly relying on pension funds and insurance companies for their long-term savings/retirement goals. Exhibit 26 highlights that this tendency has increased since 2007 when 28% of household’s financial assets were invested in retirement savings. By 2011, this had increased to 32%.

Exhibit 26: Households Financial Asset Allocation

There are significant variations in the importance of institutional investors across countries. In the UK, France and Portugal institutional clients accounted for over 75% of all clients (see Exhibit 28). This reflects the ability of these countries to attract large institutional mandates from pension funds (the UK) and insurance companies (in France and Portugal). The European average is heavily skewed by the overwhelmingly large institutional client base in the UK and France.

Exhibit 28: AuM by Client Type at end 2011

Source: ECB

The ECB publishes data on the allocation of assets held by euro area pension funds and insurers (exhibit 27). We can use this data to analyse the growing tendency of these institutions to invest in investment funds, which further supports the idea of the institutionalization of the European savings market. Therefore, it can be said that despite households reducing their direct holdings of investment funds, their indirect holdings, i.e. via insurers or pension funds, have actually increased at a considerable rate over the past five years. According to our calculations, the share of direct and indirect holdings of investment funds by euro area households has increased from 18% in 2008 to 24% in 2011. This shows that retail investors are interested in investing in wrappers like insurance products to reduce their exposure to investment risk, despite this being potentially a more costly solution.
Turning to the importance of institutional and retail client types across discretionary mandates and investment funds, exhibit 29 demonstrates that institutional investors dominate the discretionary mandate segment of the market in all European countries. In Germany and France they account for more than 90% of discretionary mandate assets, and in Hungary they represent 87%. In Italy and Portugal, institutional investors made up approx. three-quarters of the assets managed in discretionary accounts. Such specialization can be attributable to two factors. Firstly, 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’s 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.

Exhibit 29: Discretionary Mandate Assets Managed for Institutional Investors

The distribution between institutional and retail clients’ shares of AuM in investment funds displays a more heterogeneous picture across the European landscape (see exhibit 30). In Greece, Belgium, Italy and Romania funds appear predominantly targeted at retail clients. On the other hand, 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 30: Investment Fund Assets Managed for Institutional Investors

Exhibit 31 depicts the evolution of AuM by client type. It can be seen that AuM for institutional clients have enjoyed three consecutive years of growth since 2008, albeit at a reduced pace in 2011. On the other hand, AuM for retail clients decreased by 7% in 2011, after recording growth of 5% and 12% in 2010 and 2009, respectively.

Exhibit 31: AuM growth

(1) Based on the assets managed by firms that reported the breakdown by client type in 2008, 2009, 2010 and 2011. (2) Using end 2011 exchange rate for all years.
2011 was a challenging year for the retail segment of the market for two reasons. Firstly, despite having a tendency to hold the bulk of their financial wealth in low-risk investments such as bank deposits, savings accounts and life-insurance products, European households 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. This may partially explain why the assets managed for retail clients suffered more than those managed for institutional clients as stock markets around the world suffered in 2011. Secondly, according to the ECB, households withdrew from investment fund assets in 2011 to the tune of EUR 83 billion, highlighting the rise in retail investors risk aversion in 2011.16

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. In addition, pension funds and insurance companies continued to attract new money 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. According to the ECB, insurers and pension funds made net acquisitions of investment funds in 2011 to the tune of EUR 92 billion, which contributed to the growth of the institutional client segment of the market during the year. This contrasted with the investment pattern of households.17

### 4.2 Assets Managed for Institutional Investors

Institutional clients consist of a broad range of clients as depicted in exhibit 32. Despite the large number of clients fitting into this category, institutional clients are dominated by just two clients: insurance companies and pension funds. Overall these two clients account for 75% of total AuM for institutional clients in Europe at end 2011. Insurance companies held the top position with 42% of the AuM at end 2011, down from 45% in 2009, and matching the 42% recorded at end 2007. Pension funds held 33% of total AuM for institutional investors at end 2011, up from 25% at end 2009 and compared to 30% of total AuM for institutional investors at end 2007. 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 corporates, foundations, sub-advisory and sovereign wealth funds. The aggregate share of this type of investor stood at 22% at end 2011, marking a decline from 24% at end 2007 and 27% at end 2009. This fluctuation 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.

There are significant variations in the relative importance of each type of institutional client, 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 of 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 34 below illustrates the breakdown of the institutional client category into insurance companies, pension funds, banks and others on a country basis.

The importance of pension fund assets varies across countries (see exhibit 35a). 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. In contrast, they account for 10% or less of total institutional AuM in Romania and Italy.

Insurance companies represent a large source of institutional AuM in most countries. Insurance companies accounted for more than half of institutional clients in France, Italy, Portugal and Germany and above 30% of institutional clients in Bulgaria, Hungary, Austria and Greece. Exhibit 35b demonstrates the sheer volume of assets controlled by insurance companies and managed by asset managers across Europe.

By contrast, banks represent a small part of the total institutional AuM, except in Turkey where the almost half (49%) of all AuM were
managed for banks, whereas in Romania banks represented 41% of institutional clients (see exhibit 35c). The share of banks in Austria (14%), Greece (12%) and Germany (12%) followed in this order.

Finally, it can be seen that the share of other institutional clients is rather significant in a number of countries (see exhibit 35d). This is attributable to a number of different factors. In Belgium, other institutional clients account for 57%, consisting of fund of fund managers and also corporate companies. In Austria, other clients account for 34% all institutional clients, consisting primarily of large corporations or foundations.

Exhibit 35a-d: AuM for Institutional Investors Breakdown by Investor Type and Country
5 Asset Allocation

This section provides an overview of asset manager’s 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 performed strongly in the asset mix in 2011 amounting to 46% of all assets. Bond funds benefitted from the return of risk aversion in financial markets around the globe and the attractiveness of corporate bonds in a low interest rate environment. The asset allocation to bonds has increased from 40% in 2007 to 46% in 2011. The bulk of this increase occurred at the beginning of the financial crisis as at end 2009 bonds accounted for 44% of total assets.

In contrast to the asset allocation of bonds, holdings of equity assets have experienced a large drop in asset manager’s portfolios. At end 2011, asset allocation to equity assets amounted to 29% of total assets. This is a considerable reduction from the 37% held in 2007.

Holdings of money market instruments amounted to 11% at end 2011. Although this has increased from 10% at end 2010, it remains lower than the 13% allocated to money market instruments at end 2007.

It is clear that the asset allocation mix remains considerably different than that at end 2007. It is unclear whether the shift towards a more conservative asset allocation characterizes a “new normal”, or whether a return towards the pre-crisis level of exposure to equity assets is likely.

Other assets, which have experienced growth in their share of total assets, increased from 10% at end 2007 to 14% at end 2011. Other assets include a magnitude of products ranging from property and hedge funds to structured products and private equity. Other alternatives such as infrastructure assets are also included in this segment. Despite the limited liquidity offered by many alternative assets, this segment has gained greater prominence over the past number of years as asset managers searching for yield and risk diversification moved towards this alternative asset base. It should
also be flagged that the share of other assets is already considerable in a number of countries, already reflecting portfolio diversification towards a vast array of different assets.

Exhibit 37: Other Assets

5.1 Asset Allocation by Country

Exhibit 38 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 (42%) 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. The strong equity bias stands in contrast to the asset allocation in most other countries. As the UK accounts for roughly one third of total AuM in Europe, the European average would be considerably different when excluding the UK. In 2011, when excluding the UK, the European average share of equity would merely amount to 17%, whereas the share of bonds would rise to 54%.

In France, 19% of AuM are held in money market instruments, compared to 8% in the UK and 6% in Germany. An historic reason 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 diversification of counterparty risk and services for cash management. The existence of large and deep money markets also allowed a dynamic management of money market funds.

Exhibit 38: Asset Allocation by Country at end 2011

The share of equity assets in the total asset mix continued its downward trend in 2011. The European average has decreased from 37% in 2007 to 29% in 2011. The UK, which accounts for the bulk of all equity assets, has recorded a fall in equity assets from 52% to 42% over the same period. Only Greece has a higher allocation to equity at end 2011 than at end 2007.

Exhibit 39: Equity Asset Allocation by Country
The correlation between the share of equity AuM and that of the performance of the local stock market for the largest financial centers can be seen in exhibit 40. In years when the stock market performs well, the share of equity assets in the total asset allocation tends to increase. In the UK, there is a clear correlation between the equity asset allocation and movements of the FTSE 100 index. The UK has traditionally held approximately half of its total assets under management in equity assets. However, clear comparisons between the stock market and the share of equity in total AuM can also be seen in France and Germany.

Exhibit 40: Local Stock Market Performance Versus Equity Asset Allocation by Country

In contrast to equity assets, the fixed income asset allocation has risen in most European countries in 2011, with the European average increasing to 57% from 55% in 2010 and 56% in 2009. This increase comes on the back of sustained low short-term interest rates, and despite continued intense competition from the banking sector. Investors favoured fixed income products in 2011 over equities given the uncertain economic outlook. At end 2011 most countries had a greater proportion of their assets invested in fixed income and money market instruments than at end 2007, with the exception of Greece. Over this period, average holdings of fixed income and money market instruments have increased from 53% to 57% of total AuM.

Exhibit 41: Fixed Income and Money Market Allocation by Country

5.2 Asset Allocation in Investment Funds and Discretionary Mandates

The asset allocation varies between investment funds and discretionary mandates. Exhibit 42 shows the difference in asset allocation between investment funds and discretionary mandates in 2011. It is interesting to note that investment funds held approximately 33% of their AuM in equity and 33% in bonds at end 2011. 15% of investment funds assets were held in money market instruments/cash, whilst other assets accounted for the remaining 19%.
The asset allocation of investment funds stands in stark contrast compared to discretionary mandates, which tend to be more conservatively managed. At end 2011 discretionary mandates held an average of 26% of assets in equity and 58% invested in bonds. Money market instruments/cash made up 7% of discretionary mandates holdings at end 2011.

Exhibit 42: Asset Allocation in Investment Funds and Discretionary Mandates at end 2011

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.

Exhibit 43: Asset Allocation in Investment Funds at end 2011

Exhibit 44: Asset Allocation in Discretionary Mandates at end 2011

Exhibit 43 and 44 depict the asset allocations across countries in terms of investment funds and discretionary mandates at end 2011. 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.
6 Contribution to the Economy by European Asset Managers

6.1 Key Functions of Asset Management

This section presents an overview of the role of asset management companies in the economy and the financial markets. Exhibit 45 is our starting point; it is adapted from Mishkin (2008) and shows that one of the basic functions of asset management companies is to channel funds from those that have saved to those that have a shortage of funds. Those who have saved and are lending funds, the lender-savers, are at the left in exhibit 45, and those who must borrow funds to finance their spending, the borrower-spenders, are at the right.

Borrowers can borrow funds directly from lenders in financial markets by selling financial instruments, such as certificates of deposit, commercial paper, corporate bonds, government securities and stocks. This route (the route at the bottom of exhibit 45) is often called direct finance, as opposed to the second route (the route at the top of exhibit 45), which involves a financial intermediary that stands between the lender-savers and the borrower-spenders. A financial intermediary does this by acting as a go-between between the ultimate lenders and borrowers. This process, which is often called financial intermediation, is the primary route for moving funds from lenders to borrowers.

The principal financial intermediaries fall into three broad categories: banks and other deposit-taking institutions, life insurance companies and pension funds, and asset management companies. These three categories provide specialist services in the economy. Typically, banks are financial intermediaries that accept deposits from individuals and institutions and make loans.

Exhibit 45: Flow of Funds in the Asset Management Industry
Insurance companies and pension funds take in savings from households and company employees, and invest them in money market and capital market instruments and other assets. And asset management companies provide an efficient way of pooling funds for investment purposes.

Asset management companies offer their intermediary function not only to households, business firms and government, but also to the other categories of financial intermediaries, in particular pension funds and insurance companies. For this reason, they have a separate position in exhibit 45. As institutions directing the investment decisions for investors who have chosen to have their assets professionally managed, asset management companies are the most important type of buy side institutions. The buy-side is the opposite of the sell-side entities, such as the investment banks which are specialized in helping a business firm issue securities and acquiring other companies through mergers and acquisitions, and brokerage firms which conduct transactions in the financial markets for clients or for their own.

In playing their role, asset managers act as the “stewards” of their clients’ interest. Their value proposition is to enable their clients to reach their investment objectives and to increase their financial prosperity. As such, they act in an “agency” capacity to manage assets at the request of the “principal”, i.e. the client, in accordance with the terms of the agency agreement. The property of the assets remains with the client, i.e. they are not on the balance sheet of the asset managers. The asset managers are, however, in charge of the assets managed and accountable to the clients for those assets.

By providing equity capital in both primary (IPOs and private placements) and secondary markets, as well as credit capital – directly via corporate bonds or indirectly via money markets – asset managers are fueling the real economy, helping corporations, banks and government agencies to meet their short-term funding needs and long-term capital requirements. By contributing to very high levels of activity and turnover in the secondary markets, they also contribute to the determination of the price of the securities reflecting all relevant information. Put it differently, if asset managers were not contributing to the supply of funds in financial markets as much as they do today, firms would borrow in less favorable conditions. This would lead to higher cost of capital, lower levels of investment and poorer long-term growth performance. Sections 6.4 and 6.5 below illustrate the role played by asset managers in the economy by providing data on their holdings of debt and equity issued by euro area residents.

6.2 Key Services to Clients

Exhibit 46: Central Role of Asset Management in Investing

The asset management industry provides a key service to its clients wishing to maximize the return on their wealth. Exhibit 46 highlights the transmission mechanism by which funds flow from clients to the industry. Savings are funds which households do not consume from their income, or for institutional clients such as insurers and pensions funds this would include the recurrent contributions these institutions receive from their members. These savings or income streams are added to household wealth or the institutional reserves. The
asset management industry can then invest this money on the client’s behalf in order to create a return for the client. This return is then fed back into savings and the cycle begins once again.

By pooling savings from a large group of investors, asset managers offer a number of advantages to their clients.

**Risk reduction**

By operating on a large scale, asset managers can reduce risk for their clients through different avenues. Firstly, they can reduce risk by helping individuals diversify their financial wealth amongst many more assets than they could afford to do in general, given transaction costs. Diversification leads to a reduction in risk because asset returns do not always move in the same way at the same time. Therefore, in general, investing in a diversified pool of assets is less risky than investing in individual assets. Diversification can be optimized by choosing third party asset managers specialized in the different investment instruments. Secondly, by operating on a large scale, asset managers can reduce risk by screening out bad investment opportunities from good ones, thereby reducing losses due to adverse selection. In addition, asset managers reduce losses due to moral hazard by monitoring developments in industries, countries and regions into which they invest. Given that monitoring activities has a cost attached to them, specialist firms benefit from economies of scale which households and other ultimate lenders would find very difficult to match.

**Liquidity provision**

Asset managers are able to provide a high level of liquidity to their clients whilst investing in assets that are relatively illiquid. This is because asset managers will only need to keep some proportions of the funds they receive in liquid form taking into account the risk of facing large net outflows of funds. In general, this risk tends to fall with an increasing level of assets under management for two reasons: firstly, the larger the numbers of investors the more stable the net flows will be. Secondly, the larger the size of the portfolio, the greater the scope is for averaging assets in such a way that they mature so as to coincide with anticipated net outflows.

As leading buy-side entities, asset management companies play an active role in the secondary market, in which securities that have been previously issued can be resold. This increases the liquidity of financial instruments as they become more attractive to investors and also cheaper for business firms to sell new issues of such securities in the primary market.

**Transaction costs**

Asset management companies reduce transaction costs substantially because transaction costs fall with the size of the transactions. The lower costs result from the asset manager’s ability to trade in large blocks of securities, thereby reducing the value of the dealing commission to be paid as a proportion of the value of the transaction.

### 6.3 Employment in the Asset Management Industry

An important indicator of the contribution 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 60,000 at end 2011, compared to 55,000 at end 2010. Given these countries account for 67% of total AuM in Europe, we estimate that asset management companies directly employ around 90,000 individuals in Europe.

However, the outsourcing of activities in the industry has become a regular occurrence. Exhibit 48 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 48: 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 12,000 people were employed directly in the investment fund industry at end 2012 providing a range of value-added services including fund administration, transfer agency, custody, legal, tax, and audit services. In Luxembourg, 8,000 people were directly employed in the investment fund industry in Luxembourg in 2010, whereas employment in fund accounting and administration, transfer agents, custodians, trustees, client relationship management and related fund services was approximately 5,800.

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. This gives rise to approximately 83,000 jobs in the asset management industry and its related services in France alone. AFG has estimated that 48,300 of the additional jobs are related to the marketing and distribution of asset management products. 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 90,000 people directly employed by asset managers across Europe. This would take total indirect employment of the asset management industry in Europe to approximately 415,000 jobs.

Exhibit 49: Total employment in the European Asset Management Industry in 2011

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

6.4 Financing Contribution of Euro Area Investment Funds

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.

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 50 below shows that the outstanding stock of securities other than shares issued by euro area residents amounted to EUR 16,516 billion at end 2011. Investment funds domiciled in the euro area held 11.2% of this total, or EUR 1,856 billion. The market share of euro area investment funds in the debt issued by euro area governments and MFIs reached 11.1% and 12.2%, respectively.

Exhibit 50: Holdings of Securities Other than Shares Issued by Euro Area Residents and Held by Euro Area Investment Funds (end 2011)

<table>
<thead>
<tr>
<th>Euro area issuer</th>
<th>Securities held by euro area IF (EUR billion)</th>
<th>Total securities issued (EUR billion)</th>
<th>Share of euro area IF</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Government</td>
<td>762</td>
<td>6,842</td>
<td>11.1%</td>
</tr>
<tr>
<td>MFIs</td>
<td>676</td>
<td>5,525</td>
<td>12.2%</td>
</tr>
<tr>
<td>Other</td>
<td>417</td>
<td>4,149</td>
<td>10.1%</td>
</tr>
<tr>
<td>Total</td>
<td>1,856</td>
<td>16,516</td>
<td>11.2%</td>
</tr>
</tbody>
</table>

Exhibit 51 shows that the total market value of quoted shares issued by euro area residents amounted to EUR 3,878 billion at end 2011. Out of this total, euro area investment funds held EUR 636 billion at end 2011, or 16.4%.\(^{25}\)

Exhibit 51: Holdings of Shares and Other Equity Issued by Euro Area Residents and Held by Euro Area Investment Funds (end 2011)

<table>
<thead>
<tr>
<th>Euro area issuer</th>
<th>Shares held by euro area IF (*) (EUR billion)</th>
<th>Total quoted shares issued (EUR billion)</th>
<th>Share of euro area IF in</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Government</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>MFIs</td>
<td>48</td>
<td>339</td>
<td>14.2%</td>
</tr>
<tr>
<td>Non-financial corporations</td>
<td>528</td>
<td>3,269</td>
<td>16.2%</td>
</tr>
<tr>
<td>Other</td>
<td>60</td>
<td>271</td>
<td>22.2%</td>
</tr>
<tr>
<td>Total</td>
<td>636</td>
<td>3,878</td>
<td>16.4%</td>
</tr>
</tbody>
</table>

(*) Excluding money market funds, which had a very limited equity exposure at end 2011 (EUR 1 billion).
Source: Data from ECB

6.5 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 3,539 billion and EUR 1,212 billion, respectively. Exhibit 52 highlights that European asset managers held 21% of the securities other than shares issued by euro area residents at the end of 2011, and 31% of the share and other equity issued by euro area residents.

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 52: Holdings of Debt and Equity Issued by Euro Area Residents and Held by European Asset Managers (end 2011)

<table>
<thead>
<tr>
<th>Securities other than shares (EUR billion)</th>
<th>Shares and other equity (EUR billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Euro area assets held by European asset managers (1)</td>
<td>3,539</td>
</tr>
<tr>
<td>Securities/Shares issued by euro area residents (2)</td>
<td>16,516</td>
</tr>
<tr>
<td>Total share of European asset managers</td>
<td>21%</td>
</tr>
</tbody>
</table>

(1) EFAMA estimations, (2) Data from ECB
2012 came in like a lamb, but went out like a lion for the European asset management industry. Although it wasn’t all straight forward during the year, as financial markets were on a rollercoaster ride for most of the year. What started off as a good year on account of the ECB undertaking long-term financing operations, was soon outlived as tensions returned mid-year as questions mounted regarding the future of the euro itself. It wasn’t until Mario Draghi, Governor of the ECB, gave a commitment to do “whatever it takes” did investors take ease. In the last quarter of the year almost all questions of whether the euro would survive seemed to fade. These developments turned 2012 into a rollercoaster year on global stock markets, which finished the year at levels not seen since pre-crisis years.

Reflecting these developments, net assets of investment funds domiciled in Europe experienced a surge in demand in 2012. Equity funds experienced a strong asset increase in 2012 (15%), whilst fixed income funds experienced an increase in assets of 13%. Overall, investment funds ended the year up 12% to end on an all-time high of EUR 8.9 trillion according to EFAMA statistics. Although the standing of the European asset management industry at end of 2012 will be analyzed in detail in next year’s EFAMA Asset Management Report, it is possible to give some indication of the evolution in 2012. Applying the growth rates mentioned above to the asset mix observed in investment fund assets managed in Europe, those assets can be estimated to have increased to EUR 7,400 billion in 2012.

To estimate the evolution of the AuM in discretionary mandates in 2012, 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 2012. Taken altogether, and according to our estimations discretionary mandate assets may have increased in 2012 to EUR 8,000 billion.

Following this approach it can be calculated that total AuM in Europe increased by approximately 12% in 2012 to EUR 15.4 trillion. Exhibit 53 shows the estimated evolution of AuM in discretionary mandates and investment funds between end 2006 and end 2012. In relation to GDP, the value of AuM is estimated to reach 108% at end 2012, up from 99% in 2011. This increase reflects the increase in AuM (12%) as well as economic growth in Europe of 1.0% in 2012.

Exhibit 53: European AuM (EUR trillion and AuM/GDP in percent)
Appendix

The purpose of this annex is to explain the approach used in section 6.5 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 50 and 51 in the report and summarized in the table below.

<table>
<thead>
<tr>
<th>End 2011 (EUR billion)</th>
<th>Euro area investment fund assets:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>held by euro area investment funds</td>
</tr>
<tr>
<td>Debt</td>
<td>1,856</td>
</tr>
<tr>
<td>Equity</td>
<td>636</td>
</tr>
</tbody>
</table>

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 25.7% and 8.8% of their total portfolio assets, which totaled EUR 7,229 billion at end 2011. 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 2011, which was estimated at EUR 6,561 billion, i.e. total AuM (EUR 13,789 billion) minus total assets held in euro area investment funds (EUR 7,229 billion), had the same exposure to debt and equity issued by euro area residents as euro area investment funds, i.e. 25.7% and 8.8%, 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 1,683 billion and EUR 576 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 2011. The results are presented in exhibit 52 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 asset managers in 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 be 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.
The report has been prepared by Bernard Delbecque and Jonathan Healy. We are grateful to our member associations for providing the data that allow us to produce this report. We would like to thank Effie Bourboulas, Sergio Brito, Hans Janssen Daalen, Ivo Ivanov, Armin Kammel, Teresa Lapolla, Marc Leroux, Jonathan Lipkin, Carsten Lüders, Carlos Pardo, Andrea Pechova, Michael Pirl, Selin Sözer, Andras Temmel, Adrian Tudose, Thomas Valli and Andy Vangenck for their contributions to the preparation of this report.

Two main sources of information were used: the EFAMA 2012 Fact Book and the McKinsey & Company report: "The Hunt for Elusive Growth: Asset Management in 2012" (June 2012).

European GDP relates to the GDP of the 27 EFAMA member countries.


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 approx. 800.

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.

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.

The figure of total assets under management reported in this report for the UK (£4.9trn) 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 £5.9trn at end 2011.

Figures for median assets in the UK are taken from surveys undertaken by the IMA (UK) covering a sample of firms and not the entire dataset as presented in exhibit 10. See Asset Management in the UK 2011-2012, The IMA Annual Survey, which can be downloaded from: http://www.investmentuk.org/research/ima-annual-industry-survey.

Figures for median assets in Germany are taken from surveys undertaken by the BVI (Germany), covering a sample of firms and not the entire dataset as presented in exhibit 10. 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.


Investment funds managed in the UK covered in this report are pooled vehicles, which include authorised unit trusts, open ended investment companies (OEICs), unauthorised investment vehicles (e.g. unauthorised unit trusts). For more information see Asset Management in the UK 2011-2012, The IMA Annual Survey, which can be downloaded from: http://www.investmentuk.org/research/ima-annual-industry-survey.

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%).

See “What can the industry do to encourage long-term savings?” available at http://www.efama.org/Pages/Long-Term-Savings-EFAMA-Survey.aspx.

See part 1.3.2 in EFAMA Fact Book 2012. See part 1.3.2 and 1.3.3 in EFAMA Fact Book 2012.

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

Adverse selection is the problem created by asymmetric information before the transaction occurs. Asymmetric information refers to a situation where one party does not know enough about the other party to make accurate decisions. Moral hazard is the problem created by asymmetric information after the transaction.


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

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](http://www.afg.asso.fr/index.php?option=com_docman&task=doc_download&gid=2762&Itemid=158&lang=en). Also, this percentage would be considerably higher if it was calculated using the free-float market capitalization of euro area quoted companies (i.e. the shares readily available in the market excluding those locked-in or held by governments, company officers or controlling-interest investors.
