April 2015

Asset Management in Europe

8th Annual Review

Facts and figures

An overview of the Asset Management industry with a special focus on Capital Markets Union.

efama

European Fund and Asset Management Association

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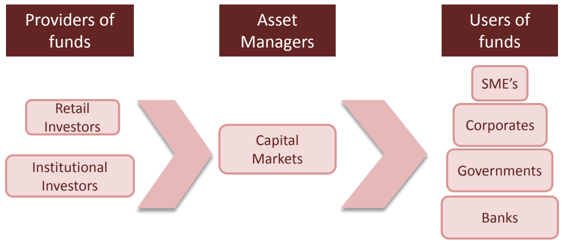
Key Facts and Figures

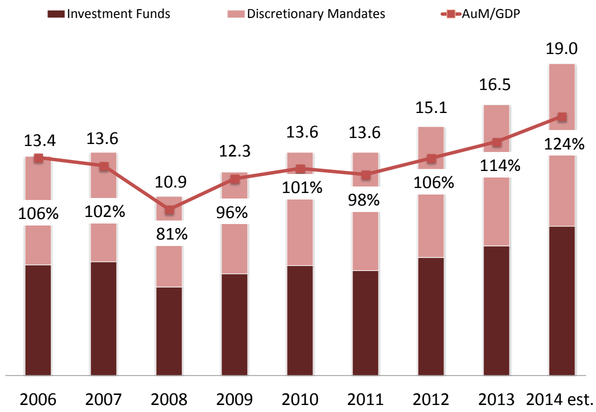
Asset managers play a key role in channeling savings toward investment.

Asset management is the professional management and trading of securities and other types of assets to achieve a specific investment goal for the benefit of clients. Asset managers develop cost-efficient investment fund products and tailor-made solutions to meet particular investment goals and constraints. They provide capital to help SME's, corporates, banks, governments and other institutions meet their short and long-term funding needs.



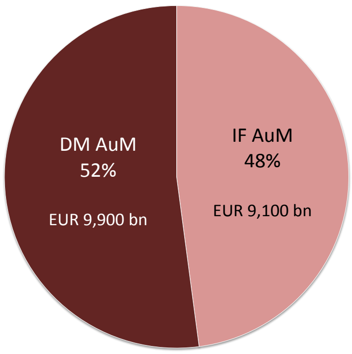
European assets under management enjoyed a third year of strong growth in 2014.

Total assets under management (AuM) in Europe increased 9% in 2013 and 15% in 2014, to reach an estimated EUR 19 trillion at end 2014. This growth came on the back of strong performances on financial markets around the globe. This brought the ratio of AuM to aggregate European GDP to 124% of GDP at end 2014.



Asset managers specialize in managing discretionary mandates and investment funds.

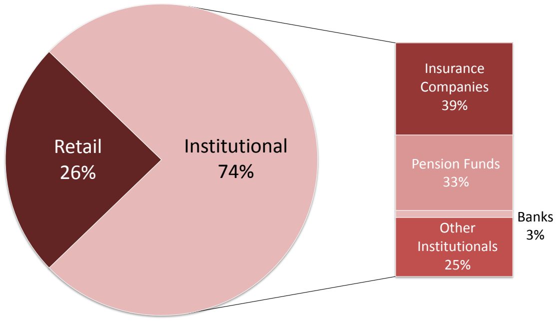
Discretionary mandate assets at end 2014 are estimated at EUR 9.9 trillion or 52% of AuM, whereas investment funds accounted for the remaining EUR 9.1 trillion or 48%. Typically, asset managers receive mandates from institutional clients and high-net-worth individuals, whereas investment funds serve both retail and institutional clients' investment needs.



Key Facts and Figures

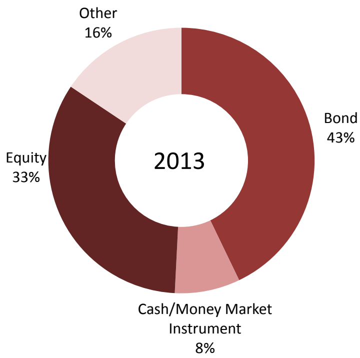
Institutional clients represent the largest client category of the European asset management industry, accounting for 76% of total AuM in Europe.

Insurance companies and pension funds, acting on behalf of millions of households, accounted for 39% and 33% of total institutional AuM, respectively.



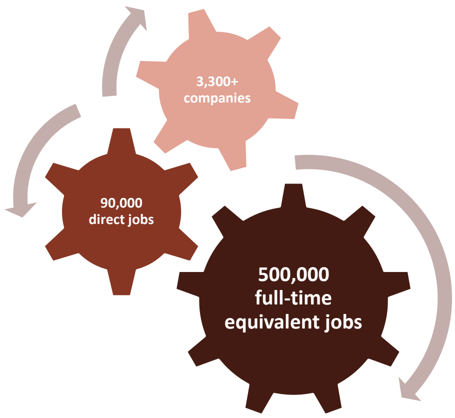
Asset managers play a key role in the financing of the economy.

Holdings of bond and equity assets remain asset managers' preferred asset classes, with 43% and 33% of total AuM, respectively, at end 2013. By providing credit capital directly via corporate bonds or indirectly via money markets, as well as equity capital in both primary and secondary markets, asset managers are financing the economy. According to our estimations, European asset managers held 23% of the debt securities issued by euro area sectors at end 2013, and 42% of the value of the free float of euro area listed firms.



More than 3,300 asset management companies in Europe employ 90,000 people directly at end 2013.

Taking into account related services along the asset management value chain, it is estimated that another 410,000 people are indirectly employed engaging in functions servicing the asset management industry. Thus, bringing total employment closer to 500,000.



1 Introduction

The eighth 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.[1] 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 2013. The questionnaire methodology has focused around the coverage of data on assets under management (AuM) split by products, clients and asset 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 78% 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 3.[2]

This year's report is broken down into sections from 2-6. The purpose of section 2 is to provide an overview of the asset management industry, its key functions, specificities compared within the wider financial system, and its contribution to the financing of the economy. Section 3 highlights the assets under management by the industry in Europe and per country across Europe. This section also puts Europe into a global context, whilst also presenting a first estimation of the assets managed by the industry in Europe at end 2014. The recent trends in the assets managed through investment funds and discretionary mandates are also discussed in this section. 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. Finally, section 6 looks at the industrial organization of the asset management industry and its contribution to the European economy in terms of employment.

2 Role of Third-Party Asset Managers

2.1 Introduction

Asset management is the professional management of securities and other types of financial assets. It can be exercised either on an own account or for third parties. If it is done on an own account, investors have to manage their own portfolios. Alternatively, retail and institutional investors may outsource the management of their portfolios to companies specialized in asset management and so rely on the expertise of these third-party asset managers for the management of their assets. Third-party asset management (hereafter "asset management" for the sake of simplicity) refers to the professional management and trading of securities and other types of assets to achieve a specific investment goal as set out by the client/investor. McKinsey & Company estimate that third-party asset managers managed one quarter of global financial assets worldwide in 2013.[3] Some of the growth observed in the asset management industry reflects the decision of asset owners (pension funds, insurers, banks, sovereign wealth funds, foundations, endowments, family offices and individuals) to outsource management of a greater portion of their assets. Asset management portfolios can be made up of investment funds and/or discretionary mandates. 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. Asset managers must stick to the terms of the investment objectives agreed with their clients and cannot go beyond this remit.

2.2 Asset Management in the Financial System

This section presents an overview of the role of asset management companies in the economy and on capital markets.

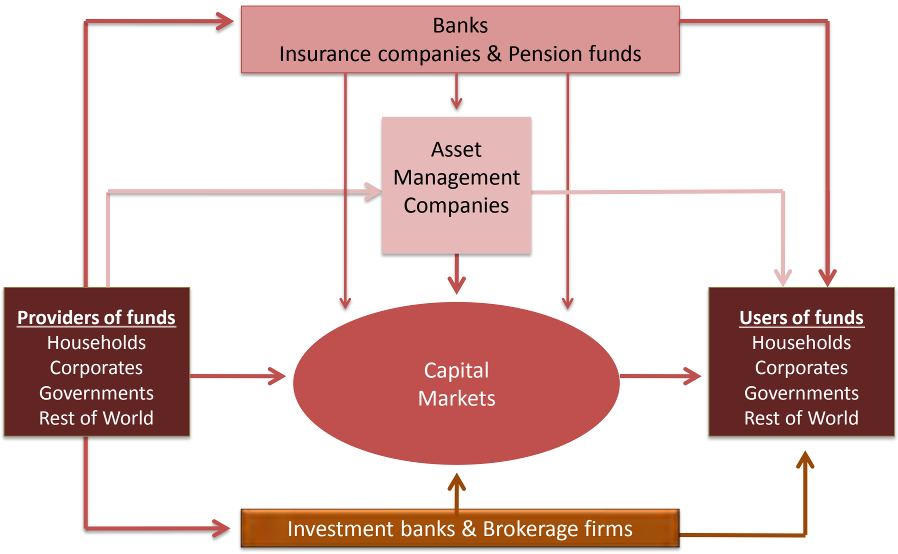
Linking savers and investors

Exhibit 1 shows that one of the basic functions of asset management companies is to channel funds from savers to investors. Those who have saved and are lending funds, the providers of funds, are on the left in exhibit 1, and those who must borrow funds to finance their consumption and investment, the users of funds, are on the right.

The users of funds can borrow funds directly from the providers of funds in capital markets by selling financial instruments, such as certificates of deposit, commercial paper, corporate bonds, government securities and stocks. This route (at the bottom of exhibit 1) is often called direct finance, as opposed to the second route (at the top of exhibit 1), which involves a financial intermediary. This process of financial intermediation is the primary route for moving funds from providers to users of funds.

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. 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. Asset management companies

Exhibit 1: Stylized view of the Asset Management Industry in the Financial System



provide an efficient way of pooling funds for investment purposes.

Asset management companies offer their intermediary function not only to households, corporations and governments, but also to the other categories of financial intermediaries, in particular pension funds and insurance companies. For this reason, amongst others, they have a separate position in exhibit 1. As institutions making 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 sell-side entities, such as investment banks which are specialized in helping firms issue securities and acquiring other companies through mergers and acquisitions, and brokerage firms, which conduct transactions on financial markets for clients or for their own account.

Corporate governance

In most listed firms, there is a separation of ownership and management in the sense that the firms are managed by corporate managers and not by shareholders. This separation gives rise to principal-agent problems where corporate management (the "agent") may have different interests from shareholders (the "principal").

One reason why principal-agent conflicts can be harmful is that small shareholders have no incentive to monitor corporate management. It is against this background that asset managers can contribute to tackling these conflicts when the size of their investments justifies engaging actively with the companies in which they invest. This engagement can be regarded as responsibility in light of asset manager's duty to act as a fiduciary for clients in the exercise of shareholder rights. The role of shareholder engagement and dialogue between asset managers and companies is highlighted by numerous academic studies that show that better corporate governance is positively correlated with contemporaneous and subsequent operating performance.[4]

The importance of this matter led EFAMA to publish in May 2011 a Code for External Governance that provides a framework of high-level principles and best practice recommendations which should act as a catalyst for engagement between asset management companies and the companies in which they invest.[5]

Voting at shareholder meetings is a way for asset managers to play a role in improving corporate governance of issuers, and in helping to build shareholder value while protecting the managers' portfolio investments. Indeed, as confirmed by a recent AFG study, by voting, asset managers pay attention to the quality and appropriateness of the information provided by issuers and, ultimately, may monitor in the medium-term their behavior.[6] So, voting has become a part of the responsibility taken on by asset managers to represent exclusively the best interests of savers and investors.

According to Hagendorff (2014), it is reasonable to assume that governance improvements brought by asset managers increase the value of equity by 8.5%.[7]

2.3 A Standalone Industry

Asset managers exhibit a number of distinguishing features which sets them apart from other financial services firms such as banks, investment banks, insurance companies, pension funds etc. The following four points highlight the main features that distinguish asset managers from other financial services players.

Agency business model

The business model followed by asset managers is different to that followed by other financial services firms. In playing their role, asset managers act as "stewards" of their clients' interest. Their value proposition is to enable their clients to reach their investment objectives. As such, they act as agent for the asset owner. They have a fiduciary responsibility to their clients. This means that they must place the interests of their clients ahead of their own. The performance of the portfolio is attributed to the client, be it good or bad. The property of the assets remains with the client, i.e. asset managers are not the asset owners.

Limited balance sheet risk

Asset managers do not act as lenders or providers of credit to individuals or corporations, nor do they provide custody or related functions. Asset managers do not act as counterparties in derivatives, financing or securities transactions. They tend not to operate with borrowed money, or leverage. As a result there is no asset-liability mismatch on asset managers' balance sheets, which remain very small compared to those banks.

Protection of client assets

Asset managers are subject to comprehensive regulation, which requires among other things, to maintain comprehensive risk management and compliance policies and procedures. Investment fund assets must generally be entrusted to depositories, which have some oversight responsibilities in addition to the safe keeping of fund assets. In mandated asset management, there is a requirement in all countries that client assets be held separately from the firm's assets. These regulatory regimes protect asset managers' clients from a liquidation or failure of an asset manager, in particular because the clients' assets remain outside the reach of the creditors of the asset manager at all times. Consequently, should an asset manager go bankrupt, the assets would simply be transferred to a competitor, with no loss for the investors concerned.

Fee based compensation

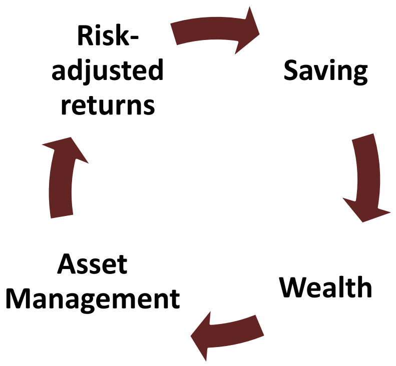
Asset managers generate revenue principally from an agreed-upon fee based on client AuM. This contrasts with commission-based compensation, in which a firm makes money based on the amount of trades made or the amount of assets sold to the client. Fee-based compensation implies that reduced AuM due to market movements or client withdrawals results in reduced revenue. This can pave the way for cost cutting measures to maintain positive income.

2.4 Key Services to Clients

Savings management

Asset managers help manage their clients wealth. They provide a range of services for the benefit of retail and institutional clients. Exhibit 2 highlights the transmission mechanism by which funds flow from clients to the industry. Savings are funds which households do not consume from their income. For institutional clients such as insurers and pensions funds, this includes the recurrent contributions these institutions receive from their members. These savings or income streams are added to household wealth or the reserves of institutional investors. The asset management industry can then invest this money on the client's behalf in order to generate a return for the client. This return is then fed back to savings and the cycle begins once again.

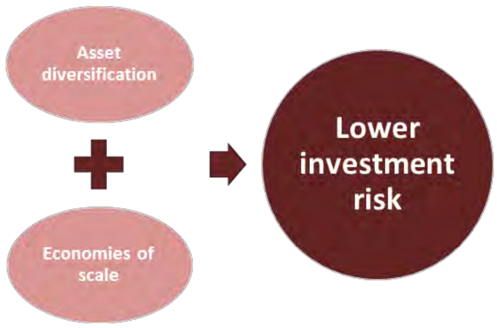
Exhibit 2: Central Role of Asset Management in Investing



Lower investment risk

By operating on a large scale, asset managers can reduce risk for their clients through different avenues.

Exhibit 3: Risk reduction



Firstly, they can reduce risk by helping individuals diversify their financial wealth across asset classes, products and geographies, more 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, 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 in which they invest.[8] 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 not necessarily highly illiquid. This is because asset managers keep a proportion of the funds they receive in liquid form taking into account the risk of facing large net outflows. In general, this risk tends to fall with an increasing level of assets under management for two reasons: firstly, the larger the number of investors, the smaller the size of any one flow will be. Secondly, in the case of bond and mixed funds, the larger the size of the portfolio, the greater the scope is for holding securities with a low residual maturity.

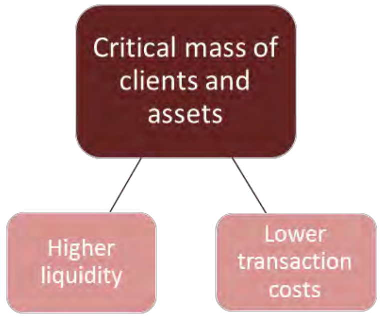
Transaction costs

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. Asset managers have been instrumental in lowering trading costs for all investors, which lead to higher net performance enjoyed not just by asset managers but all investors.

One way to estimate the reduction in the costs of trading is to look at the bid-ask spreads, which measure the difference in price between the highest price that a buyer is willing to pay for an asset and the lowest price at which a seller is willing to sell it. The size of the spread reflects mainly the liquidity of the asset.

Hagendorff (2014) showed that bid-ask spreads of European stocks have fallen by 0.712 cents between 2002 and 2013. On this basis and on estimation of the percentage of trading activity in Europe that is due to European asset managers (81%), Hagendorff calculated that trading activity by European asset managers has generated cost savings of EUR 12 billion.

Exhibit 4: Benefits of critical mass of clients and assets



2.5 Contribution to the Real Economy

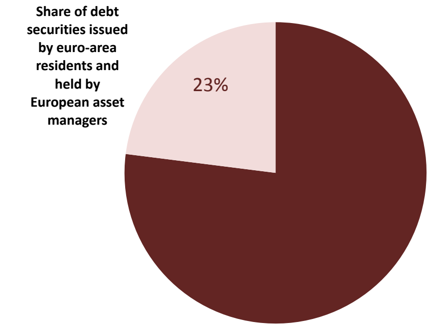
The asset management industry contributes to channeling savings of households and corporates to the right users. Asset managers fuel the real economy, helping corporations, banks and government agencies to meet their short-term funding needs and long-term capital requirements. They achieve this by providing 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.

It is possible to estimate the market share of European asset managers in the financing of the euro area using data published by the European Central Bank (ECB). The methodology used is explained in the appendix at the end of this report.

Debt financing

According to our calculations, European asset managers held debt securities issued by euro area residents for a net value of EUR 3,866 billion at end 2013. This amounted to 23% of all debt securities outstanding at the time (see exhibit 5). This also represented 33% of the value of euro-bank lending.

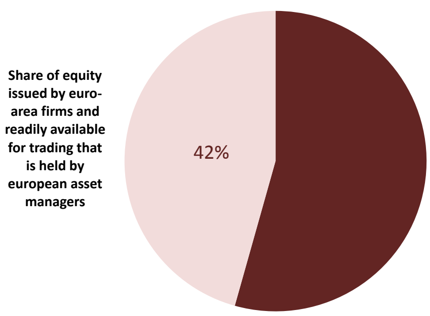
Exhibit 5: Debt financing by European asset managers at end 2013



Equity financing

Next to debt markets, equity markets are also important providers of finance to the European economy. Exhibit 6 shows that European asset managers held shares issued by euro-area residents valued at EUR 1,662 billion at end 2013. This corresponds to 29% of the market value of euro area listed firms and 42% of the value of the shares issued by euro-area companies that were readily available for trading in the market at end 2013, i.e. the free float of euro-area listed firms.

Exhibit 6: Equity financing by European asset managers at end 2013



2.6 A Capital Markets Union

Capital Markets Union (CMU) is a project which was announced in July 2014 by the European Commission President Jean-Claude Juncker as part of the work programme of the Commission. Following this announcement, the European Commission launched a public consultation on CMU with the publication of a Green Paper in February 2015.[9]

The overall objective of this project is to move towards a situation in which capital markets would play a larger role in channelling financing to the European economy, to support a sustainable return to growth and job creation.

The Commission has set itself this objective based on the observation that Europe has traditionally been more reliant on bank finance, with bank lending playing a significantly larger role in the financing of the corporate sector than in the United States. The consequence of this greater dependence on bank lending is that European businesses, especially SMEs, are more vulnerable to a tightening of bank lending, as happened in the financial crisis. The CMU project aims at correcting this situation to maximize the benefits of capital markets and non-bank financial institutions for the wider economy.

The goal is to act on three levels:

- Improving the access of all businesses across Europe (in particular SMEs) to capital markets to diversify their funding sources. This will increase the demand for funding in the capital markets.
- Increasing the flow of savings into capital market instruments. This will increase the supply of funding in the capital markets.
- Improving the efficiency of capital markets, particularly in the areas of market infrastructure, corporate law, corporate governance, insolvency and taxation. This will link investors to those who need funding more efficient and less costly, both within Member States and cross-border.

Overall, an effective CMU should help businesses to raise capital from a diverse range of sources from across the EU and offer investors and savers additional opportunities to put their money to work. It would create a single market for capital for all 28 Member States by removing barriers to cross-border investment and lower the costs of funding within the EU. This would improve the allocation of capital through better intermediation between savers and borrowers across the EU as a whole.

The Green Paper recognizes that "*the European asset management industry plays a pivotal role in channeling investors' money into the economy*." Exhibit 1 illustrates this by highlighting the role played by asset managers in linking savers and borrowers. A great deal of the success already achieved in channeling investors' money in the economy is the direct result of Europe's investment fund legislative frameworks. The UCITS ("Undertaking for a Collective Investment in Transferable Securities") framework, which permit UCITS to be offered to retail investors in any jurisdiction of the European Economic Area once registered in one Member State, is a gold standard and a label of quality for investors within and outside Europe. The introduction of the Alternative Investment Fund Managers Directive (AIFMD)[10] in 2013 has also created a framework within which all non-UCITS investment fund managers are able to operate. The recently finalized European Long-term Investment Funds (ELTIFs) Regulation framework will offer another important tool to allow investors to put money into companies and infrastructure projects for the long term.[11]

Clearly, the success of a CMU will be all the greater if the CMU project would help to boost the flow of retail investment in these instruments. This would not only increase the flow of savings into capital market instruments, but it would also help achieve a more diversified allocation of European households' financial wealth, away from bank accounts into market securities.

At the end of 2013, euro area households held 41.6% of their financial wealth in currency and bank deposits, and 8.5% in investment funds. In the United States, bank accounts and investment funds represented 15.9% and 15.1%, respectively.[12] In view of this, one of the objectives of the CMU should be to put European savings to better use.

To achieve this goal, EFAMA considers that it is particularly important to achieve progress in two areas:

- For ELTIFs to become a market success it is necessary to ensure an alignment between the needs of retail investors and those of the EU economy, and that the right framework and incentives are firmly in place.

- The creation of an EU-single market for personal pensions would also play an important role in broadening capital markets in Europe. In particular, a pan-European pension product would help overcome the current fragmentation of the European pension systems by stimulating cross-border market integration. Equally, encouraging retirement savings would increase the amount of capital that would be readily available to be channeled towards long-term investment.[13]

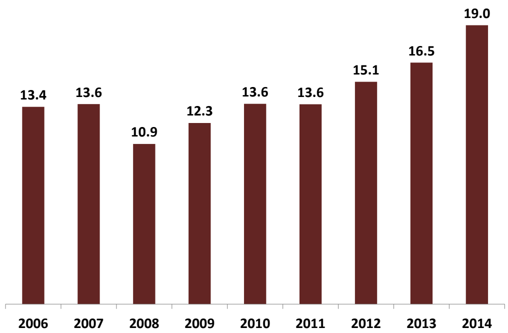
The differences between the United States and Europe illustrate how much potential a truly integrated Capital Markets Union in Europe has in improving the efficiency with which savers are matched to borrowers, and which could lead to lower borrowing costs and increased savings through more efficient allocation of capital, thus increasing economic growth in the EU. Asset managers are in a prime place to support the EU in this mission. As banks gradually withdraw from lending activities and aging societies look for ways to fund healthier and longer retirements, asset management should play an even more important role in future years. Long-term savings and risk management are at the heart of what the industry provides. This puts the industry in prime position to provide longer-term financial solutions.

3 Assets under Management in Europe

3.1 Evolution of AuM

Professionally managed assets in Europe rose by 8.6% in 2013 to stand at EUR 16.5 trillion. This happened within a difficult economic context characterized by a further decline in real GDP in the first quarter of 2013. However, the progress made to strengthen the euro area and the accommodative monetary stance improved confidence that the worst of the euro area financial crisis had passed. This paved the way towards gradual economic recovery, which got under way during the second quarter of 2013. Growing optimism about the future economic outlook strengthened the recovery of stock markets and boosted the net sales of UCITS and non-UCITS, which totaled EUR 416 billion in 2013, compared to EUR 309 billion in 2012 and EUR 5 billion in 2011.

Exhibit 7: European AuM (EUR trillion)



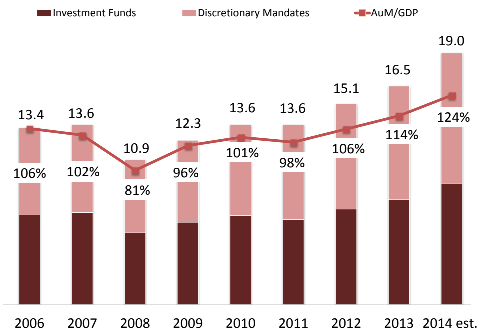
The situation continued to improve in 2014, even if the pace of economic recovery remained very moderate. However, four factors continued to fuel investor confidence: the quest for investment returns in a context of very low interest rates; the attractiveness of investment funds in terms of investor protection; the great variety of investment strategies and risk-return profiles available in the investment fund market; and the support of monetary policy.

As a result, demand for investment funds surged during 2014 to EUR 634 billion. At the same time, net assets of equity funds rose 14% reflecting developments on global stock markets. Bond fund net assets jumped 18%, thanks to strong investor demand and decreasing long-term interest rates, whilst balanced funds rose 24% as the asset diversification and risk reduction offered by this type of fund continued to attract many investors. Overall, investment funds domiciled in Europe ended the year 16% higher according to EFAMA statistics.[14] Net assets of funds reserved to institutional investors increased 17% in 2014 as retail clients continued to make use of insurance companies and pension funds as a means of securing their long-term savings goals. Applying these growth rates to the asset mix observed in investment fund assets managed in Europe, those assets can be estimated to have increased to EUR 9,100 billion in 2014.

To estimate the evolution of the AuM in discretionary mandates in 2014, 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 at the same rate as investment funds (6%). Taken altogether, and according to our estimations, discretionary mandate assets have increased to EUR 9,900 billion in 2014.

Following this approach it can be estimated that total AuM in Europe increased by approximately 15% in 2014 to reach an all time high of EUR 19.0 trillion.[15] Exhibit 8 shows the evolution of AuM in discretionary mandates and investment funds between end 2006 and end 2014. Total assets of the European asset management industry have grown 74% between end 2008 and end 2014. In relation to GDP, the value of AuM is estimated to reach 124% at end 2014, up from 114% in 2013.[16]

Exhibit 8: European AuM (EUR trillion and AuM/GDP in percent)



3.2 AuM across Europe

Exhibit 9 shows the AuM in Europe with a country breakdown at end 2013, including the yearly change in AuM, the market share and the AuM/GDP ratio for each country.

It can be seen that the pool of professionally managed assets in Europe remains centered around a small number of financial centers in the larger European countries. The UK is the largest asset management market in Europe, followed by France, Germany and Italy. Together, these four countries represented over 72% of the total AuM in Europe at end 2013. This high concentration is partly to do with larger populations, GDP and large pool of savings in these countries, but also to their well established reputation for financial services. Switzerland, a global financial center, and the Nordic countries, which have strong traditions of using asset managers to manage savings and prepare for retirement, are included in the "Rest of Europe".

The large AuM/GDP ratios in the UK (302%) and France (154%) give an indication of the relative importance taken by third-party asset managers in these countries, and the responsibility they have taken in managing institutional investors' assets. Elsewhere, AuM/GDP ratios are considerably lower, hovering around the 55% mark in Belgium, Germany and Italy, with the Netherlands being an exception with an AuM/GDP ratio of 73%.

All countries registered growth in AuM in 2013, although this growth varied significantly across countries. The UK registered growth of 12% during the year, with assets under management in France rising 9%. Growth in AuM in Italy topped 5%, with net assets in Germany and the Netherlands remaining stable. Elsewhere, Hungary enjoyed strong growth of 20%, with Turkey registering growth of 15% of AuM.

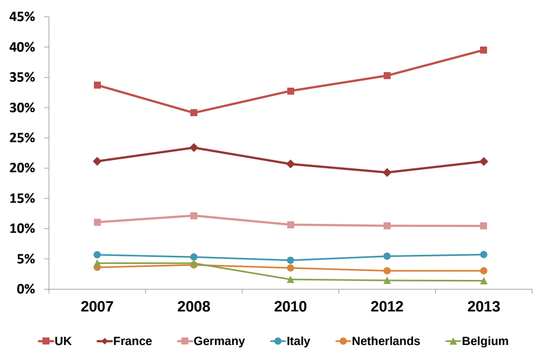
Exhibit 9: European AuM at end 2013 (EUR billion) and AuM/GDP (percent)

Countries	AuM	AuM % change (1)	Market Share	AuM / GDP
UK	6,101	12%	37%	302%
France	3,258	9%	20%	154%
Germany	1,613	0%	10%	57%
Italy	881	5%	5%	54%
Netherlands	469	0%	3%	73%
Belgium	229	2%	1%	58%
Austria (2)	85	1%	1%	26%
Portugal	74	11%	0.45%	43%
Hungary	25	20%	0.15%	25%
Turkey	18	15%	0.11%	3%
Greece	9	13%	0.05%	5%
Rest of Europe (3)	3,694	9%	22%	107%
TOTAL	16,456	9%	100%	114%

(1) End 2013 compared with end 2012.
(2) Investment fund assets only.
(3) Including Bulgaria (EUR 370 million) and Romania (EUR 3.1 billion)

In terms of market share, the UK held the largest share representing 37% of the total market. This is up from 30% market share held at the height of the crisis in 2009 (exhibit 10). France followed suit with a market share of 19%, Germany held a 10% market share, whilst Italy represented 5% of total European AuM.

Exhibit 10: Evolution of Country Shares

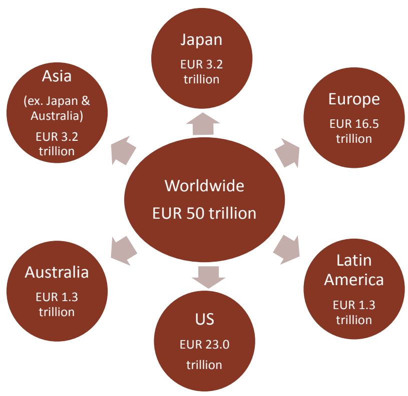


3.3 A Global Comparison

The global asset management industry managed EUR 50 trillion in net assets at end 2013. According to McKinsey, the asset management industry represents about a quarter of total worldwide financial assets.[17]

Europe ranked as the second largest market in the global industry managing one third of all assets at end 2013.[18] The world's largest market is the United States, which represents EUR 23.0 trillion in AuM and makes up approximately 46% of global AuM.

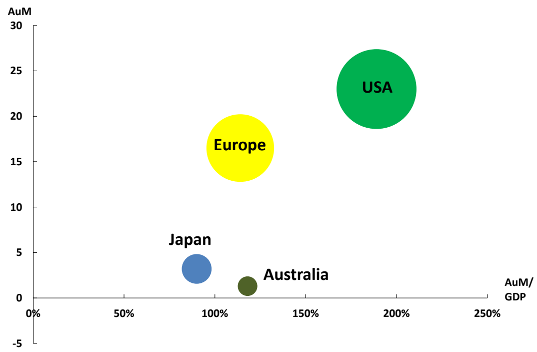
Exhibit 11: Global AuM at end 2013



Source: BCG, EFAMA

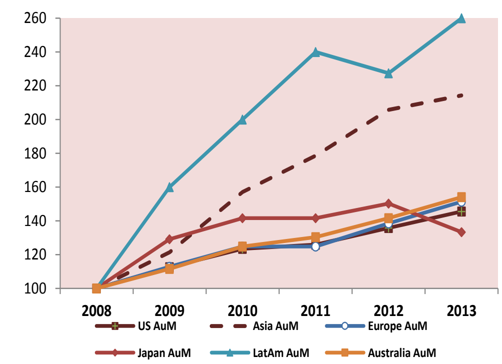
Exhibit 12 illustrates the relationship between AuM and GDP for the largest markets around the world at end 2013. The high AuM/GDP ratio of some countries, such as the United States and UK, gives an indication of the relative importance taken by asset management activities in these countries. Europe has an AuM/GDP ratio of 114%, similar to Australia (118%) and larger than Japan (90%), but smaller than the US (189%).

Exhibit 12: AuM (EUR billion) and AuM/GDP (%) at end 2013



A comparison of the AuM growth across worldwide regions can be seen in exhibit 13. Since 2008, Asia and Latin America have seen their AuM more than double. The developed economies of Europe, the US, Japan and Australia have all enjoyed strong growth in assets of between 20% and 50%. It is interesting to note that Europe and the US have registered almost identical growth in AuM since 2008, despite the large differences in the economic performances across these two regions during this period.

Exhibit 13: Global AuM Growth Index (Base year: 2008 = 100)



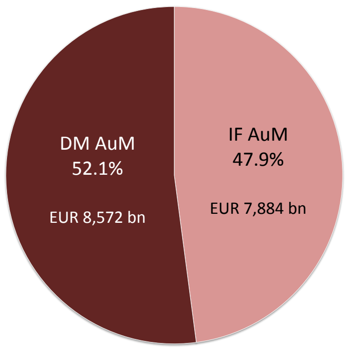
Source: BCG, EFAMA

3.4 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. Asset managers typically receive mandates from institutional clients, e.g. pension funds and insurance companies and high-net-worth individuals, whereas retail investors are generally offered investment funds. This section provides a general overview of the evolution of assets managed through investment funds and discretionary mandates.

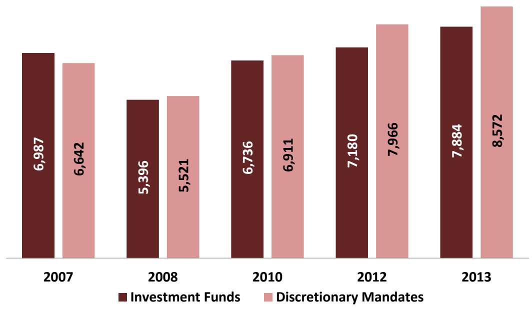
In Europe, discretionary mandates represented EUR 8,572 billion or just over 52% of total AuM at end 2013. The share of investment fund assets in total AuM stood just under 48% and amounted to EUR 7,884 billion at year end.

Exhibit 14: Discretionary Mandates Vs Investment Funds (end 2013)



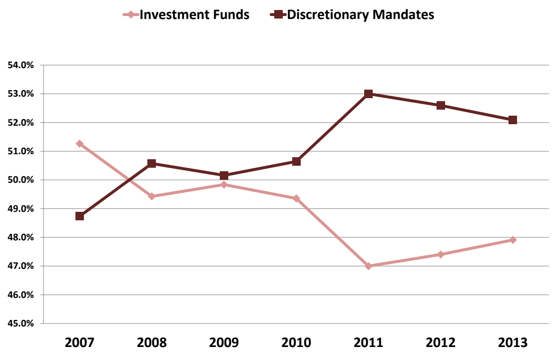
Turning to the evolution of investment funds and discretionary mandates (see exhibit 15), it can be seen that both investment vehicles have enjoyed strong growth since 2008, and have surpassed end 2007 levels. Discretionary mandates assets registered growth of almost 8% in 2013 to sit 55% higher than at end 2008. Investment fund assets increased 10% in 2013 and are up 46% since end 2008.

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



The evolution of the share of total assets held by discretionary mandates and investment funds can be seen in exhibit 16.

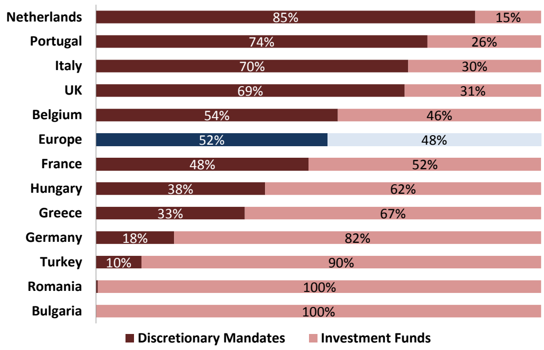
Exhibit 16: Share of Discretionary Mandates and Investment Fund Assets in Total AuM (2007-2013)



The share of discretionary mandates narrowed for the second consecutive year in 2013 thanks to stronger asset growth by investment funds during the year. Nevertheless, discretionary mandate assets remain almost 9% larger than investment fund assets. This stands in contrast to 2007, when investment fund assets made up the lion's share. Discretionary mandates tend to be more risk averse than investment funds as they invest a higher proportion of assets into fixed-income securities than investment funds. In addition, they depend primarily on the institutional client segment of the market, which has grown at a faster pace than the retail market over the past five years.

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 the Netherlands, Portugal and Italy discretionary mandates represented more than 70% of total AuM at end 2013. In contrast, practically all AuM in Romania and Bulgaria were investment fund assets. An interesting observation is the difference between the largest markets for asset management. In Germany discretionary mandates accounted for 18%, whereas in France they represented 48% of total assets and in the UK, they represented 69% (see exhibit 17).

Exhibit 17: Share of Discretionary Mandates and Investment Fund Assets in Total AuM in 2013



This shows that there are important differences in terms of the dominant asset management 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 most financial services groups operate an asset management company, which manages the group's assets 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 82% for Germany.[19] 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.

European professionally managed investment funds totaled EUR 7.9 trillion at end 2013 (see exhibit 18). Total AuM of investment funds increased 10% in 2013. As explained in section 3.1, the European investment fund industry achieved this level of growth thanks to the increased investor optimism amid encouraging economic data and rising stock markets.

The largest financial centers (the UK, France and Germany) managed 62% of European investment fund assets at end 2013. The relatively high market share of the rest of

Exhibit 18: Investment Fund Assets by Geographical Breakdown of AuM at end 2013 (EUR billion)

Countries	AuM	AuM % change (1)	Market Share	AuM / GDP
UK	1,869	11%	24%	93%
France	1,699	15%	22%	80%
Germany	1,330	0%	17%	47%
Italy	263	7%	3%	16%
Belgium	104	1%	1%	26%
Austria	85	1%	1%	26%
Netherlands	69	1%	1%	11%
Portugal	19	4%	0.24%	11%
Turkey	16	13%	0.20%	3%
Hungary	16	33%	0.20%	16%
Greece	6	3%	0.07%	3%
Rest of Europe (2)	2,407	13%	31%	70%
TOTAL	7,884	10%	100%	55%

(1) End 2013 AuM compared to end 2012 AuM.
(2) Including Bulgaria (EUR 370 million) and Romania (EUR 3.1 billion).

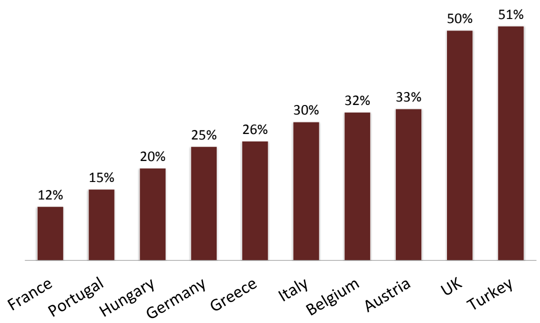
Europe (31%) is largely attributable to other countries with large fund management, such as Switzerland and the Nordic countries, as well as Luxembourg and Ireland, where some investment fund assets are also managed.

Investment fund AuM increased in every country in 2013. However, there were large variations in the growth rates across countries. France enjoyed asset growth of 15%, with the UK and Italy posting asset growth of 11% and 7%, respectively. Net assets remained flat in Germany during the year.

When comparing AuM to GDP it can be seen that investment fund assets managed in the UK represented 93% of GDP, compared to 80% in France and 47% in Germany. These high ratios reflect the importance of these countries as well as the ability of their asset managers in attracting assets domiciled abroad. They also explain why the European average is relatively high (55%).

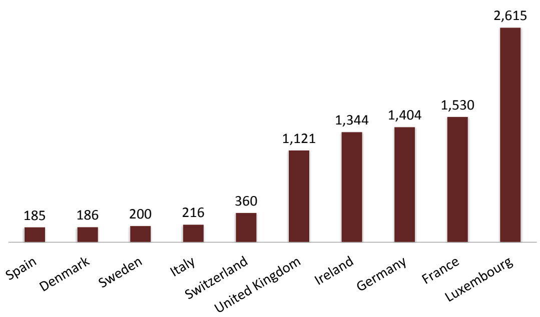
In order to portray a more comprehensive picture of the extent to which countries manage investment fund assets domiciled abroad, exhibit 19 illustrates the relative degree to which AuM in a particular European country originate from funds domiciled abroad. It can be observed that a a significant share of investment fund assets managed in the UK and Turkey relate to foreign domiciled funds. By contrast, 88% of investment fund assets in France are both domiciled and managed in France. 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.

Exhibit 19: Share of Foreign Domiciled Investment Funds in Total Investment Fund AuM (end 2013)



It is worth keeping in mind that the focus of this report is to highlight 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 2013 are reported in exhibit 20.

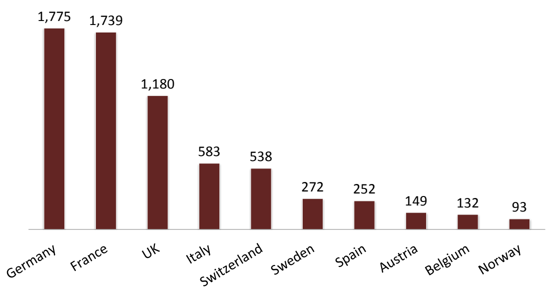
Exhibit 20: Investment Fund Assets by Country of Domicile at end 2013 (EUR billion)



Source: EFAMA Fact Book 2014

The EFAMA Fact Book also provides estimates of the size of the total demand for investment funds. It can be seen that Germany and France were the largest markets for investment funds in 2013, followed by the UK, Italy and Switzerland. Whereas investment funds domiciled in the UK, France and Germany account for 41% of the European investment fund market, asset managers in these countries manage 63% of all 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 Fund Ownership at end 2013 (EUR billion)



Source: EFAMA Fact Book 2014

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 agreed with the client, including the risk profile and asset allocation. The asset manager manages the account within the mandate set out by the client.

Discretionary mandate AuM are dominated by two markets: the UK and France, which together managed approximately 67% of total European discretionary mandates at end 2013 (see exhibit 22). The significant market share of the UK (49%) can be related to the very large base of pension fund assets managed for 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 18% 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.

Exhibit 22: Discretionary Mandates AuM at end 2013 (EUR billion and percent)

Countries	AuM	AuM % change (1)	Market Share	AuM / GDP
UK	4,231	12%	49%	210%
France	1,559	4%	18%	74%
Italy	618	4%	7%	38%
Netherlands	400	0%	5%	62%
Germany	283	-2%	3%	10%
Belgium (2)	124	2%	1%	31%
Portugal	55	14%	0.64%	32%
Hungary	10	5%	0.11%	10%
Greece	3	41%	0.03%	2%
Turkey	2	29%	0.02%	0%
Rest of Europe (3)	1,287	4%	15%	37%
TOTAL	8,572	8%	100%	59%

(1) End 2013 AuM compared to end 2012 AuM.
(2) Figure for Belgium includes unit linked insurance products and pension funds.
(3) Includes Romania (EUR 13 million).

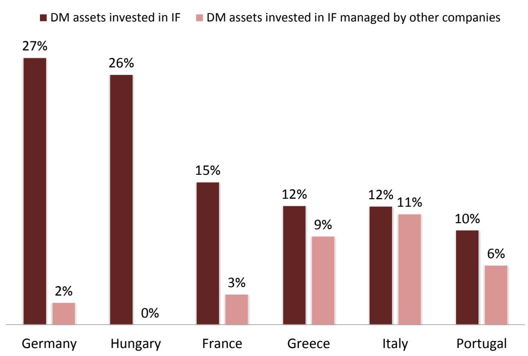
It is important to note that the degree of geographical concentration is higher than in the investment fund industry. Whereas the mandates segment of the asset management market essentially depends on business-to-business relationships between professionals (asset managers on one side, and institutional clients 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.

The evolution of discretionary mandates AuM in 2013 was mostly positive across Europe. Overall, total assets in discretionary mandates increased by 8% in 2013. The UK posted strong growth of 12% during the year. France and Italy also posted growth of 4% in 2013, whereas AuM in Germany declined by 2% during the year.

In relation to AuM/GDP, the UK stands out with AuM amounting to 210% of GDP. France follows with AuM/GDP amounting to 74% and the Netherlands 62%. These AuM/GDP ratios are significantly higher than the European average, which stood at 59% at end 2013.

Discretionary mandates often invest in investment funds to take advantage of the benefits offered in terms of diversification and cost efficiency (see exhibit 23).[20] In Germany the share of discretionary mandate assets invested in investment funds amounted to 27%, closely followed by Hungary (26%). 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 11% of discretionary mandates were invested in investment funds managed by other asset managers, compared to only 3% in France and 2% in Germany.

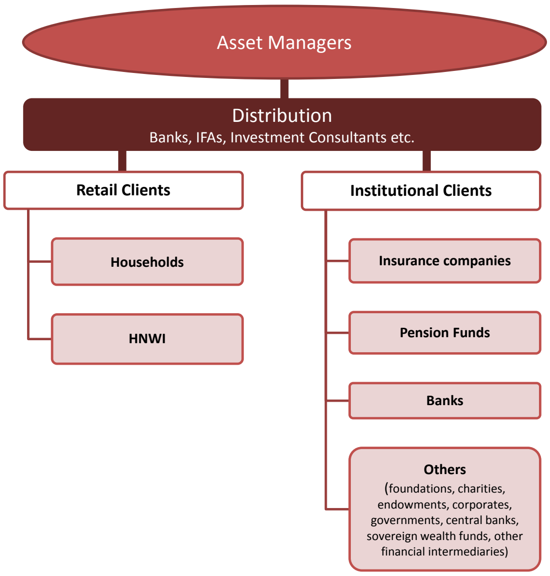
Exhibit 23: Share of DM assets Invested in IF at end 2013



4 Clients of the European Asset Management Industry

The European asset management industry serves both retail clients – usually composed of households and high net worth individuals (HNWI) – and institutional clients – usually referring to insurance companies, pension funds, other financial institutions, corporates and governmental entities. Institutional clients represent the dominant segment of the asset management industry.

Exhibit 24: Asset Managers' Client Base



On the retail side, asset managers are often dependent on the quality of third-party distributors for distributing their products. However, the use of internet platforms to access directly retail clients has increased. On the institutional side, insurance companies and pension funds are the most important clients of the asset management industry as will be shown in section 4.3. The reason for this being that significant number of insurance companies and pension funds rely on the expertise of third-party asset managers for the management of assets, despite some of these companies managing the assets in-house. By way of illustration, in France, institutional investors outsource the management of more than 60% of assets to third-party asset managers.[21]

In addition, asset managers serve other institutional clients by managing financial reserves held by non-financial companies, banks, government, local authorities, and endowments. 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.

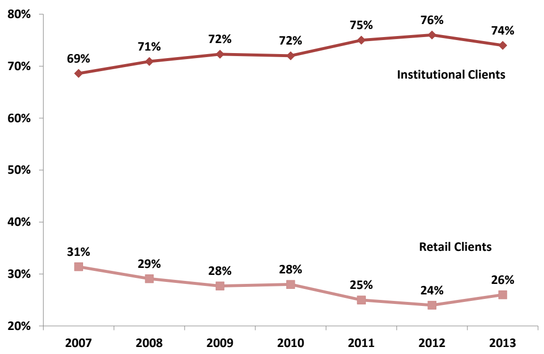
This section covers the following themes: the evolution of asset managers' client base, the relative importance of retail and institutional clients in discretionary mandates and investment funds, and finally, the assets managed for institutional clients.

4.1 Institutional and Retail Clients

Institutional clients' share of total AuM rose from 69% in 2007 to 74% in 2013. 2013 marked the first year since this series began in 2007 that a decline in the share of total assets managed by institutional clients was reported (see exhibit 25). However, this is not completely unsurprising. During the crisis, insurance companies and pension funds continued to use the expertise of the asset management industry to invest and manage the recurrent contributions collected from their members. During this time, retail clients cut back on the purchase of investment funds due to the fall in economic activity in Europe, rising unemployment, uncertainty regarding the economic outlook and high risk aversion. However, the year 2013 looks set to be a pivotal year as growth and retail investor confidence returned to Europe. As was outlined in the EFAMA Fact Book 2014, euro area households registered in 2013 the largest net acquisitions of investment funds over the past decade.[22] This partly explains the relative rise in the retail client base of the industry.

It is also important to note that households also contribute to the significant share of the institutional client segment through their ownership of unit-linked products offered by insurance companies, and pension schemes offered by both insurers and pension funds.

Exhibit 25: Asset Managers' Client Base (end 2013)



There are significant variations in the importance of each client base across countries in Europe. Overall, the European average is heavily skewered by the overwhelmingly large institutional client base in France and the UK, the two largest countries for AuM (see exhibit 26). This reflects the ability of these countries to attract large institutional mandates from pension funds (UK) and insurance companies (France).

Exhibit 26: Asset Managers' Client Base across Europe (end 2013)

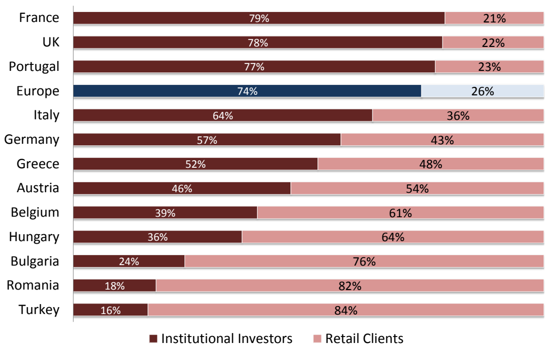
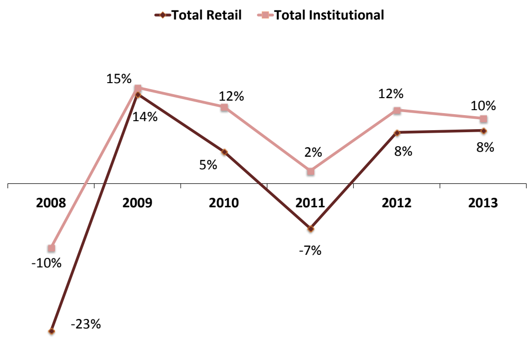


Exhibit 27 depicts the growth rates of AuM by client type. Growth of AuM for institutional clients reached 10% in 2013 and has outpaced growth of AuM for retail clients since 2008. AuM for retail clients rose 8% in 2013 for the second consecutive year.

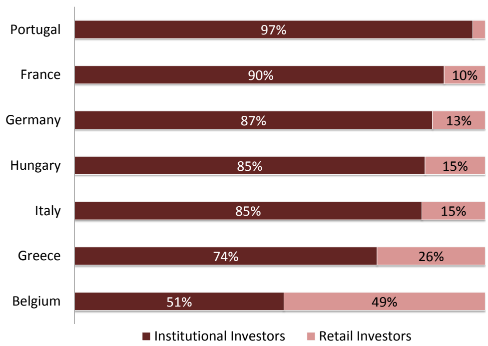
Exhibit 27: AuM Annual Growth Rates by Client Type



4.2 Investment Funds and Discretionary Mandates per Client Type

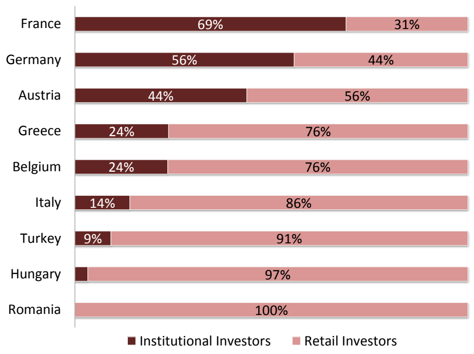
Institutional investors strongly dominate the discretionary mandate segment of the market (see exhibit 28). Such specialization can be attributable to two factors. Firstly, mandates are typically associated with minimum assets under management thresholds, making them less attractive investment vehicles for retail investors. Second, mandates can offer specific investment solutions according to the investor' sophisticated needs, such as asset-liability management, liability driven investments and separation of alpha and beta investment approaches. In general, asset managers deliver such customized solutions and services to clients with a relatively high level of investable assets, i.e. institutional investors, high-net-worth individuals and large corporates.

Exhibit 28: Discretionary Mandates by Client Type (end 2013)



The importance of institutional and retail client types in investment funds is presented in exhibit 29. It can be observed that the market share of institutional clients is much lower in most countries. Only in France and Germany, institutional clients dominate the market. In France, this is partly due to the use of investment funds in workplace pension schemes 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. This is also true in Austria.

Exhibit 29: Investment Funds by Client Type (end 2013)



4.3 Assets managed for Institutional Clients

Institutional clients are dominated by just two players: insurance companies and pension funds. Combined, these two clients accounted for 72% of total AuM for institutional clients at end 2013. Insurance companies held the top position with 39% of AuM, followed by pension funds (33%). The aggregate share of other institutional clients, which include corporates, foundations, and sovereign wealth funds stood at 25% at end 2013.

Exhibit 30: Breakdown of Institutional Investors by AuM

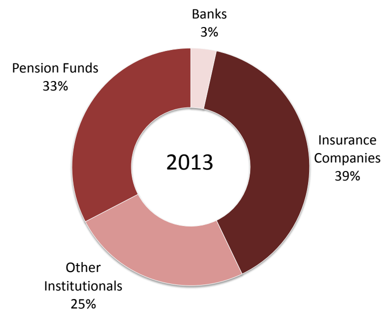
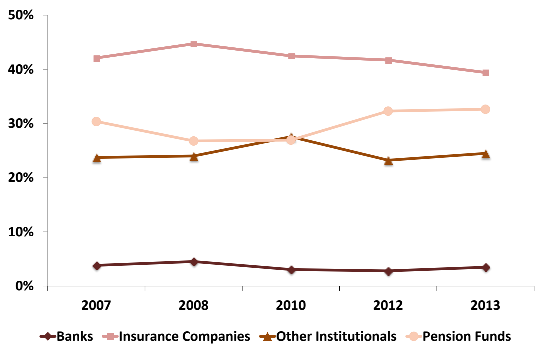


Exhibit 31 depicts the evolution of the breakdown of institutional clients in 2007-2013. The increase in the share of pension funds since 2010 is most obvious during the time.

Exhibit 31: Evolution of the Share of the breakdown between Institutional Clients



There are significant variances from country to country in the relative importance of each type of institutional client (see exhibit 32a-d). This reflects differences in the role of insurance products in retirement 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 attract capital from certain categories of foreign investors.

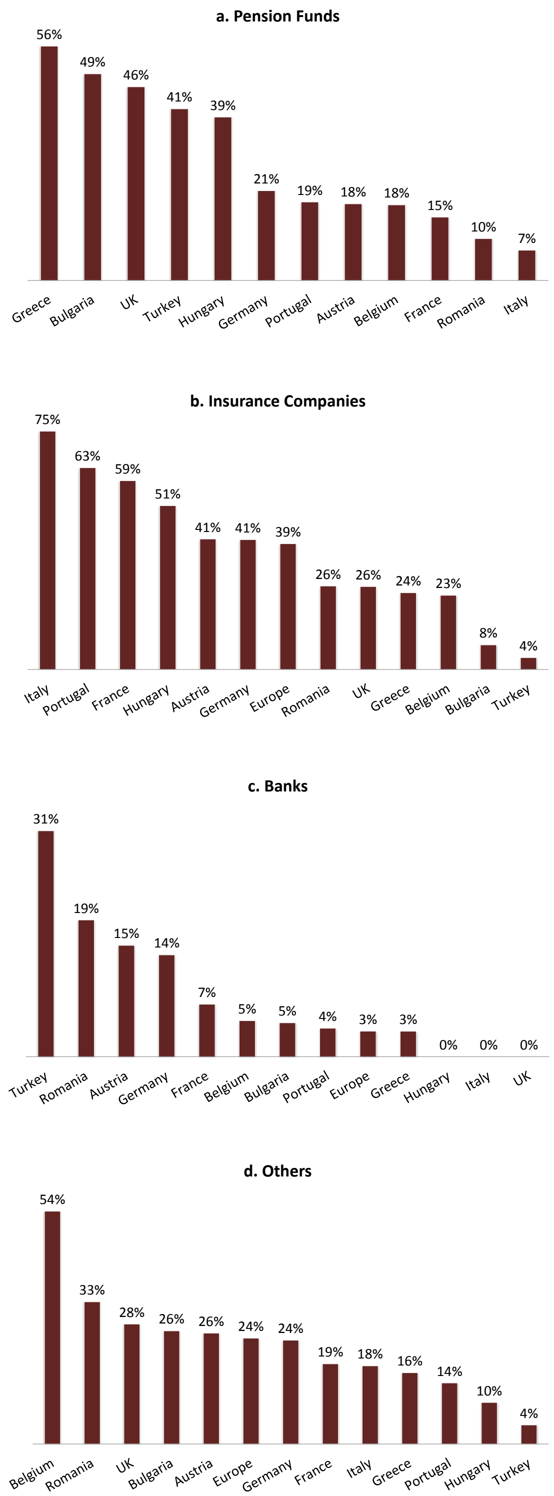
Exhibit 32 illustrates how important certain institutional clients are in a number of countries. Pension funds, for instance, represent the largest type of institutional mandates in Greece, Bulgaria, the UK and Turkey, whereas they are a less important client category elsewhere.

Insurance companies represented over half of all institutional clients in Italy, Portugal, France and Hungary. Insurance companies also accounted for a large proportion of institutional clients in Austria and Germany.

Banks represent a small part of the total institutional AuM, except in Turkey where 31% of all AuM were managed for banks. The share of banks in Romania (19%), Austria (15%) and Germany (13%) followed.

Finally, the share of other institutional clients can be also quite significant in a number of countries. The big share of other institutional clients in some countries can be partly attributable to the pension system. In Belgium and the UK, other institutional clients account for 54% and 28% respectively, given the large business of fund of fund managers and also corporate companies. In Romania and Bulgaria, for instance, this large share is due to the first pillar bis public pension system, where contributions are managed by private management companies. In Austria, other clients account for 26% of all institutional clients, consisting primarily of large corporations or foundations.

Exhibit 32a-d: AuM by Institutional Client and Country (end 2013)

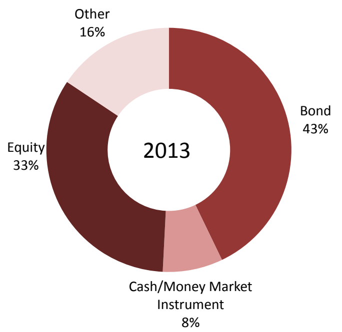


5 Asset Allocation

5.1 Asset Allocation in Europe

This section provides an overview of asset managers' 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 can adjust the proposed asset allocation to meet the expectations of its diverse range of clients. The asset management industry offers important expertise in terms of diversification across economic sectors, asset classes and geographies in ways that would be difficult and time-consuming or impossible for individual investors to achieve.

Exhibit 33: Asset Allocation



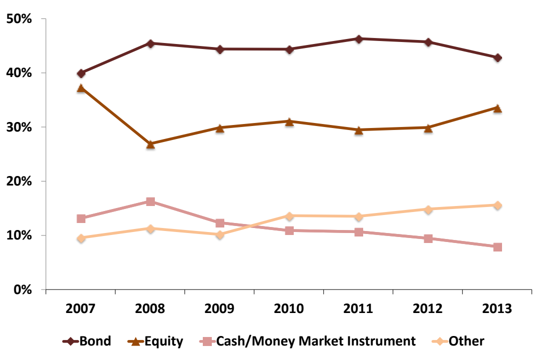
Bond assets accounted for the lion's share (43%) of asset manager's total portfolio holdings at end 2013. Equity assets accounted for 33% of assets, whilst money market and cash equivalents represented 8% of assets. The remainder was made up of other assets, which include a magnitude of assets ranging from real estate and hedge funds to structured products and private equity. Other alternatives such as infrastructure assets are also included in this segment (see exhibit 34).

Over the past year, the asset allocation to bonds decreased from 46% to 43%, despite hovering around the 46% level since the onset of the crisis. This compares to an asset allocation of 40% in 2007. Bonds benefitted from the extreme levels of risk aversion on financial markets during the crisis. However,

Exhibit 34: Other Assets

the announcement in May 2013 that the Federal Reserve might taper – or reduce – the size of its bond-buying programme known as quantitative easing, led to substantial turmoil in the markets and slowed down considerably the demand for bond funds during the second half of 2013. At the same time, the improvement in economic conditions, combined with rising stock markets, increased the attractiveness of equity funds. These developments explained the rebalancing of asset managers' asset allocation towards equity.

Exhibit 35: Evolution of Asset Managers' Asset Allocation



Still, holdings of equity assets remained below 2007 levels, when the asset allocation to equities stood at 37%.

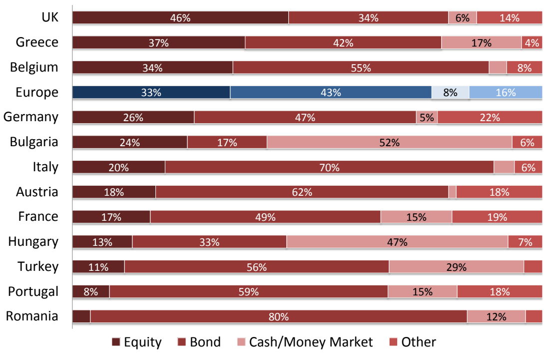
Holdings of money market instruments/cash reduced to 8% at end 2013, down from 10% in 2012. The share of money market instruments/cash in asset managers' portfolios has declined every year since 2008 as the low interest rate environment made this product type less attractive.

Other assets increased their share of total assets in 2013 to 16%, up from 15% at end 2012 and from 10% at end 2007. This shift is driven by a number of structural factors, in particular, investor search for risk-adjusted returns that are uncorrelated to the market and increased focus on specific investment "outcomes", for example providing inflation-protected income.[23]

5.2 Asset Allocation by Country

Exhibit 36 shows asset managers allocation of investments across different asset classes. It is important to bear in mind that given the large degree of cross-border delegation of asset management, the national differences in asset allocation is not completely attributable to differences in terms of the preferences of home-domiciled clients. It also reflects preferences of overseas investors.

Exhibit 36: Asset Allocation by Country at end 2013

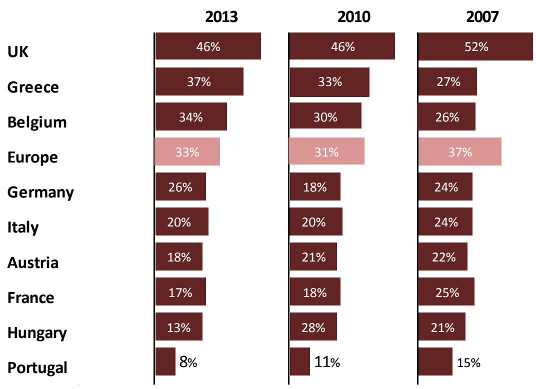


The UK allocates a sizeable chunk of its total assets to equities (46%). The high share of equity in the UK can be attributed to a long established culture of equity investing in parallel with significant, though declining, defined-benefit (DB) pension schemes and more recently with the growth of defined-contribution pension schemes. The trend out of equity into fixed income among DB schemes is due to the fact that DB schemes mature. Exhibit 37, which compares the equity exposure at end 2013, 2010 and 2007, provides a good indication of this development.

The equity exposure in the other large markets remains significantly lower than in the UK: France (17%), Germany (26%) and Italy (20%). When excluding the UK, the European average share of equity would merely amount to 20%, with the share of bond assets rising to 52%.

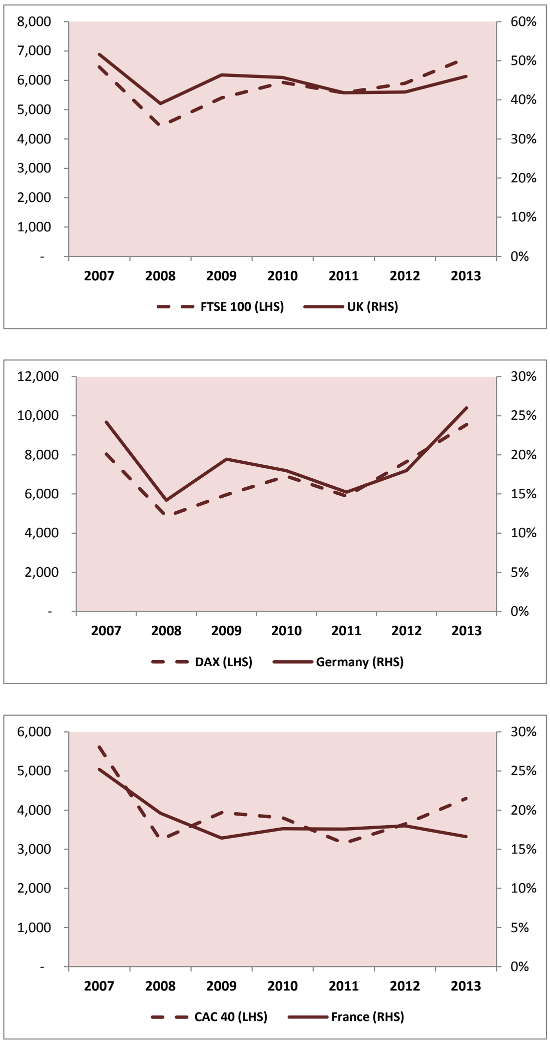
Exhibit 37 also shows that the European average of 33% of assets invested in equity at end 2013 is lower than the comparable figure at end 2007 of 37%. It can be seen that only Belgium, Germany and Greece have increased their holdings of equity assets between 2007 and 2013. All other countries have reduced holdings of equity in their portfolio mix.

Exhibit 37: Equity Asset Allocation by Country



The correlation between the share of equity AuM and the performance of the local stock market for the largest financial centers is highlighted in exhibit 38. It can be seen that over the course of 2007-2013, the share of equity in total AuM generally followed the evolution of the stock market in the UK and Germany. This is less true in France because the demand for equity assets have remained week since the financial crisis.

Exhibit 38: Local Stock Market Performance Versus Equity Asset Allocation by Country

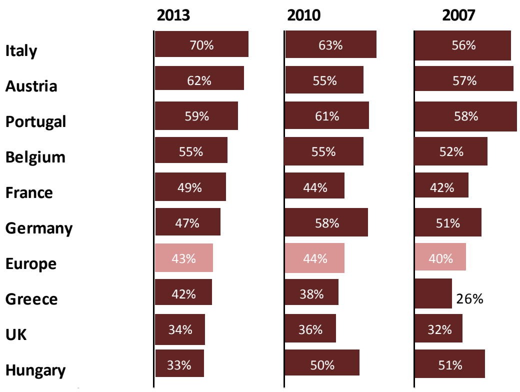


In contrast to the asset allocation to equity assets, the UK held just 34% of its portfolio in bond assets. This is considerably lower than the European average of 43%, and significantly lower than Italy, where portfolio holdings of bond assets amounted to 70%. In Germany bond assets accounted for 47% of total AuM and in France, they accounted for 49%.

These high levels of bond allocation reflects an increasing role of bonds in the financing of corporates.[24] Indeed, bond portfolios are divided between securities issued by government agencies and by private issuers (financial and non-financial companies). In an environment of falling interest rates, corporates have received increasing attention from asset managers. This evolution seems to reflect two factors: first, the change in the type of financing of non-financial companies, which are making greater use of capital market financing as a result of the decline in bank lending, and second, the increased demand for their securities by asset managers in search of better diversification of risk and higher returns.[25]

The asset allocation to bond assets has risen in most European countries between 2007 and 2013 with Germany and Hungary being the exceptions (see exhibit 39). The European average holding of bond assets increased to 43% in 2013 from 40% in 2007. This increase came during a time of unprecedented low interest rates. Investors favored fixed income products as the economic outlook remained uncertain during much of the period.

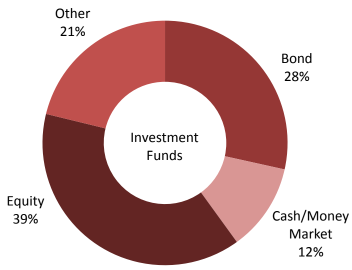
Exhibit 39: Bond Asset Allocation by Country



5.3 Asset Allocation in Investment Funds and Discretionary Mandates

This section highlights the difference in the portfolio mix held in investment funds and discretionary mandates.

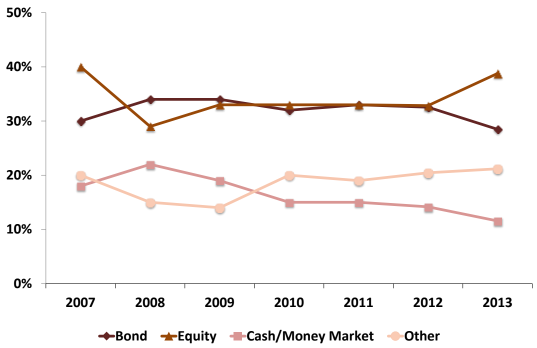
Exhibit 40: Asset Allocation in Investment Funds at end 2013



Over one third (39%) of investment fund assets were invested in equity at end 2013 (exhibit 40). Bonds accounted for 28% of portfolio assets at end 2013, whereas just 12% of investment funds assets were held in money market instruments/cash, whilst other assets accounted for the remaining 21%.

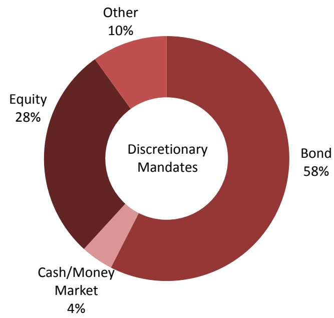
Exhibit 41 highlights the evolution of investment fund holdings since 2007. Holdings of equity and bond assets have remained relatively stable over the period 2009-2012. However, the evolution during 2013 changed this with holdings of equities increasing and bond holdings declining. The rise in stock markets and expectations of rising long-term interest rates played a role in this divergence of trends. Investment in money market and cash equivalent instruments continued to decrease every year since 2008. The asset allocation to other assets has strengthened since 2009 and now surpass the levels of end 2007.

Exhibit 41: Evolution of Asset Allocation in Investment Funds in 2007-2013



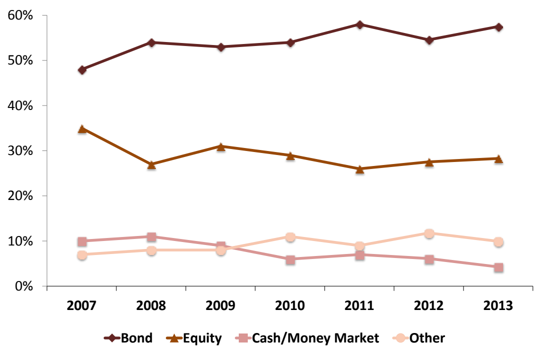
The asset mix held by discretionary mandates differs to that held by investment funds. Traditionally the asset allocation of discretionary mandates are more conservatively managed than that of investment funds. Exhibit 42 shows the portfolio mix held by discretionary mandates at end 2013. Bond assets made up over half the entire portfolio mix of assets held by discretionary mandates (58%). Equity assets made up 28% of total assets. Money market instruments/cash made up 4% of discretionary mandates holdings at end 2013, with other assets accounting for the remaining 10% of assets.

Exhibit 42: Asset Allocation in Discretionary Mandates at end 2013



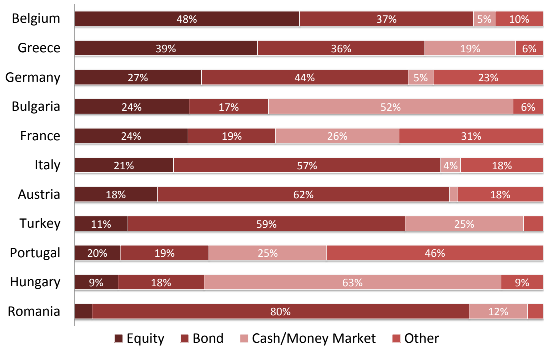
Looking at the evolution of portfolio holdings of discretionary mandates exhibit 43 shows that the share of bond holdings rose from 48% in 2007 to 58% in 2013. This occurred essentially at the expense of equity holdings, which fell from 35% to 28%. This process is sometimes referred to as the "de-equitisation" of portfolios. Although the dynamics reversed in 2012, it does not seem that the portfolio allocation of mandates will soon return to the pre-crisis level. Different causes can explain de-equitisation, including the growing maturity of pension liabilities due to population ageing and changes in regulatory and accounting rules encouraging institutional investors to avoid volatile assets. Exhibit 43 also shows that holdings of cash/money market instruments decreased from 10% in 2007 to 4% in 2013 as low interest rates persisted. This was offset by an increase in the holdings of other assets from 7% of at end 2007 to 10% at end 2013.

Exhibit 43: Evolution of Asset Allocation in Discretionary Mandates in 2007-2013



Exhibits 44 and 45 depict the asset allocation across countries in terms of investment funds and discretionary mandates at end 2013.[26] These charts provide some indication on the dominant risk preferences across countries. Although one must bear in mind 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 a foreign asset manager to manage their equity investments. Despite the impact from cross-border selection of asset managers, certain patterns can be distilled from the data on asset allocation.

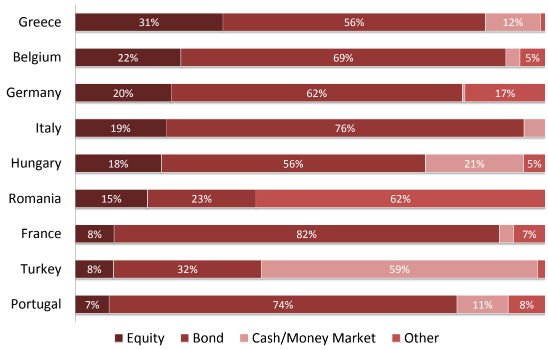
Exhibit 44: Asset Allocation in Investment Funds at end 2013



The asset allocation in investment funds varies between countries (exhibit 44). Only three countries have a quarter or more of investment fund assets invested in equity assets (Belgium (48%), Greece (39%) and Germany (27%)), whereas four countries have over half of all assets invested in bond assets (Romania (80%), Austria (62%), Turkey (59%) and Italy (57%)).

It is clear from exhibit 45 that discretionary mandates have an asset allocation much more biased towards bond assets than investment funds, thus underlying the conservative nature of discretionary mandates. It is interesting to note that the asset allocation to bond assets in discretionary mandates reaches 82% in France, 76% in Italy and 62% in Germany.

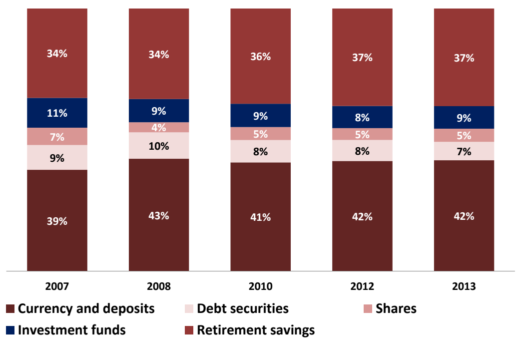
Exhibit 45: Asset Allocation in Discretionary Mandates at end 2013



5.4 Asset Allocation of Retail and Institutional Clients

Since the start of the financial crisis in 2007, retail clients have shifted their wealth allocation further towards bank accounts and retirement savings products. This trend supports the idea that retail clients have an increasing preference for liquidity and security, which has been accentuated in a context of low economic growth, high unemployment and lower confidence in financial markets and investment products. Exhibit 46 illustrates this evolution by showing the euro area households' financial asset allocation between 2007 and 2013.[27] This evolution contributes to explain the low proportion of retail clients in the AuM of asset managers in Europe.

Exhibit 46: Euro Area Households Financial Asset Allocation

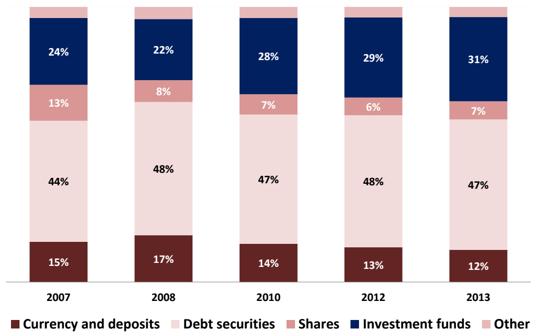


Source: ECB & EFAMA Fact Book 2014

It should be recognized that retail clients are also indirect customers of the asset management industry through their contributions to occupational and personal pension plans. A large majority of providers of these plans appoint asset managers for the management of their plans' assets.

It is also true that pension funds and insurers tend to hold a growing share of their assets in investment funds (see exhibit 47). This evolution is responsible for an institutionalization of the European investment fund market.

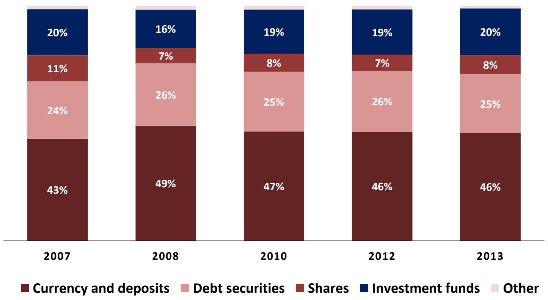
Exhibit 47: Financial Asset Allocation of Insurers and Pension Funds in the Euro Area



Source: ECB & EFAMA Fact Book 2014

Given this connection, it is possible to estimate the share of financial wealth that households are holding in investment funds directly and indirectly, i.e. via their pension plans contracted with insurers or pension funds. This is done by "looking through" the assets held by households in retirement savings, assuming that those assets are diversified according to the asset allocation of insurers and pension funds. Following this approach, it can be seen that the share of direct and indirect holdings of investment funds by euro area households stood at 20% at end 2013 (see exhibit 48).

Exhibit 48: Euro Area Households Financial Asset Allocation with Retirement Savings broken down by Underlying Assets



Sources: ECB and EFAMA Fact Book 2014

6 Industrial Organization

6.1 Asset Management Companies

There were approximately 3,300 asset management companies operating in Europe in 2013. Exhibit 49 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.[28]

France, Ireland, Luxembourg, Italy and Germany are home to 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. The regulatory requirement that was in place until the introduction of UCITS IV[29] 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. The introduction of the AIFMD should also lead to greater centralization of administration and operations for countries operating cross-border in Europe.

Exhibit 49: Number of Asset Management Companies (1)

Countries	2012	2013
Austria *	29	29
Belgium	88	82
Bulgaria	29	30
Czech Republic	21	24
Denmark	16	16
Finland	35	37
France	604	613
Germany	298	313
Greece	56	56
Hungary	35	35
Ireland	431	431 (2)
Italy	276	280
Liechtenstein	20	19
Luxembourg	351	366
Malta	86	100
Netherlands	196	188
Norway	22	29
Portugal	81	80
Romania	21	21
Slovakia *	13	12
Slovenia	11	10
Spain	107	96
Sweden	74	78
Switzerland	119	119
Turkey	35	41
United Kingdom *	194	197

(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.

(2) End 2012 data.

An estimation of the average amount managed by asset management companies can be calculated using the figures from exhibits 9 and 49. On average, an asset management company managed EUR 5.0 billion of assets at end 2013. Exhibit 50 shows the average assets under management in each respective country. These figures are an arithmetic mean, which do not take into account the large variations managed by different companies.

Exhibit 50: Average AuM per Asset Manager at end 2013 (EUR billion)

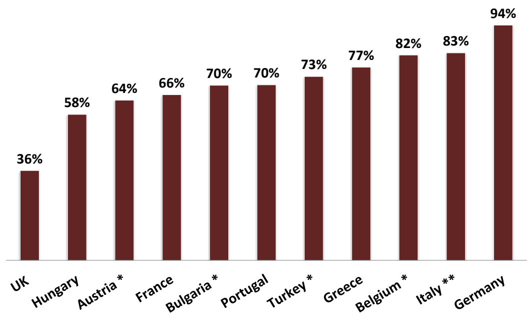
Countries	Average AuM
UK (1)	9.0
Germany	5.4
France	5.4
Italy	3.2
Austria	2.9
Belgium	2.6
Netherlands	2.4
Portugal	0.9
Hungary	0.7
Turkey	0.5
Greece	0.2

(1) Average calculated on the basis of the estimated total assets managed in the UK (EUR 7.2 trillion) and the estimated total number of firms managing assets, including niche firms outside The Investment Association membership (800).[30]

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 Investment Association calculated the median assets under management at £9.2 billion (EUR 11.0 billion), with 13 member firms each managing in excess of £100 billion at end 2013.[31] 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 7.4 billion.[32] AFG estimates the median AuM of the 100 largest firms in France to be EUR 5.3 billion, with 6 firms managing more than EUR 100 billion in France at end 2013. According to Assogestioni, two companies in Italy managed assets over EUR 100 billion, with the median assets being calculated at EUR 1.5 billion.

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. Exhibit 51 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 36% of the market.

Exhibit 51: Concentration of the Top 5 Asset Managers at end 2013



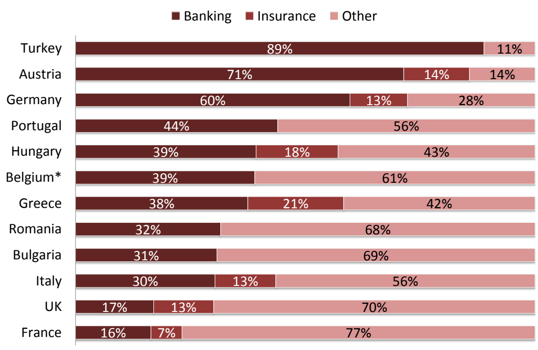
(*) = Top 5 asset managers of investment funds only
(**) = Refers to managers of discretionary mandates only
Source: EFAMA Fact Book 2014

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 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 52 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 52 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 in Turkey, Austria and Germany. Nevertheless, there are two big exceptions to this bank dominated model: the UK and France. In the UK, only 17% of asset managers are owned by banking groups, with insurance groups controlling 13%. In France, the majority of firms represent independent boutique asset managers (77%). Banks retain ownership of 16% of asset managers and insurance companies consist of 7% of asset managers in France.

Exhibit 52: Number of Asset Management Companies by Parent Group Categories (end 2013)

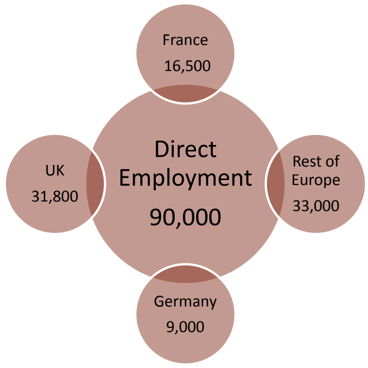


(*) 39% for banking parent refers to banking/insurance parent company

6.2 Employment

An important indicator of the contribution of the asset management industry to the overall economy is the level of direct employment in asset management companies. The number of people directly employed in asset management companies in the UK, France and Germany[33] alone is estimated to reach 57,300 at end 2013. Given these countries account for two-thirds of total AuM in Europe, we estimate that approximately 90,000 individuals are employed by the industry across Europe.

Exhibit 53: Direct Employment in Asset Management Companies

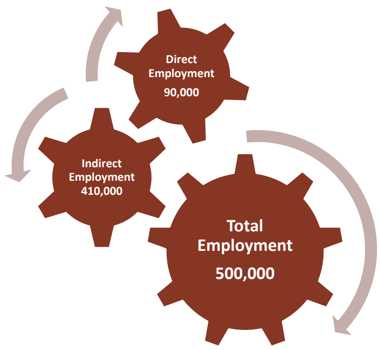


When looking at the number of people employed by the industry, it is also necessary to take into account the indirect employment associated with related services and support functions of asset management such as accounting, auditing, custodianship, marketing, research, order processing, as well as distribution, all of which are directly linked to the smooth running of the industry.

Exhibit 54: Asset Management and Related Services

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.[34] This gives rise to approximately 85,000 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.[35] 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 500,000 jobs.

Exhibit 55: Total employment in the European Asset Management Industry in 2013



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

6.3 Value-added

Hagendorff (2014) has estimated that European asset management contributes on average 0.35% per year to European GDP. This estimate is calculated using a revenue-based measure of the value-added of the industry in 2012, which includes the industry's net profits, staff costs and taxes paid. Hagendorff (2014) also shows that the estimated value added per year that the industry creates in the UK is the largest (0.95% of GDP), compared to 0.50% in France and 0.21% in Germany. The difference is directly related to the fact that the industry revenues are proportionate to AuM.

Appendix

The purpose of this annex is to explain the approach used in section 2.5 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.

Exhibit 56 below shows that the outstanding stock of securities other than shares issued by euro area residents amounted to EUR 16,480 billion at end 2013. Investment funds domiciled in the euro area held 12.5% of this total, or EUR 2,059 billion. The market share of euro area investment funds in the debt issued by euro area governments and MFIs reached 11.7% and 13.0%, respectively.

Exhibit 56: Holdings of Securities Other than Shares Issued by Euro Area Residents and Held by Euro Area Investment Funds (end 2013)

Euro area issuer	Securities held by euro area IF (EUR billion)	Total securities issued (EUR billion)	Share of euro area IF
General Government	852	7,264	11.7%
MFIs	646	4,973	13.0%
Other	561	4,243	13.2%
Total	**2,059**	**16,480**	**12.5%**

Exhibit 57 shows that the total market value of quoted shares issued by euro area residents amounted to EUR 5,635 billion at end 2013. Out of this total, euro area investment funds held EUR 886 billion at end 2013, or 15.7%.

Exhibit 57: Holdings of Shares and Other Equity Issued by Euro Area Residents and Held by Euro Area Investment Funds (end 2013)

Euro area issuer	Shares held by euro area IF (*) (EUR billion)	Total quoted shares issued (EUR billion)	Share of euro area IF in
General Government	--	--	--
MFIs	85	569	14.9%
Non-financial corporations	529	4,315	12.3%
Other	272	751	36.3%
Total	**886**	**5,635**	**15.7%**

(*) Excluding money market funds, which had a very limited equity exposure at end 2013 (EUR 1 billion).
Source: Data from ECB

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 estimated that the remaining part of the assets professionally managed in Europe at end 2013, which is estimated at EUR 7,688 billion, i.e. total AuM (EUR 16,456 billion) minus total assets held in euro area investment funds (EUR 8,768 billion), had the same exposure to debt and equity issued by euro area residents as euro area investment funds, i.e. 23.5% and 10.1%, respectively. To support this assumption it may be argued that the population of euro area investment funds is extremely large and diversified both in terms of end investors and investment strategies and can therefore provide a proxy for estimating the asset allocation of the pool of financial assets held in investment funds and discretionary mandates across Europe. The fact that the pool of assets held in investment vehicles in the UK is more heavily exposed to equity than euro area investment funds may point to some limitation to this approach. This said, it is also quite likely that the 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 1,807 billion and EUR 776 billion, respectively.

The second step was to add up the estimated assets held by European asset managers in euro area debt (EUR 2,059 billion and EUR 1,807 billion) and equity (EUR 886 billion and EUR 776 billion). On this basis, 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 3,866 billion and EUR 1,662 billion, respectively. Exhibit 58 highlights that European asset managers held 23% of the securities other than shares issued by euro area residents at the end of 2013, and 29% of the share and other equity issued by euro area residents at end 2013. Using an estimation of the free-float market capitalization, it can be estimated that European asset managers held 42% of the value of the shares issued by euro area companies that were readily available for trading in the market at end 2013.

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 58: Holdings of Debt and Equity Issued by Euro Area Residents and Held by European Asset Managers (end 2013)

	Securities other than shares (EUR billion)	Shares and other equity (EUR billion)
Euro area assets held by European asset managers [1]	3,866	1,662
Securities/Shares issued by euro area residents [2]	16,480	5,635
Total share of European asset managers (in % of Free-float Mkt Cap.) [3]	**23%**	**29%** **(42%)**

(1) EFAMA estimations, (2) Data from ECB,
(3) Estimation using data provided by STOXX

It should be possible to strengthen the methodology described in this Appendix in different ways: for instance, by using first-hand statistics on debt and equity issued by euro area residents and held by European investment funds domiciled outside the euro area, and/or by using data on discretionary mandates assets and the geographical location of the issuer of the assets. If available, these data would allow a refining of 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 to this report.

[1] 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, Carsten Lüders, Carlos Pardo, Ruth Meade, Michael Pirl, Selin Sözer, Andras Temmel, Adrian Tudose, Thomas Valli, Andy Vangenck and Fijtsia van Pelt for their contributions to the preparation of this report.

[2] Two main sources of information were used: the EFAMA 2014 Fact Book and the McKinsey & Company report: "After a stellar year, time for Europe to be bolder? Global Asset Management in 2013", (June 2014).

[3] See McKinsey & Company "After a stellar year, time for Europe to be bolder? Global Asset Management in 2013".

[4] See for instance S. Bhagot and B.J. Boltan (2008), "Corporate governance and firm performance", Journal of Corporate Finance 14.

[5] See http://www.efama.org/Publications/Public/Corporate_Governance/11-4035%20EFAMA%20ECG_final_6%20April%202011%20v2.pdf

[6] See "Exercise of voting rights by asset management companies in France in 2014" published by AFG. See http://www.afg.asso.fr/index.php?option=com_docman&task=doc_download&gid=4507&Itemid=82&lang=en

[7] See Hagendorff, J. "Societal and economic impacts of the European asset management industry", EY, December 2014

[8] 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.

[9] See http://ec.europa.eu/finance/consultations/2015/capital-markets-union/docs/green-paper_en.pdf

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

[11] More information on ELTIFs can be found on the European Commission's website at: http://ec.europa.eu/finance/investment/long-term/index_en.htm

[12] See EFAMA Fact Book 2014, Part 1.3.5: "Ownership of investment funds in the euro area").

[13] See EFAMA's report on "European Personal Pensions" available at http://www.efama.org/Publications/Public/EFAMA%20_EPP_Report_FINAL4March2015).pdf

[14] See "Trends in the European Investment Fund Industry in the Fourth Quarter of 2014 and Results for the Full Year 2014", EFAMA's Quarterly Statistical Release N°60, February 2015, available at www.efama.org.

[15] The standing of the European asset management industry at end of 2014 will be analyzed in detail in next year's EFAMA Asset Management Report.

[16] European GDP relates to the GDP of the 27 EFAMA member countries.

[17] See McKinsey report "After a stellar year, time for Europe to be bolder? Global Asset Management in 2013".

[18] See Boston Consulting Group report : « Global Asset Management 2014: Steering the Course to Growth» (July 2014).

[19] 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.

[20] 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%).

[21] See "Paris EUROPLACE – Redonner sa Compétitivité au Pôle Investisseurs de la Place de Paris", report published with contributions of the Boston Consulting Group, 20 September 2013.

[22] Fact Book 2014 Section 1.3.2 page 27.

[23] See in particular McKinsey & Company "The Trillion-Dollar Convergence: Capturing the next wave of Growth in Alternative Investments".

[24] See "Financement de l'économie par les gestions françaises", C. Pardo and T. Valli, Cahiers de la Gestion N°4, Décembre 2014, AFG at:

http://www.afg.asso.fr/index.php?option=com_docman&task=doc_download&gid=4447&Itemid=158&lang=en

[25] For more information about this in France, see “Contribution des gestions au financement de l’économie française”, Carlos Pardo et Thomas Valli, AFG, cahier de la gestion n°3 2012.

[26] 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.

[27] Financial assets are defined here as currency and deposits, debt securities, quoted shares, investment funds and insurance and pension reserves. Unquoted shares, loans and other accounts receivables and financial derivatives are excluded from the analysis.

[28] By way of illustration, taking into account non-members of The Investment Association, including hedge funds and private equity funds, the total number of asset management companies in the UK would probably add to approx. 800.

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

[30] The figure of total assets under management reported in this report for the UK (EUR 6.1trn) corresponds to total assets under management by members of The Investment Association. Taking into account the assets managed by firms outside the The Investment Association membership base, including hedge funds, private equity vehicles, property funds and discretionary private client managers, The Investment Association estimated that the assets managed in the UK would total EUR 7.2trn at end 2013.

[31] Figures for median assets in the UK are taken from surveys undertaken by the The Investment Association (UK) covering a sample of firms and not the entire dataset as presented in exhibit 50. See Asset Management in the UK 2013-2014, The IMA Annual Survey, which can be downloaded from:
http://www.theinvestmentassociation.org/assets/files/research/2014/20140909-IMA2013-2014-AMS.pdf

[32] 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 50.

[33] The number of employees in Germany (9,000) is the result of a survey undertaken by BVI in 2013 and differs to the estimated number reported in previous Asset Management reports.

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

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