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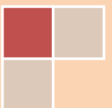
Asset Management in Europe

Facts and Figures

4th ANNUAL REVIEW



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Key Findings

- **Asset management is a vital source of economic growth.** It provides a link between investors seeking appropriate savings vehicles, and corporations, banks and government agencies that have funding needs. Asset managers offer investors the means to manage risks by diversifying their financial wealth and reduce investment costs through economies of scale. As leading buy-side entities, asset managers also provide the liquidity needed to the good functioning of financial markets, thereby contributing to lower cost of capital and higher levels of investment. On the basis of data published by the European Central Bank and EFAMA's calculations, European asset managers held 25% of the debt securities issued by euro area residents at end 2009, and 52% of the value of the free-float market capitalization of shares issued by euro area companies.

- **Assets under Management (AuM) in Europe recovered in 2009 to reach EUR 12.4 trillion at year end, compared to EUR 10.9 trillion at end 2008.** Thanks to the sustained economic recovery in 2010, the value of AuM continued to rise to an estimated EUR 13.8 trillion at end 2010. In relation to GDP, total AuM in Europe is estimated to have reached 103% at end 2010.

- **Investment funds represented EUR 6,190 billion or 50.1% of AuM at end 2009, whereas discretionary mandates accounted for the remaining EUR 6,177 billion.** Typically, asset managers receive mandates from institutional investors and high-net-worth individuals, whereas investment funds serve the retail and institutional markets.

- **Asset management is concentrated in a limited number of countries.** The top three countries -- the UK, France and Germany -- together accounted for 65% of total AuM in Europe at end 2009. The large pool of savings available in the most populated countries in Europe has facilitated the development of local asset management industries, which have benefited from the European integration and globalization processes, to offer their wholesale services to foreign investors.

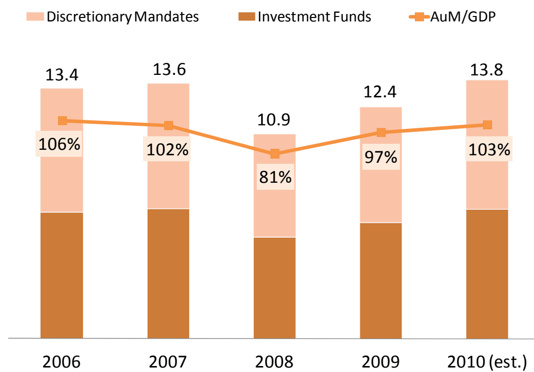
- **More than 3,100 asset management companies are registered in Europe employing about 80,000 people.** Taking into account related services along the asset management value chain, the level of direct and indirect employment would increase to a significantly higher figure.

- **Institutional investors represent the largest client category of the European asset management industry, accounting for 68% of total AuM in Europe.** They dominate the asset management landscape in the UK, France, Germany, Portugal, Hungary and Italy, reflecting the ability of these countries to attract institutional mandates from insurance companies and pension funds. These two types of institutional investors accounted for 45% and 25% of total AuM for institutional clients at end 2009, respectively.

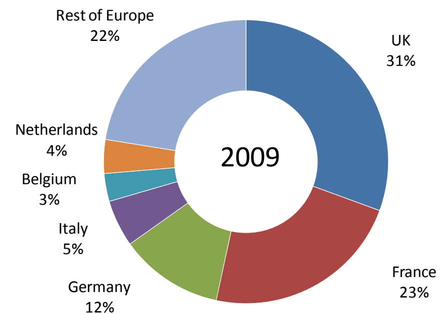
- **The dominant asset classes managed in Europe are bond and equity, with 44% and 32% of total AuM at end 2009, respectively.** Whereas investment funds and mandates had similar equity exposure (33% and 31%, respectively), mandates had a significantly higher exposure to bond than investment funds (53% compared to 34%), whereas investment funds had a greater share of cash and money market instruments in their asset allocation.

Key Figures

Total AuM (EUR billion)

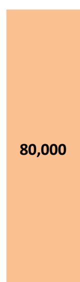


Market Share in Total AuM

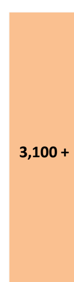


Industry Size (end 2009)

Number of Direct Jobs in AM Companies

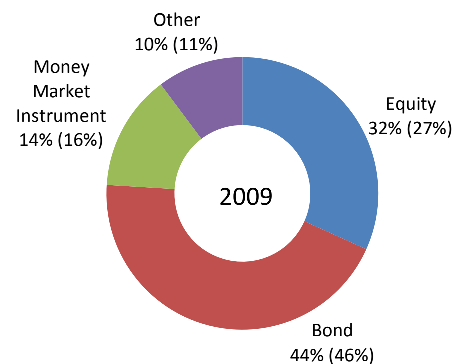


Number of AM Companies

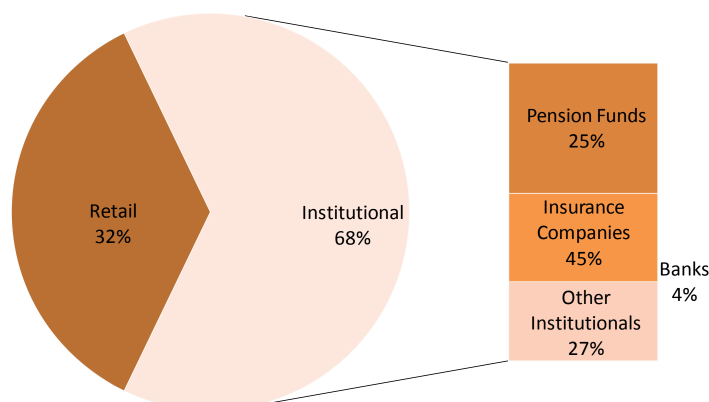


Asset Allocation in Total AuM

(2008 figures shown in brackets)



Client Type in Total AuM (end 2009)



1 The EFAMA Annual Asset Management Report

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

The report is primarily based on responses to a questionnaire sent to EFAMA member associations covering data at end 2009. The questionnaire methodology has focused around the coverage of data on assets under management (AuM) split by products, clients and assets types. Thirteen associations provided us with data on the value of the assets managed in their countries: Austria, Belgium, Bulgaria, France, Germany, Greece, Hungary, Italy, Netherlands, Portugal, Slovenia, Turkey and the UK.[1] According to our estimations, these countries account for 79% of the AuM in Europe. To compensate for those associations unable to answer the questionnaire, additional internal and external data were used to estimate the value of total AuM in Europe presented in the next section.[2]

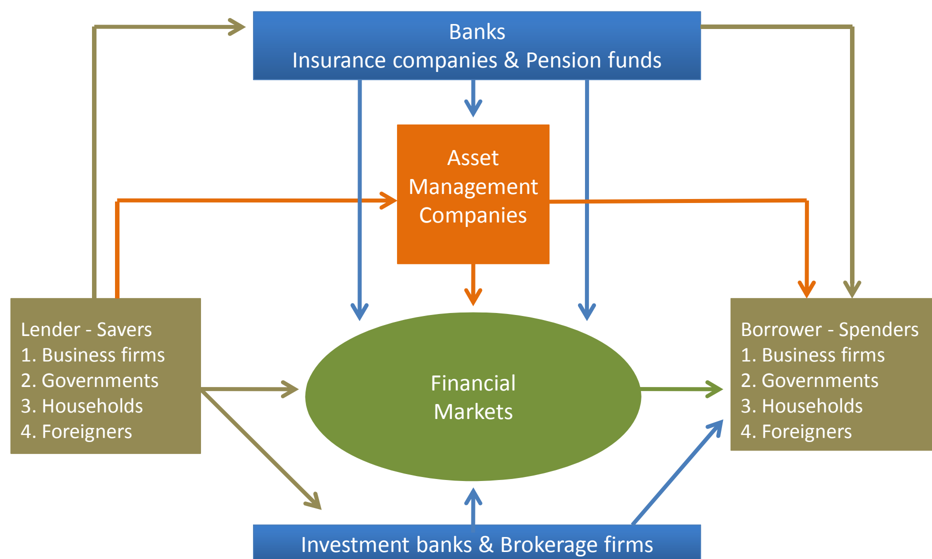
The purpose of section 2 is to provide a general overview of the functions of asset managers in financial markets and their important role in the economy. Thereafter, section 3 provides an overview of the European asset management industry in terms of its size and importance in the European economy. Section 4 discusses European asset management in terms of products offered and delegation of asset management. In section 5, the report continues by providing an overview of the industry's clients, while section 6 focuses on the asset allocation of European asset managers. Section 7 looks at the contribution of euro area investment funds in particular and European asset managers in general to the financing of the euro area economy. Finally, section 8 presents a first estimation of the AuM for 2010.

2 Key Functions of Asset Management

2.1 Asset Management in the Economy

This section presents an overview of the role of asset management companies in the economy and the financial markets. Exhibit 1 is our starting point; it is adapted from Mishkin (2008) and shows that one of the basic functions of asset management companies is to channel funds from those that have saved to those that have a shortage of funds.[3] Those who have saved and are lending funds, the lender-savers, are at the left in Exhibit 1, and those who must borrow funds to finance their spending, the borrower-spenders, are at the right.

Exhibit 1 Flow of funds in the asset management industry



Borrowers can borrow funds directly from lenders in financial markets by selling financial instruments, such as certificates of deposit, commercial paper, corporate bonds, government securities and stocks. This route (the route at the bottom of Exhibit 1) is often called direct finance, as opposed to the second route (the route at the top of Exhibit 1), which involves a financial intermediary that stands between the lender-savers and the borrower-spenders. A financial intermediary does this by acting as a go-between between the ultimate lenders and borrowers. This process, which is often called financial intermediation, is the primary route for moving funds from lenders to borrowers.

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

financial intermediaries that accept deposits from individuals and institutions and make loans. Insurance companies and pension funds take in savings from households and firms, and invest them in money market and capital market instruments and other assets. And asset management companies provide an efficient way of pooling funds for investment purposes.

Asset management companies offer their intermediary function not only to households, business firms and government, but also to the other categories of financial intermediaries, in particular pension funds and insurance companies. For this reason, they have a separate position in Exhibit 1. As institutions directing the investment decisions for investors who have chosen to have their assets professionally managed, asset management companies are the most important type of buy side institutions. The buy-side is the opposite of the sell-side entities, such as the investment banks which are specialized in helping a business firm issue securities and acquiring other companies through mergers and acquisitions, and brokerage firms which conduct transactions in the financial markets for clients or for their own.

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

By providing equity capital in both primary (IPOs and private placements) and secondary markets, as well as credit capital – directly via corporate bonds or indirectly via money markets – asset managers are fueling the real economy, helping corporations, banks and government agencies to meet their short-term funding needs and long-term capital requirements. By contributing to very high levels of activity and turnover in the secondary markets, they also contribute to the determination of the price of the securities reflecting all relevant information. Put it differently, if asset managers were not contributing to the supply of funds in financial markets as much as they do today, firms would borrow in less favorable conditions. This would lead to higher cost of capital, lower levels of investment and poorer long-term growth performance. Section 7 below illustrates the role played by asset managers in the economy by providing data on their holdings of debt and equity issued by euro area residents.

2.2 Key Services to Clients

Investment funds and discretionary mandates are the most popular investment vehicles used in the asset management industry. Investment funds raise capital from investors by issuing shares and/or units and investing the proceeds in financial and non-financial assets. By contrast, discretionary mandates are professionally managed portfolios of securities in which decisions to buy and sell are made by the asset manager on behalf of one client in compliance with a pre-defined set of rules and principles, on a segregated basis separate from other client assets. To the extent that they investment management of discretionary mandates is not collective, mandates

are typically associated with minimum assets under management thresholds. For this reason asset managers typically receive mandates from pension funds, insurances companies and high-net-worth individuals, whereas retail investors are offered to buy investment funds.

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

Risk reduction

By operating on a large scale, asset managers can reduce risk for its clients through different avenues. Firstly, asset managers can reduce risk by helping individuals diversify their financial wealth amongst many more assets than they could afford to do in general, given transaction costs. Diversification leads to a reduction in risk because asset returns do not always move in the same way at the same time. Therefore, in general, investing in a diversified pool of assets is less risky than investing in individual assets. Secondly, by operating on a large scale, the asset management industry can reduce risk by screening out bad investment opportunities from good ones, thereby reducing losses due to adverse selection. In addition, asset managers reduce losses due to moral hazard by monitoring developments in industries, countries and regions into which they invest.[4] Given that monitoring activities has a cost attached to them, specialist firms benefit from economies of scale which households and other ultimate lenders would find very difficult to match.

Liquidity provision

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

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

Transaction costs

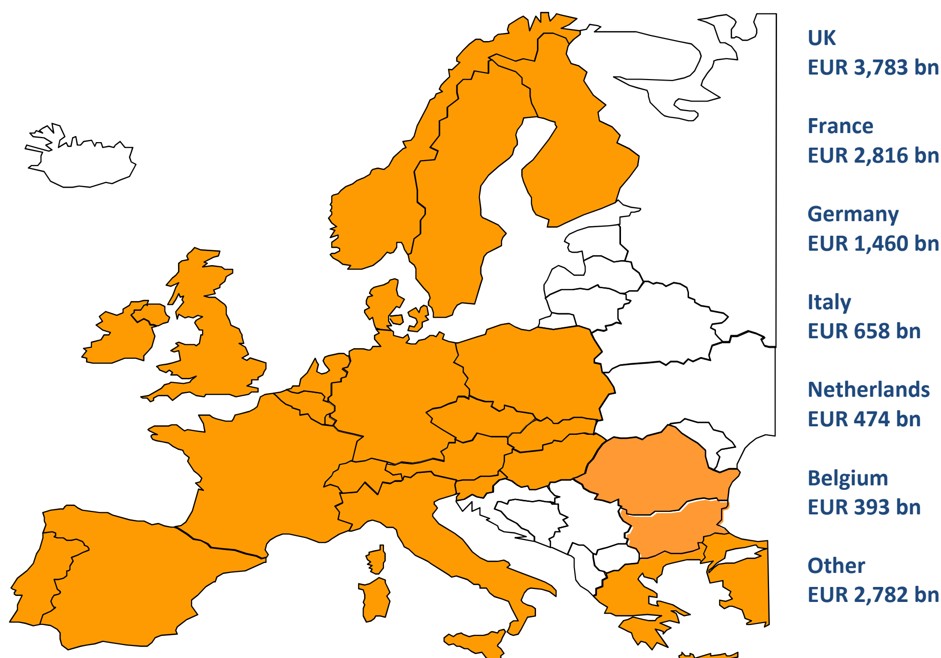
Asset management companies reduce transaction costs substantially because transaction costs fall with the size of the transactions. The lower costs result from the asset manager’s ability to trade in large blocks of securities, thereby reducing the value of the dealing commission to be paid as a proportion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

3 AuM, Employment and Industrial Organization

3.1 AuM and Employment

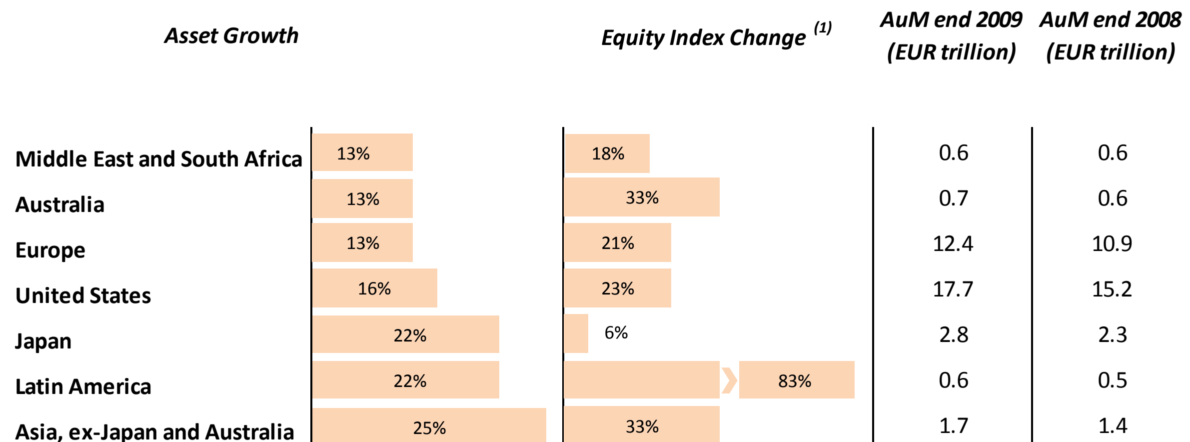
The assets managed by the European asset management industry at end 2009 bounced back to EUR 12,367 billion up 13% from end 2008 when total assets amounted to EUR 10,917 billion. This makes Europe the second largest market for asset management in the world – managing 37% of the EUR 36.5 trillion global AuM at end 2009[5]. Compared to end 2007, total AuM in Europe were 9% lower at end 2009, or EUR 1,262 billion. In relation to aggregate European GDP, total AuM amounted to 97% at end 2009. Exhibit 2 highlights the importance of the major centers of asset management in Europe at end 2009. The combined AuM in the UK, France, Germany and Italy amount to EUR 8,717 billion or 70% of the total for Europe. Exhibit 2 also shows that significant asset management activities are undertaken in the Netherlands and Belgium.

Exhibit 2 **European assets under management – AuM per country (end 2009)**



The rebound in the global asset management industry in 2009 was evident across Europe. The return to growth after the stock market lows in early 2009 and investors increasing their risk appetite on the back of a more positive economic outlook helped push AuM up in 2009. Elsewhere in the world, the United States saw the value of AuM increasing by 16% to EUR 17.7 trillion, and Japan also enjoyed an increase of AuM of 22% to EUR 2.8 trillion. Emerging markets witnessed significant growth during 2009. In Latin America asset growth reached 22%, whilst in Asia (ex – Japan and Australia), assets recorded tremendous growth of 25% (see Exhibit 3a).[5]

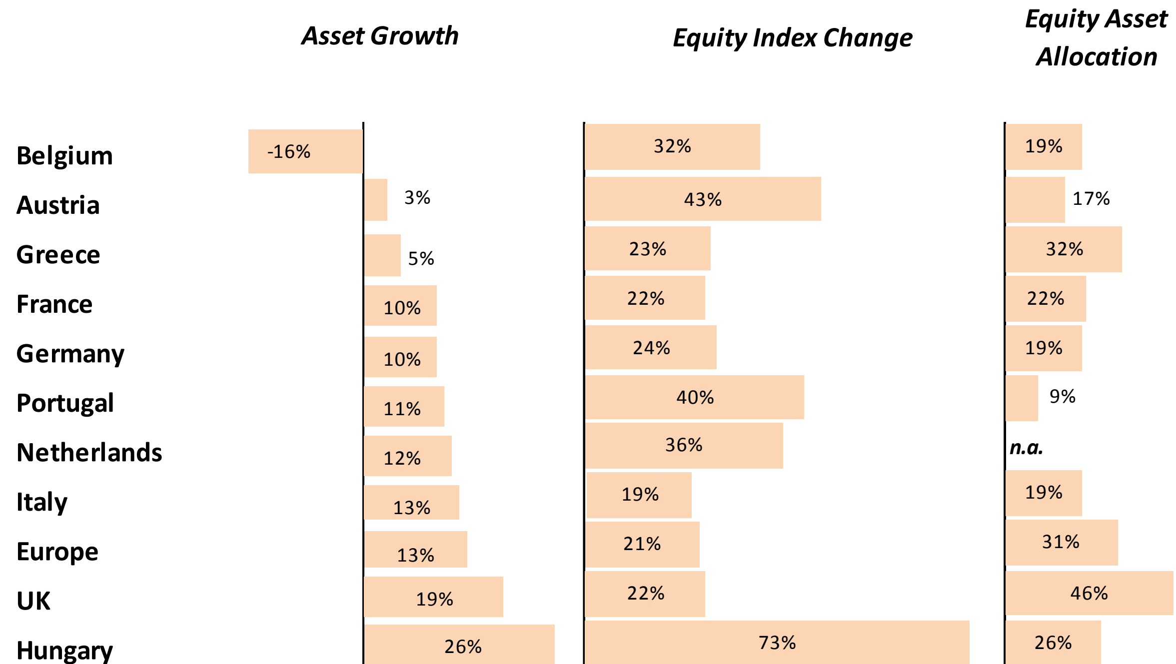
Exhibit 3a **Global AuM and equity indices evolution in 2009**



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

After the significant declines in assets witnessed during 2008 as the financial crisis took hold, 2009 bounced back with strong growth across Europe (see Exhibit 3b). A combination of new investment flows, rising stock prices and exposure to equity markets contributed to this increase in asset growth.

Exhibit 3b **AuM evolution in Europe in 2009**



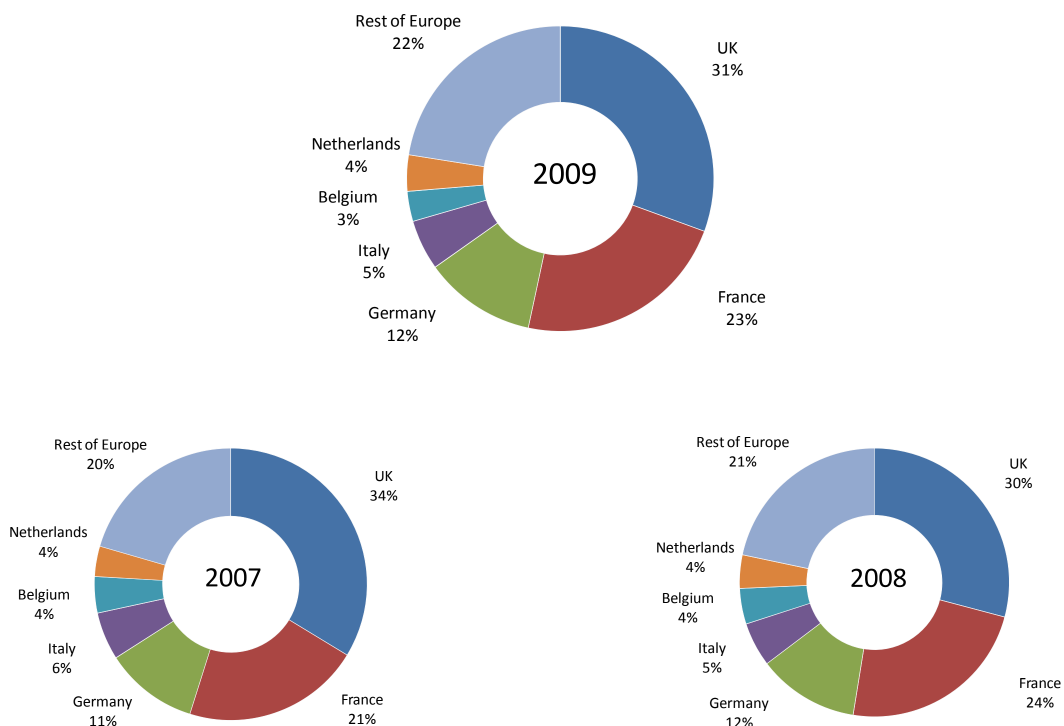
Source: Bloomberg.com; ATX (Austria); Athex (Greece); CAC40 (France); DAX (Germany); PSI General (Portugal); AEX (Netherlands); FTSE MIB (Italy); Eurostoxx 50 PR (Europe); Bel20 (Belgium); FTSE 100 (UK); Budapest Stock Exchange (Hungary)

The UK, which accounts for almost a third of all AuM in Europe, enjoyed asset growth of 19% in euro terms (12% in sterling). This jump in growth is partly due to the UK's large exposure to equity assets, the rebound in the equity markets and the 7% appreciation of the sterling vis-à-vis the

euro. Other major centers of asset management also recorded large rises in assets, such as France and Germany both increasing by 10% during 2009. In Austria, despite recording a large rise in the stock market performance, assets increased by 3%. Austrian investors tend to favour rather conservative investment products and in the course of the global financial crisis, savings deposits were promoted by the banking industry due to their own interest in re-financing their assets. The good performance of the Austrian stock index however, was unfortunately largely missed by retail investors. The decline in AuM in Belgium is predominantly linked to the fact that a few headquarters moved out of Belgium in the trail of the financial crisis. Hungary witnessed a 26% surge in assets in 2009, reflecting a 73% rebound in the Budapest Stock Exchange and large inflows from institutional investors and some inflows at the end of the year from retail investors.

The market share of individual countries in the global pool of professionally managed assets only slightly changed in 2009 (see Exhibit 4). The UK remained the largest asset-management market, with a market share of 31% at end 2009, slightly above its market share at end 2008 (30%). However, it is still lower than the 34% market share it held at end 2007, reflecting the 20% depreciation of the pound sterling compared to the euro between end 2007 and end 2009. France, the second-largest asset management center in Europe, saw its market share drop from 24% to 23% at end 2009, albeit still being higher than the 21% market share recorded in 2007; Germany followed in this ranking with a market share the same as in 2008 (12%), and 11% at end 2007. The importance of the UK, France and Germany in the European asset management industry mirrors their population and GDP, their status as international financial centers, the outsourcing of asset management by institutional investors in favour of asset managers located in these countries.

Exhibit 4 European AuM– Country market shares



In order to gain a better understanding of the relative importance of the industry across Europe, AuM in relation to GDP can serve as a useful estimate. The ratio of total AuM in Europe to GDP represented 97% at end 2009. This average hides the wide spectrum that exists across Europe (see Exhibit 5). The AuM/GDP ratio was well above the European average in three countries: UK (241%), France (148%) and Belgium (116%). These high ratios give an indication of the relative importance taken by asset management activities in these countries. Elsewhere in Europe, the AuM/GDP ratios were considerably lower, including in Germany (61%) and in Italy (43%).

Exhibit 5 European AuM at end 2009 (EUR billion) and AuM/GDP (percent)

Countries	AuM	2009	2008	2007
UK [1]	3,783	241%	209%	241%
France	2,816	148%	131%	152%
Germany	1460	61%	53%	62%
Italy	658	43%	36%	50%
Netherlands	474	83%	73%	87%
Belgium	393	116%	136%	175%
Portugal	82	49%	44%	52%
Austria [2]	82	30%	28%	38%
Hungary	29	31%	22%	26%
Turkey	18	4%	n.a	n.a
Greece	14	6%	6%	12%
Slovenia	2	6%	n.a	n.a
Rest of Europe [3]	2554	79%	59%	77%
TOTAL	12366	97%	81%	102%

(1) AuM/GDP ratio using home currency.
(2) Investment fund assets only.
(3) Includes Bulgaria.

The impact of the financial markets rebound in 2009 can also be measured by the rise in the AuM/GDP ratio for Europe, from 81% at end 2008 to 97% at end 2009. The countries that enjoyed the sharpest increase in their AuM/GDP ratio were the UK, France and the Netherlands. All countries, bar Belgium, have experienced a rise in ratios since end 2008. In Belgium, the moving of activities outside of Belgium has contributed to the decrease in its AuM/GDP ratio. Compared to end 2007, the UK and Hungary have in 2009 either equaled or surpassed the AuM/GDP ratios achieved in 2007. It is also worth noting that only three countries have an AuM/GDP ratio above that of the European average (97%).

Another indicator of the importance of the asset management industry to the overall economy is the employment numbers in asset management companies. The number of people directly employed in asset management companies in the UK, France and Germany alone is estimated to reach some 51,000 at end 2009, compared to 48,100 at end 2008. Given these countries account for 65% of total AuM in Europe, we estimate that the asset management companies directly employ around 80,000 individuals in Europe. The outsourcing of activities in the industry has become a regular occurrence, thus it is necessary to take related services into account, such as accounting, auditing, custodianship, marketing, research, order processing, as well as distribution, which would increase significantly the overall level of direct and indirect employment linked to asset management companies. By way of illustration, the French asset management association

(AFG) has estimated that there are 83,000 people employed in services related to asset management in France, out of which 15,000 people are employed directly by asset management companies.[6]

In estimating total employment generated by the asset management industry in Europe, one also needs to include the jobs in Luxembourg and Ireland, the two leading cross-border centers for fund administration and distribution inside and outside Europe. In Ireland, 8,796 people were employed directly in the investment fund industry at end 2009 with a further 2,000 employed providing a range of value added services. In Luxembourg, 10,500 people were directly employed in the investment fund industry in Luxembourg in 2008, whereas employment in fund accounting and administration, transfer agents, custodians, trustees, client relationship management and related fund services was approximately 7,800.[7]

3.2 Industrial Organization

There were more than 3,100 asset management companies in Europe at the end of 2009[8]. Exhibit 6 below shows the number of firms in each country, however, this is an underestimation of the total number of asset management companies in Europe as the figure reported for some countries refers to the number of companies that are members of the local trade association and not the number of companies that are registered in those countries. Also, in most countries, hedge funds and private equity asset managers are only included in the reported figures if they are members of the local trade association.[9]

Exhibit 6 Number of asset management companies (1)

Countries	No. of firms 2009	No. of firms 2010
Austria *	30	30
Belgium	77	84
Bulgaria	39	34
Czech Republic	23	23
Denmark	14	15
Finland	32	35
France	567	600
Germany	301	304
Greece	43	45
Hungary	34	35
Ireland	358	388
Italy	315	305
Liechtenstein *	26	24

Countries	No. of firms 2009	No. of firms 2010
Luxembourg	358	357
Netherlands	120	130
Norway	26	20
Poland	44	45
Portugal	84	84
Romania	20	20
Slovakia *	13	13
Slovenia	14	13
Spain	120	125
Sweden	81	83
Switzerland	117	113
Turkey	23	28
United Kingdom *	179	186

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

France, Ireland, Luxembourg, Italy and Germany are home for the highest number of asset management companies, each having in excess of 300 companies. It must be highlighted that the figure for some associations relates only to members of the association.[10] The high figure for

France reflects the large number of independent and specialized asset managers, including management companies of private equity funds. The high number of asset management companies operating in Ireland and Luxembourg reflects the fact that these two countries have become the leading locations for the cross-border distribution of UCITS[11], the flagship investment product of the European asset management industry. Presently fund houses are required to have a management company in each country where they have funds domiciled. As most cross-border funds have elected Luxembourg or Ireland as domicile in recent years, the number of management companies rose to high levels in these countries. This does not mean that Luxembourg and Dublin have become asset management centers similar to London, Paris and Frankfurt. As explained below, fund management companies may outsource key functions along the investment fund value chain, including to investment managers, fund administrators, custodians, transfer agents, as well as distribution and marketing functions. In general, management companies will decide a high level of outsourcing of specific functions if their operating model is a "delegation model" instead of an "integration model". In practice, most global asset management groups operating a fund range from Luxembourg or Dublin have chosen the former, with pure investment management functions being delegated to their asset management centers.

With UCITS IV to come into force in July 2011[12], management companies will be permitted to manage funds cross-border, and will not be required to appoint service providers in the domicile of the fund, except the custodian bank. Hence, asset management groups might reconsider their current service provider set-up with a view to determining the optimal structure. Potentially, they could reduce their number of management companies of cross-border UCITS and centralize their asset management, administration and risk management operation.

An estimation of the average amount managed by asset management companies can be calculated using the figures from Exhibits 5 and 6. On average an asset management company managed EUR 3.9 billion of assets at end 2009. Exhibit 7 below shows the average assets under management in each respective country. These figures are an arithmetic mean, which do not take into account the large variations in levels of assets managed by different companies.

Exhibit 7 Average AuM per asset manager at end 2009 (EUR billion)

Countries	Average AuM
UK	21.1
France	5.0
Germany	4.9
Belgium	4.7
Netherlands	4.0
Austria	2.7

Countries	Average AuM
Italy	2.1
Portugal	1.0
Hungary	0.8
Turkey	0.8
Greece	0.3
Slovenia	0.1

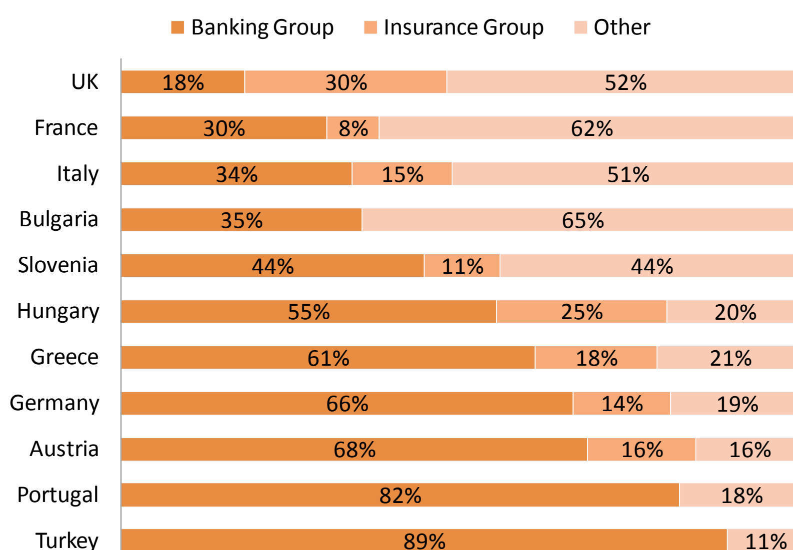
As a large number of large or small asset managers skew the average in one direction or the other, it is more beneficial to know the median, i.e. the value of the assets under management separating the higher half of the asset managers from the lower half. In the UK, the IMA calculated the median assets under management at £6.2 billion (EUR 7 billion), with 8 IMA member firms each managing in excess of £100 billion and 26 firms managing less than £1 billion.[13] In Germany, according to the German Association of Investment and Asset Management Companies (BVI), 3 firms were managing more than EUR 100 billion, whilst 12 firms managed less than EUR 1 billion,

with the BVI estimating the median at EUR 6.4 billion.[14] 6 AFG member firms were managing more than EUR 100 billion in France, with 277 firms managing less than EUR 1 billion at end 2009.

Another dimension of the industrial organization of the European asset management industry is the extent to which asset management firms operate as stand-alone companies, or form part of financial services groups. Such groups may be dominated by a certain type of financial services, or may consist of a mix of asset management firms, banks, and insurance companies, etc. These financial services groups often operate in more than one single country, and may even be pan-European or global. Industrial organization together with a range of different institutional and economic factors influences the nature of the asset management industry across countries.

As an indication of the dominant industrial organization across countries and an overview of the nature and importance of financial services groups, Exhibit 8 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 8 relates to the number of firms, and not their AuM.

Exhibit 8 **Number of asset management companies by parent group categories (end 2009)**



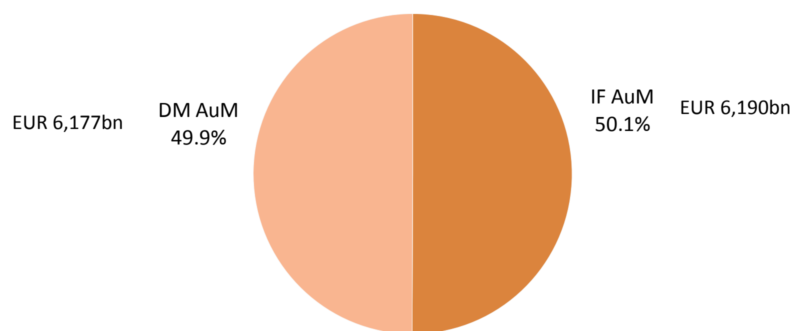
Banking groups represent the dominant parent category of the asset management scope in most European countries, controlling half or more of all asset management companies in Hungary, Greece, Germany, Austria, Portugal and Turkey. The main exceptions to the bank dominated model are the UK and France. In the UK, only 18% of asset managers are owned by banking groups, with insurance groups controlling 30%. In France, banks control less than a third of asset managers as the majority of firms consist primarily of independent asset managers. However, the vast majority of firms represent independent asset managers and asset managers controlled by investment banks and pension funds.

The remainder of this report seeks to outline general patterns of European asset management and explain differences between the asset management industries across countries in terms of products offered and their management (Section 4), clients served (Section 5) and differences in asset allocation (Section 6).

4 AuM in Investment Funds and Discretionary Mandates

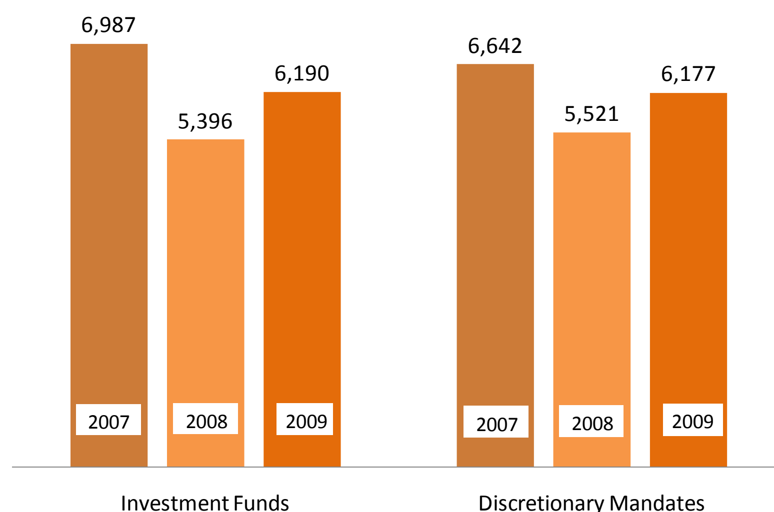
This section of the report provides a general overview of the evolution of assets managed through investment funds and discretionary mandates. At end 2009 investment funds represented EUR 6,190 billion or 50.1% of AuM, whereas discretionary mandates accounted for the remaining EUR 6,177 billion (see Exhibit 9). The breakdown between investment fund assets and discretionary mandates remained steady in 2009, as compared with 2008. However, the share of investment fund assets in total AuM moved from being slightly lower at end 2008 when its share stood at 49.5%, to stand at 50.1% at end 2009.

Exhibit 9 Investment funds vs discretionary mandates (end 2009)



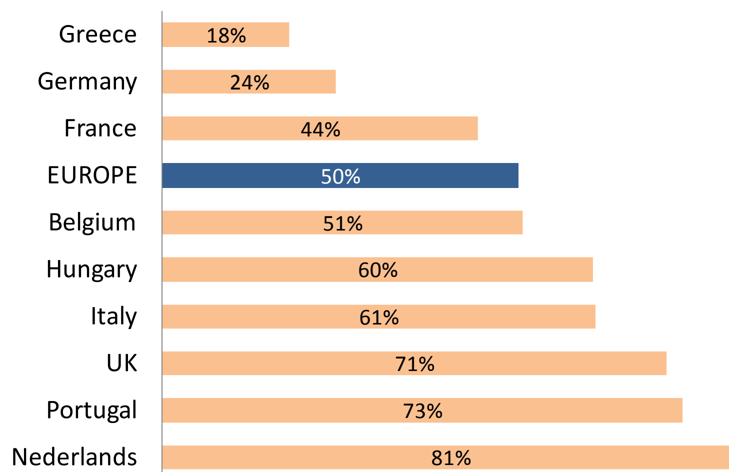
Investment fund assets increased 15% during 2009, whilst discretionary mandate assets rose 12%. Overall, despite these large increases, investment funds and discretionary mandates had not yet reached at end 2009 the highs seen in 2007 (see Exhibit 10).

Exhibit 10 Investment funds vs discretionary mandates AuM (EUR billion)



Regarding the split between investment funds and mandates observed at national level, quite a number of countries cluster around the European average. However, one may contrast between the two extremes of the spectrum; whereas in the UK, Portugal and the Netherlands discretionary mandates represented more than 70% of total AuM at end 2009, the corresponding figures for Greece and Germany were 18% and 24%, respectively (see Exhibit 11).

Exhibit 11 Discretionary mandates share in total AuM in 2009



This shows that there are important differences in terms of the dominant product solutions offered in different European countries. For instance, the vast dominance of discretionary mandates over investment funds in the Netherlands reflects the important role played by defined-benefit pension scheme in the Dutch occupational pension system. The key factor behind such a large proportion of discretionary mandates in Portugal is that a lot of business groups operate an asset management company, which performs the asset management of the group generally in the way of discretionary mandates.

While considering these figures, 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 73% for Germany.[15] 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.

4.1 Investment Funds

The market for European investment funds is highly internationalized. In essence, it is organized around domestic markets, served predominantly by domestic players, and cross-border activities, where funds can be domiciled in one country, managed in a second and sold in a third, either within Europe or overseas. The statistics reported in this report on investment funds refer to UCITS and non-UCITS.

UCITS are products offered in accordance with the UCITS Directive, and thereby regulated in terms of supervision, asset allocation and separation of management and safekeeping of assets to ensure the highest level of investor protection. The UCITS label has become a globally recognized brand and the ideal vehicle for promoters wishing to distribute their funds throughout the European Union and elsewhere in the world. The coming into force of the major enhancements that UCITS IV will bring to the UCITS regime will further strengthen the UCITS competitiveness and its attractiveness in the worldwide long-term savings market.

Non-UCITS, on the other hand, represent collective investment vehicles regulated in accordance with specific national laws, such as real estate funds and special funds dedicated to institutional investors; only regulated hedge funds are reported in our statistics. Non-UCITS have no European "passport" for sale in other EU Member States (even when they are submitted to similar rules as UCITS), and thus are rarely distributed to retail investors across borders.

The top three investment fund domiciles in terms of assets are: Luxembourg, France and Germany, followed by Ireland, the UK, Italy and Spain. This ranking has remained consistent throughout the financial crisis (2007-2009), however the market share of Luxembourg, France, Germany and Ireland has slightly increased since 2007, from 68.5% to 71.3% in 2009.

Among the top 5 domiciles, the UK enjoyed a significant market share rise from 7.3% at end 2008 to 9.0% at end 2009; this was thanks to the relatively high equity exposure of UK domiciled funds, a strong turnaround in net sales and the stock market upturn during 2009. Luxembourg also saw an increase in its market share from 25.6% to 26.1%. In contrast to the UK and Luxembourg, the market share of France and Germany decreased during 2009, whilst Ireland saw its market share remain steady at 10.6%. The strong market shares of France, Germany and the UK reflect the size of the domestic savings market in these countries. By contrast, the position held by Luxembourg and Ireland is attributable to the importance of these countries in the distribution and administration of cross-border UCITS in Europe and other parts of the world.

Comparing exhibits 12 and 13 it can be seen that the value of investment fund assets managed in Europe is smaller than the fund assets domiciled in Europe. The difference reflects two factors: first, the fact that the investment fund assets shown in Exhibit 12 include funds of funds, and second, the outsourcing of some investment funds asset management outside Europe. The outsourcing can be related to the success of UCITS as a global brand, which has led non-European asset managers to domicile their cross-border funds in Europe, with the asset management taking place, in whole or in part, in other parts of the world. The decision to locate asset management overseas may be triggered by the location of the firm's headquarter, the client domicile or the

region of the asset: for example, a firm might manage its European equities out of Europe but run its US equities out of North America or its Asian equities out of Tokyo, Singapore or Hong-Kong.

Exhibit 12 Investment fund assets by country of domicile at end 2009 (EUR billion and percent) [(1)]

Countries	Assets	Mkt Share	AuM/GDP
Luxembourg	1,841	26.1%	4839.0%
France	1,421	20.1%	74.5%
Germany	1,020	14.4%	42.5%
Ireland	749	10.6%	468.9%
UK	638	9.0%	40.8%
Italy	258	3.7%	17.0%
Spain	195	2.8%	18.5%
Switzerland	158	2.2%	44.7%
Austria	139	2.0%	50.5%
Sweden	126	1.8%	43.5%
Denmark	110	1.6%	49.3%
Belgium	97	1.4%	28.6%
Netherlands	79	1.1%	13.8%
Finland	54	0.8%	31.7%
Norway	50	0.7%	18.3%
Portugal	28	0.4%	16.9%
Liechtenstein	25	0.3%	614.8%
Poland	23	0.3%	7.3%
Turkey	16	0.2%	3.7%
Hungary	11	0.2%	11.9%
Greece	10	0.1%	4.4%
Cz. Republic	4	0.1%	3.2%
Slovakia	3	0.0%	5.4%
Romania	3	0.0%	2.2%
Slovenia	2	0.0%	6.2%
Bulgaria	0.2	0.0%	0.6%
TOTAL	7,061	100.0%	55.3%

(1) Source: EFAMA Fact Book 2010

When comparing the European countries' market shares in terms of investment fund domiciliation with their market shares in terms of investment fund asset management, significant differences are observable. Whereas investment funds domiciled in the UK, France and Germany account for 44% of the European investment fund market, asset managers in these countries manage 61% of investment fund assets in Europe. The difference between market shares in domiciliation and management of fund assets demonstrates further the degree of specialization of certain European countries which have become important exporters of investment management. Additional light on this can be shed by relating AuM of particular countries to their GDP. It is striking that in France and the UK, AuM in relation to GDP surpasses the European average considerably. Taken together, these figures indicate the importance of the asset management industry in general in these countries as well as the ability of their asset managers in attracting assets domiciled abroad. The relatively high ratio of AuM to GDP for the rest of Europe is largely attributable to other countries with large fund management industries in relation to their population, such as Switzerland and the Nordic countries.

Exhibit 13 **Investment fund assets by geographical breakdown of AuM at end 2009 (EUR billion)**

Countries	AuM	AuM % change [1]	Mkt Share	AuM / GDP
France	1,568	12.5%	25.3%	82%
UK	1,108	21.5%	17.9%	71%
Germany	1,104	11.0%	17.8%	46%
Italy	258	12.6%	4.2%	17%
Belgium	194	0.9%	3.1%	57%
Austria	82	3.1%	1.3%	30%
Netherlands	79	17.1%	1.3%	14%
Portugal	22	18.3%	0.4%	13%
Turkey	17	n.a.	0.3%	4%
Hungary	11	17.7%	0.2%	12%
Greece	11	3.4%	0.2%	5%
Slovenia	2	n.a.	0.0%	6%
Rest of Europe	1,732	22.2%	28.0%	54%
TOTAL	6,190	16.2%	100.0%	48%

(1) End 2009 AuM compared to end 2008 AuM.

In order to portray a more comprehensive picture of the extent to which countries manage investment fund assets domiciled abroad, Exhibit 14 illustrates the relative degree to which AuM in a particular European country is originating from funds domiciled abroad.

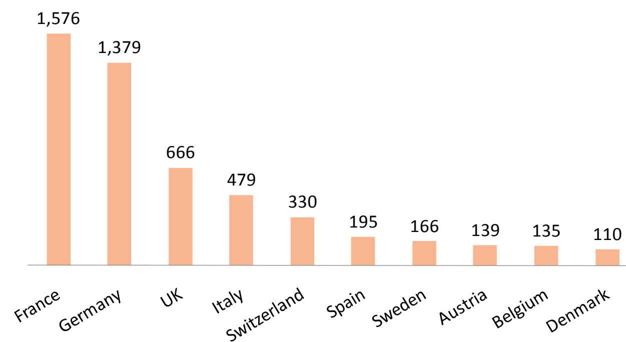
Exhibit 14 **Share of foreign domiciled investment funds in total investment fund AuM (end 2009)**

Exhibit 14 shows that a significant share of the investment fund assets managed in the UK, Belgium and Germany relates to foreign domiciled funds. By contrast, roughly 87% of investment fund assets in Italy, France, Portugal and Austria are both domiciled and managed in these countries, whilst this figure rises to 94% and 98% in Turkey and Hungary. Thus, Exhibit 14 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.

Finally, it is worth keeping in mind that the data on investment fund domiciliation (Exhibit 12) and asset management (Exhibit 13) cannot be used as such to measure the size of the investment fund market in each country. To get an estimate of the demand for investment funds at national level, it is necessary to take into account the funds domiciled abroad and promoted by national providers in their own country ("round-trip" funds), the foreign domiciled funds promoted by

foreign providers in each country and the home-domiciled funds sold abroad by national promoters. Adding up estimates for round-trip and home-domiciled fund assets allows getting a good idea of the relative size of national fund markets (see Exhibit 15). It can be seen that France, Germany, the UK, Italy and Switzerland were the top five domestic markets for investment funds at end 2009.

Exhibit 15 Investment fund assets by country of sales at end 2009 (EUR billion) (1)



(1) Source: EFAMA Fact Book 2010

4.2 Discretionary Mandates

The two largest countries in terms of discretionary mandate assets (the UK and France) managed over two-thirds of total European discretionary mandates (see Exhibit 16).

Exhibit 16 Discretionary mandates AuM at end 2009 (EUR billion and percent)

Countries	AuM	AuM % change (1)	Mkt Share	AuM/ GDP
UK	2,675	17.9%	43.2%	171%
France	1,248	7.6%	20.2%	65%
Italy	400	20.4%	6.5%	26%
Netherlands	395	10.5%	6.4%	69%
Germany	356	7.4%	5.8%	15%
Belgium (1)	199	-27.9%	3.2%	59%
Portugal	60	9.2%	1.0%	36%
Hungary	17	31.5%	0.3%	19%
Greece	2	-18.3%	0.0%	1%
Turkey	1	n.a.	0.0%	0%
Rest of Europe	823	15.7%	13.3%	25%
TOTAL	6,177	13.8%	100.0%	48%

(1) End 2009 AuM compared to end 2008 AuM
(2) Figure for Belgium includes unit linked insurance products and pension funds

The Netherlands, Italy and Germany follow the line with a market share of between almost 6% and 7%. The significant market share of the UK (44%) can be related to the status of London as an international financial center, the very large base of pension fund assets managed there for both UK and overseas pension funds and the treatment of some pooled vehicles as discretionary mandates rather than investment funds. In France, the market share of 21% reflects the size of the French insurance industry and the delegation of asset management by institutional investors to asset managers.

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

Finally, it should be remembered that discretionary mandates are often investing in investment funds, thereby taking advantage of the benefits they offer in terms of diversification and cost efficiency (see Exhibit 17).[16] In Hungary, the share of discretionary mandate assets invested in investment funds amounted to 26%. France and Italy both have 15% of discretionary mandate assets invested in investment funds.

Exhibit 17 Share of DM assets invested in IF and in IF managed by other companies

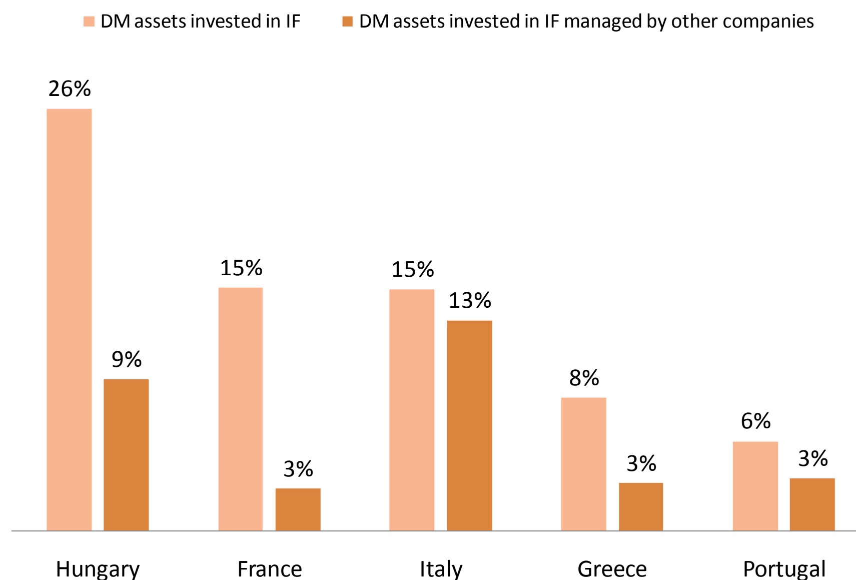


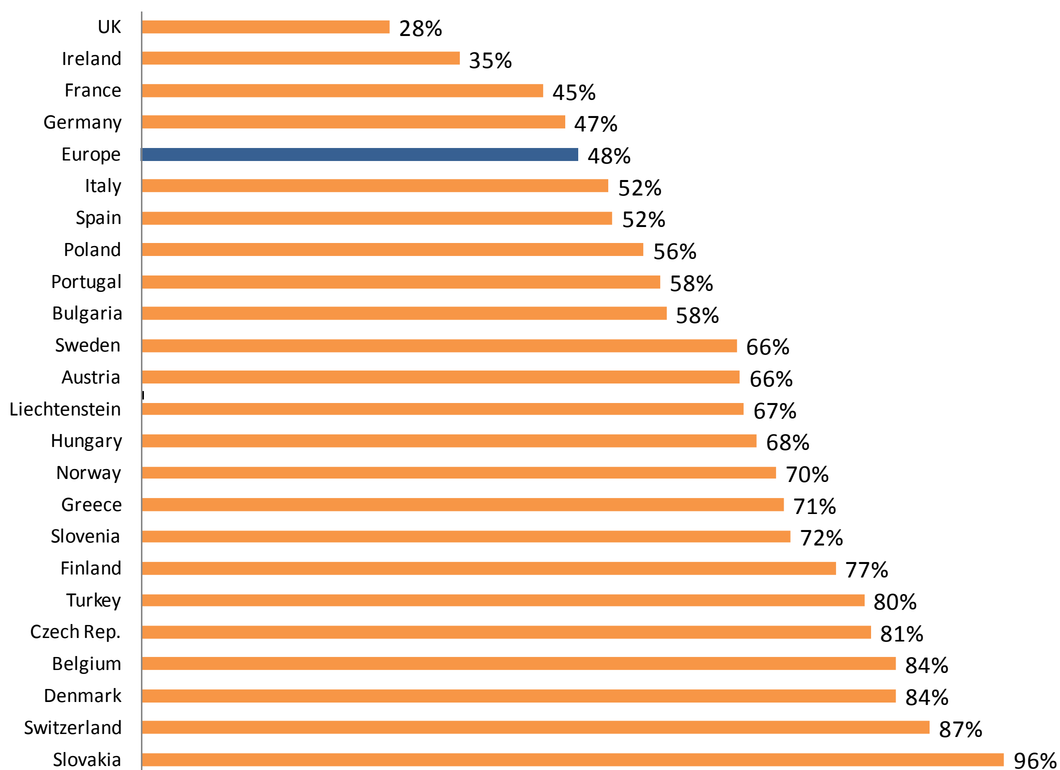
Exhibit 17 above identifies the extent to which discretionary mandates are invested in investment funds managed by the asset managers themselves or by other asset managers. By way of illustration, in Italy 13% of discretionary mandates were invested in investment funds managed by other asset managers, compared to only 3% in France.

4.3 Concentration of the Investment Fund Industry

The European investment fund industry is dominated by large players across countries. As one of the main aims of European economic integration is the achievement of the single market, it is useful to look at the concentration of the top five asset managers in each country, as an indicator of the level of financial integration in the asset management industry in Europe. Exhibit 18 shows the degree of concentration of home domiciled funds of the top five asset managers in each country.

The top five asset managers in each of the largest domiciles for investment funds in Europe (France, Germany, Ireland and the UK) control less than half the total market[17]. This shows an element of how diversified, competitive and advanced these markets are. On the other side of the spectrum, in Slovakia the top five asset managers managed 96% of investment funds domiciled in Slovakia at end 2009. The investment fund market in 14 countries in Europe was dominated by the top five players controlling two thirds or more of the domestic market.

Exhibit 18 Market share of the top 5 asset managers of home domiciled funds (end 2009)

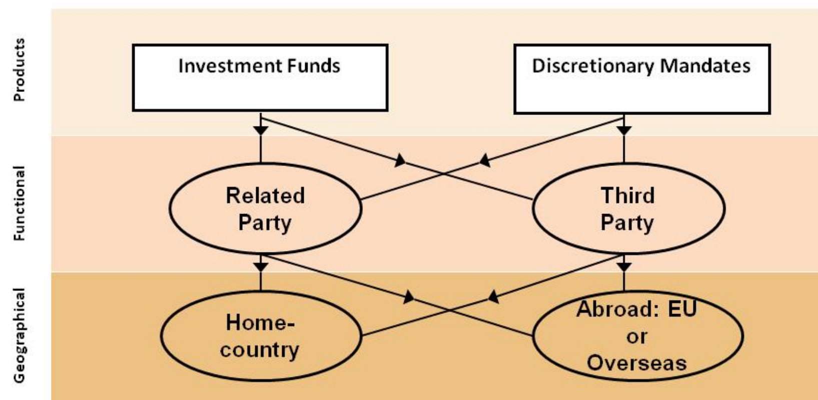


Source: EFAMA Fact Book 2010

4.4 Outsourcing and Asset Management by Delegation

Asset managers may outsource various functions to other asset managers to various degrees, including the day-to-day management of assets. Apart from allocation of discretionary mandates in investment funds discussed in the previous section, discretionary mandates may also be delegated to other asset managers. Given the high level of European integration in the asset management industry, such outsourcing often occurs on a cross-border basis, either to other European countries or overseas. Moreover, in certain countries, asset managers frequently outsource management to other entities belonging to the same financial services groups as themselves, while in others, outsourcing to third-party service providers is more common (see Exhibit 19). For instance, in France, outsourcing largely occurs within financial service groups, whereas outsourcing in Germany is used as a way to delegate the management of investment fund assets to third-party asset managers.

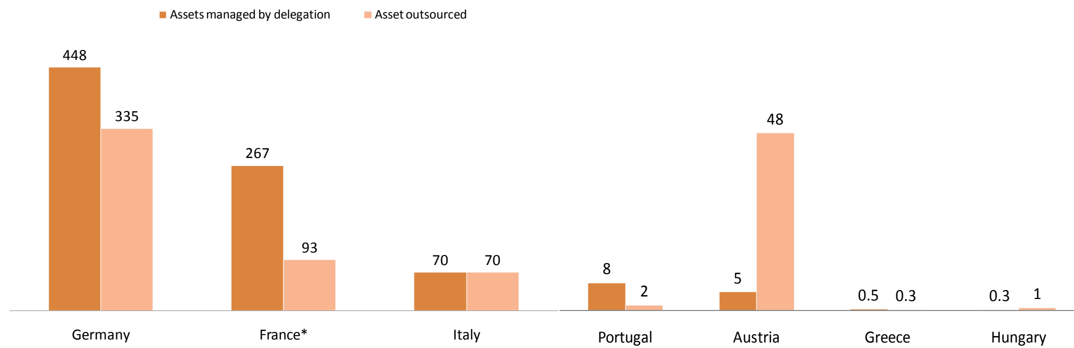
Exhibit 19 Dimensions of outsourcing in the asset management industry



It is important to remark that the outsourced assets shown in this section are excluded from the total AuM reported on the country level. Insofar the assets are outsourced to other European asset managers, they will be reflected in the total AuM for these countries. In case non-European asset managers receive such mandates, the outsourced assets are excluded from both AuM by country and the European aggregate.

In the seven countries for which data on outsourcing is available, the total amount of outsourced assets amounted to EUR 558 billion at end 2009 (see Exhibit 20). It is noteworthy that Germany, France and Italy together accounted for more than 90% of outsourced assets covered by the data. Exhibit 20 also shows that in all countries except Austria and Hungary, the amount of assets managed by delegation surpasses the amount of assets outsourced.[18] This implies that asset managers in these countries receive mandates from investment funds and discretionary mandates domiciled abroad, once again pointing to the high degree of European integration in the asset management industry.

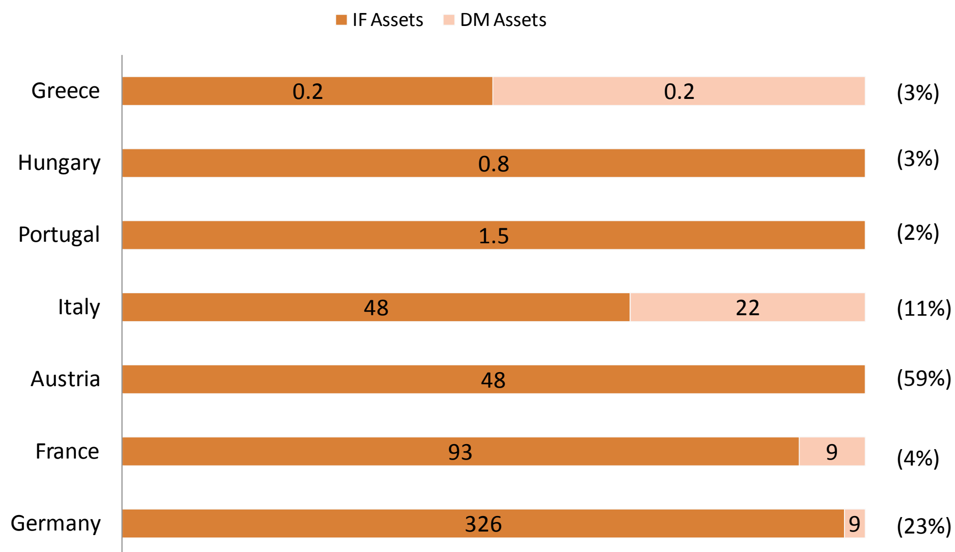
Exhibit 20 Assets outsourced in 2009 (EUR billion)



(*) Investment funds only.

As shown in Exhibit 21 below, outsourcing is primarily confined to the investment fund segment in France and Germany. However, outsourcing of discretionary mandates plays an important role in Italy and Greece, whereas in Hungary outsourcing of discretionary mandate assets is practically non-existent.[19]

Exhibit 21 Assets outsourced in 2009: breakdown by product (EUR billion) (1)



(1) Figure in brackets represents percentage of outsourced assets against total assets

Exhibits 22 and 23 below show the degree to which assets are outsourced to asset managers in the same country or abroad. Exhibit 22 focuses on the outsourcing of investment funds. We can see that in Hungary 100% of investment fund assets that are outsourced, are outsourced abroad, whereas at the other end of the spectrum, only 28% of outsourced investment fund assets in Austria are outsourced outside of Austria. In France, 39% of all outsourced investment fund assets are managed abroad, compared to 69% in Germany. In the discretionary mandates segment, Exhibit 23 shows the degree of outsourcing to abroad-based asset managers is 100% in Portugal, 89% in France and 80% in Greece. In Germany 55% of discretionary mandate assets that are outsourced, or EUR 4.5 billion) are outsourced abroad. This high degree of cross-border

outsourcing is probably stemming from a particular aptitude for European integration in the industry and the existence of financial services groups operating on a cross-country basis.

Exhibit 22 Share of investment fund assets outsourced at home and abroad at end 2009

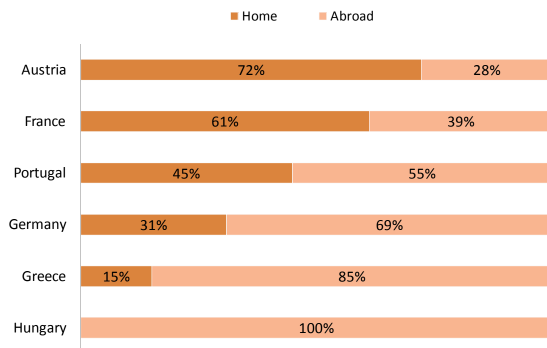
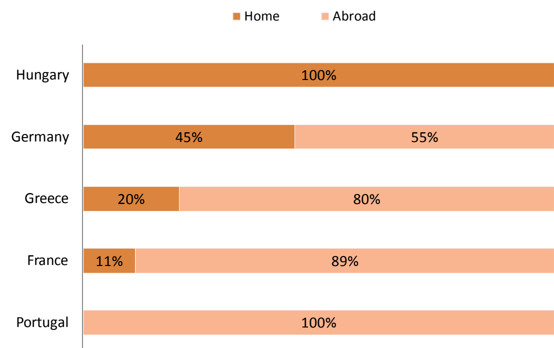


Exhibit 23 Share of discretionary mandate assets outsourced at home and abroad at end 2009

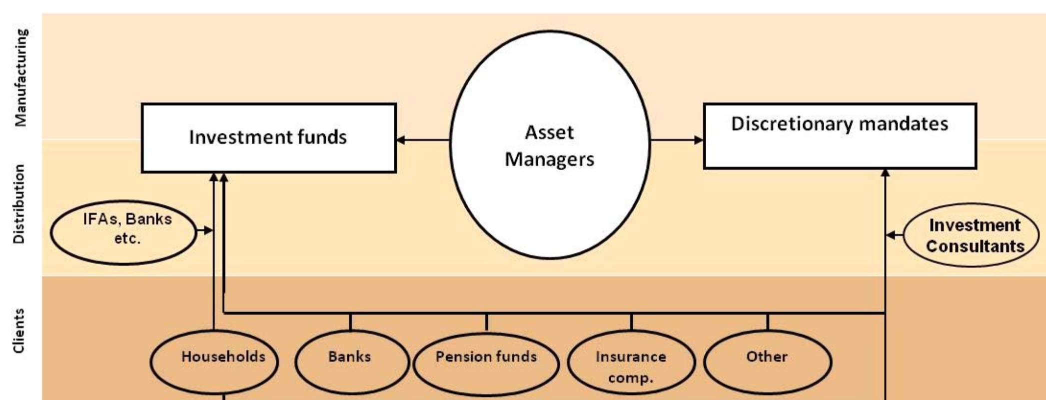


5 Clients of the European Asset Management Industry

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

Exhibit 24 below illustrates the principal clients and product solutions of the asset management industry as well as the important role played by distribution channels. In this regard, fund managers are often dependent on the quality and independence of advice given to the end investor at the point of sales by distributors. It is also important to note that many of the institutional clients of the industry provide intermediary services for households. For example, apart from direct investment by households in asset management products, households also account for a significant share of the institutional client segments through their ownership of unit-linked products offered by insurance companies, or defined contribution schemes offered by pension funds and others. Moreover, retail investors increasingly access investment funds through platforms, funds of funds and similar approaches that are considered as institutional business. This is an important reason why institutional investors represent the largest client category of the European asset management industry.

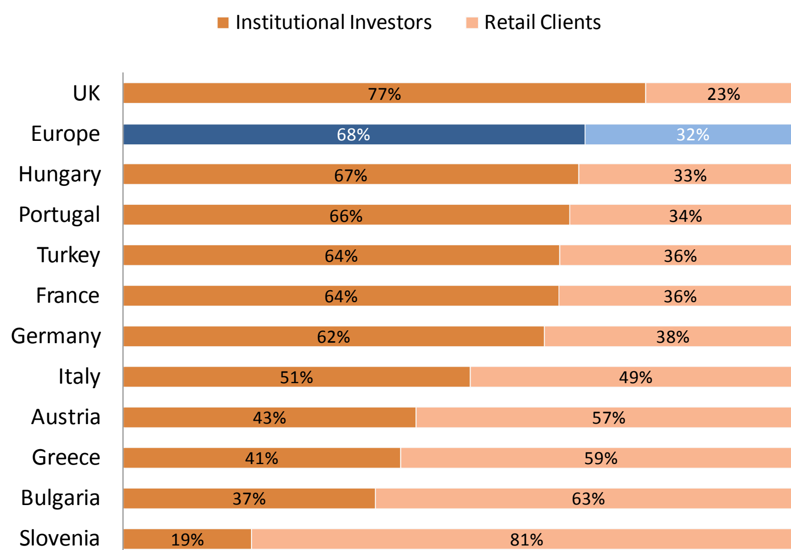
Exhibit 24 Main clients and distribution of asset manager services



5.1 Institutional and Retail Clients

On aggregate, institutional investors accounted for two-thirds of total European AuM in 2009, with retail clients accounting for the other third. Institutional investors often act as financial intermediaries and channel the investments of retail clients to asset managers. There are significant variations in the importance of institutional investors across countries. In the UK, Hungary, Portugal, Turkey, France and Germany institutional clients account for over 60% of all clients (see Exhibit 25). This reflects the ability of these countries to attract large institutional mandates from pension funds (in Hungary and the UK), insurance companies (in Portugal, Germany and France).

Exhibit 25 AuM by client type at end 2009



Turning to the importance of institutional and retail client types across investment funds and discretionary mandates, Exhibit 26 demonstrates that institutional investors dominate the discretionary mandate segment of the market in all European countries. In Hungary, Germany and France they account for more than 90% of discretionary mandate assets. In Italy, Portugal and Belgium, institutional investors make up for more than two thirds of the assets managed in discretionary accounts. Such specialization can be attributable to two factors. First, mandates are typically associated with minimum assets under management thresholds, making them less attractive investment vehicles for retail investors. Second, mandates can offer specific investment solutions to the investor' particular needs, such as asset-liability management, liability driven investments and separation of alpha and beta. In general, asset managers can only deliver such customized solutions and services to clients with a relatively high level of investable assets, i.e. institutional investors and high-net-worth individuals.

The distribution between institutional and retail clients' shares of AuM in investment funds displays a more heterogeneous picture across the European landscape (see Exhibit 27). In Greece, Hungary and Italy, funds appear predominantly targeted at retail clients. In France, Germany and also to a lesser extent in Austria and Belgium, institutional investors account for a significant share of ownership of investment funds. In France the large degree of institutional clients is partly due to

the popularity of unit-linked and other wrapper products investing their assets in UCITS, as well as the important role played by money market funds in cash management of many French corporations. In Germany, special investment funds (Spezialfonds) are very popular investment vehicles dedicated exclusively to institutional investors, i.e. insurance companies, pension funds and municipal agencies.

Exhibit 26 **Discretionary mandate assets managed for institutional investors**

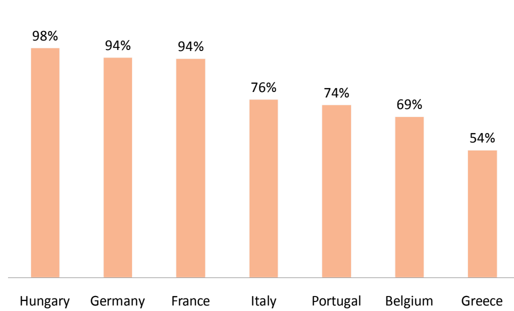
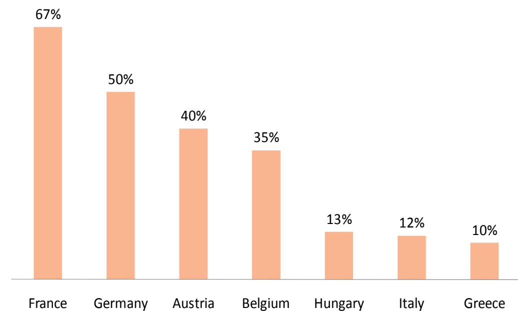
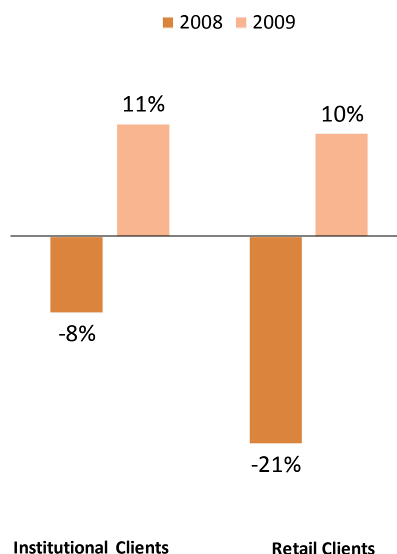


Exhibit 27 **Investment fund assets managed for institutional investors**



Turning to the evolution of AuM by client type, Exhibit 28 shows that AuM for retail clients increased by 10% in 2009 after falling 21% in 2008, whereas AuM for institutional clients increased by 11% in 2009, after falling 8% in 2008 when excluding the exchange rate affect.

Exhibit 28 **AuM growth [(1)] [(2)]**



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

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

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

The smaller rebound in retail clients' assets in 2009 reflected an increase in retail investors' risk aversion following the 2008 stock market crash, as well as strong competition from savings deposits offered by banks in need of improving their balance sheets.

5.2 Assets Managed for Institutional Investors

Turning the focus to the different kinds of institutional clients represented in Section 4.1, insurance companies and pension funds accounted for 70% of total AuM for institutional clients in Europe at end 2009, slightly lower than the 72% seen at end 2008 and at end 2007 (see Exhibit 29). Insurance companies held the top position with 45% of the AuM at end 2009, up from 42% in 2007 and equaling 45% in 2008. Pension funds held 25% of total AuM for institutional investors. This is considerably less when compared to 2007, when pension funds held 30% of total AuM for institutional investors. This outcome reflected the higher equity exposure of pension funds at the beginning of the crisis and the subsequent shift of assets out of pension schemes and into safer asset classes during the crisis.

Other institutional investors represent a diverse range of clients. The aggregate share of this type of investors amounted to 27%, up from the 24% seen in 2007 and 2008. This increase can be attributed to three factors: firstly, an increase in holdings of money market funds by corporations in France in 2009; secondly, the positive impact of a number of legislative and technical factors on the demand for Spezialfonds in Germany; and thirdly, the growing importance of newer areas of business in the UK such as sub-advisory whereby the fund advisors, the company or companies that have primary responsibility for managing a fund, will hire another company, called the sub-advisor, to handle the fund's day-to-day management.

Exhibit 29 Breakdown of AuM for institutional investors

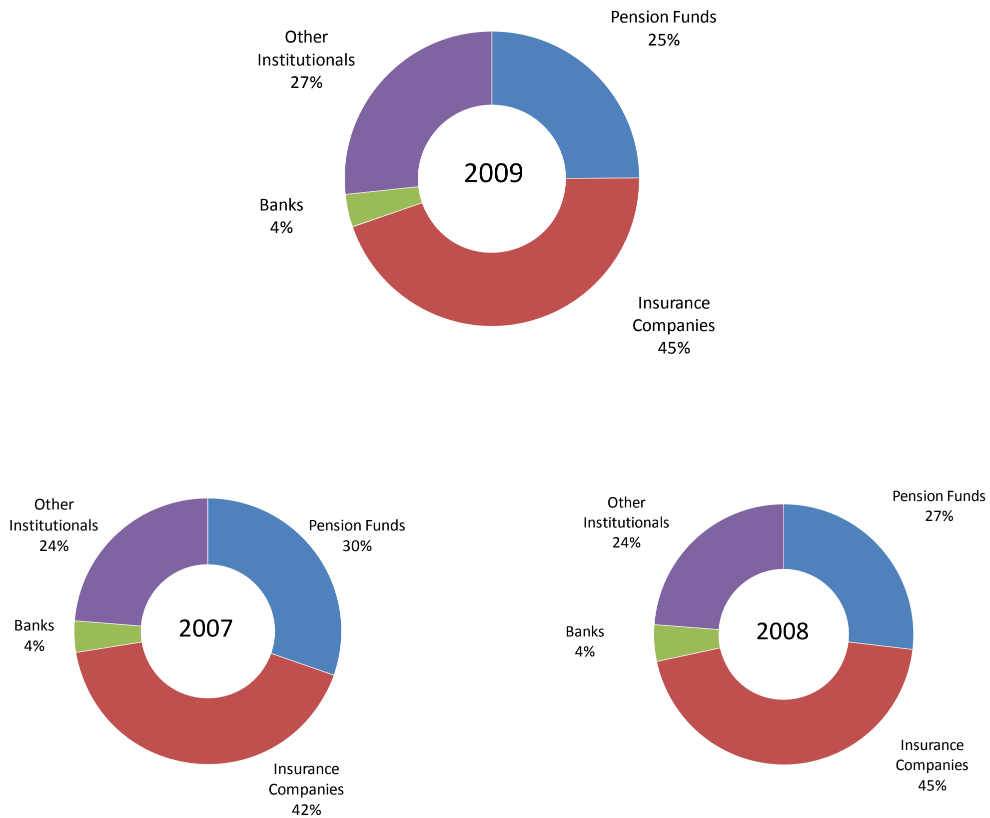
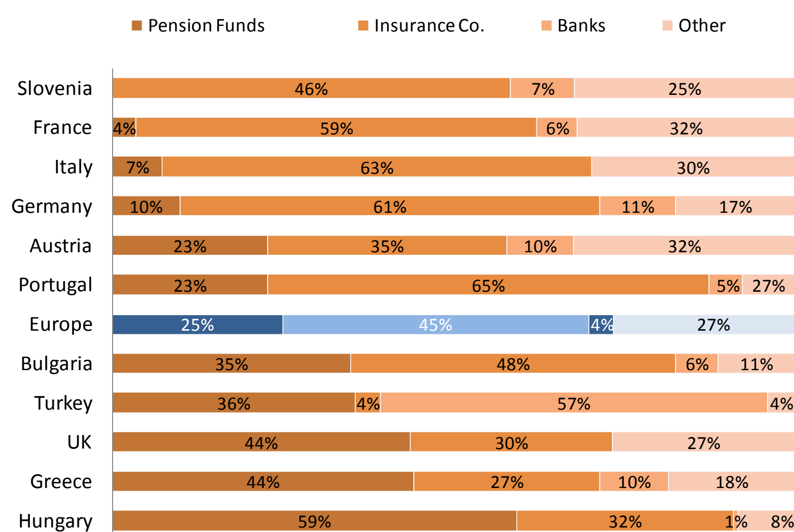


Exhibit 30 below illustrates the breakdown of the institutional client category into insurance companies, pension funds, banks and others on a country basis. It can be seen that the relative importance of each type of institutional client varies much across countries, reflecting differences in the importance of insurance products in long-term savings, the structure of national pension systems and the role of banks in the distribution retail investment products. Another influential factor is the degree to which asset managers in a particular country attracts capital from certain categories of foreign investors.

Exhibit 30 **Breakdown of AuM for institutional investors at end 2009**



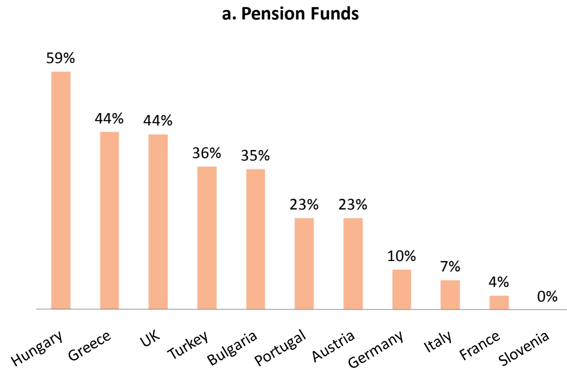
The importance of pension fund assets varies across countries (see Exhibit 31a). Whereas they account for less than 10% of total institutional AuM in Slovenia, France and Italy, they represent the largest type of institutional mandates in the UK, Greece and Hungary. These differences are largely determined by the nature of the pension system. In countries with a tradition of relying on funded pensions, pension fund assets have accumulated over time to form a substantial source of institutional money. By way of illustration, pension fund assets as a share of GDP totaled 64% in the UK in 2008, compared to 1% in France, 3% in Italy and 5% in Germany.[21]

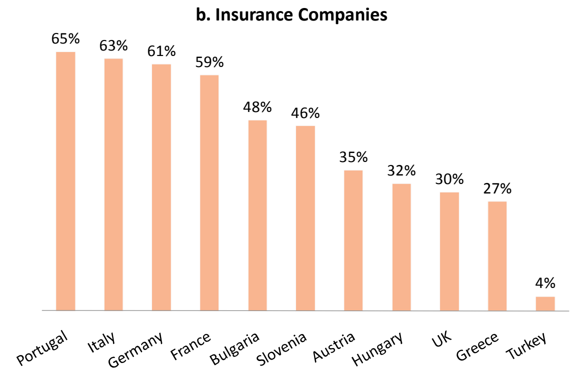
Contrary to the situation for pension funds, insurance companies represent a large source of institutional AuM in all countries. Insurance companies accounted for around one third of institutional clients in Hungary, the UK, Greece and Austria and amounted to more than half of institutional clients in Portugal, Italy, Germany and France (see Exhibit 31b). This reflects the sheer volume of assets controlled by insurance companies and managed by asset managers.

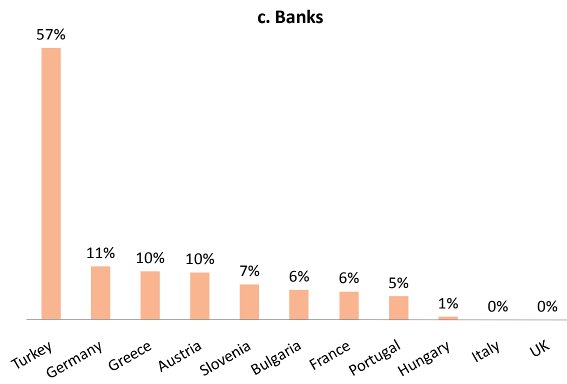
In most countries, banks represent a relatively modest part of the total institutional AuM, except in Greece, Austria and Germany where the share of banks represented about 10% at end 2009 (see Exhibit 31c).

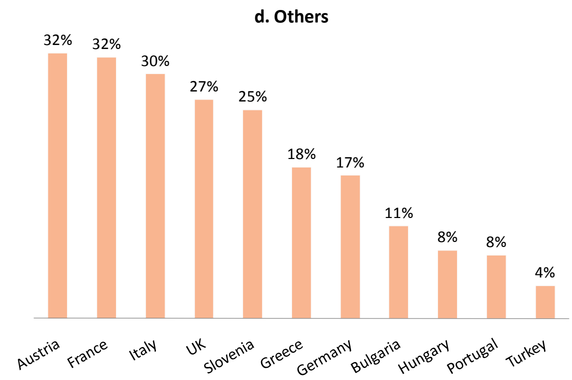
Finally, it can be seen that the share of other institutional clients is rather significant in a number of countries (see Exhibit 31d). This is attributable to a number of different factors. In Austria, other clients account for 32% all institutional clients, consisting primarily of large corporations or foundations. In France, the relatively high share of other institutional investors reflects partly the role played by money market funds in the cash management of French corporate treasurers, as well as the importance taken by multi asset management. In the UK, 'in-house insurance' and local authorities account for a significant proportion of other institutional investors.

Exhibit 31a-d AuM for institutional investors
Breakdown by investor type and country





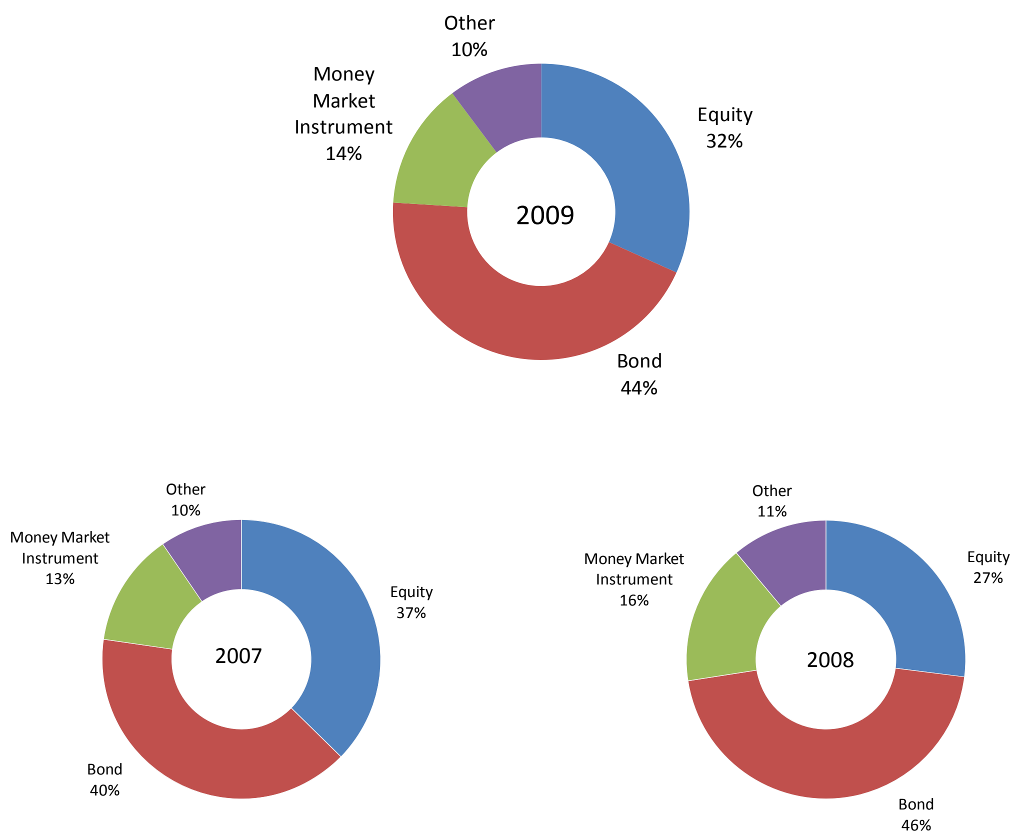




6 Asset Allocation

Depending on the type of clients, and their respective preferences in terms of risk level, time horizon and outcome target, the asset management industry provides a vast spectrum of solutions to meet the expectations of its diverse range of clients. As different client preferences necessitate different investment strategies, and since dominant client types vary across Europe, there are certain patterns in the way asset managers choose to allocate their AuM across asset classes. Bond and equity assets remained the preferred assets of investment managers retaining 76% of all assets. Bonds continued to perform strongly in the asset mix amounting to 44% of all assets at end 2009. This is above the 40% held at end of 2007, but slightly lower than the 46% seen in 2008. Equity assets also consist of a large proportion in the asset allocation, accounting for 32% of total assets at end 2009. This is a big increase on the 27% level of 2008; however, it is still considerably lower than the 37% recorded in 2007. Money market instruments hold the third largest proportion of assets with a 14% asset share at end 2009. This is less than the 16% recorded in 2008 and is 1% higher than the 2007 level. Overall, it is clear that the asset allocation mix had altered in 2008 in the midst of the financial crisis on the back of severe falls in stock markets around the globe and investors changing risk appetite. In 2009, thanks to the stock market recovery, the share of equity rose 5 percentage points to 32% at the expense of bonds. There was still some way to go at the end of 2009 to reach the asset mix seen in 2007.

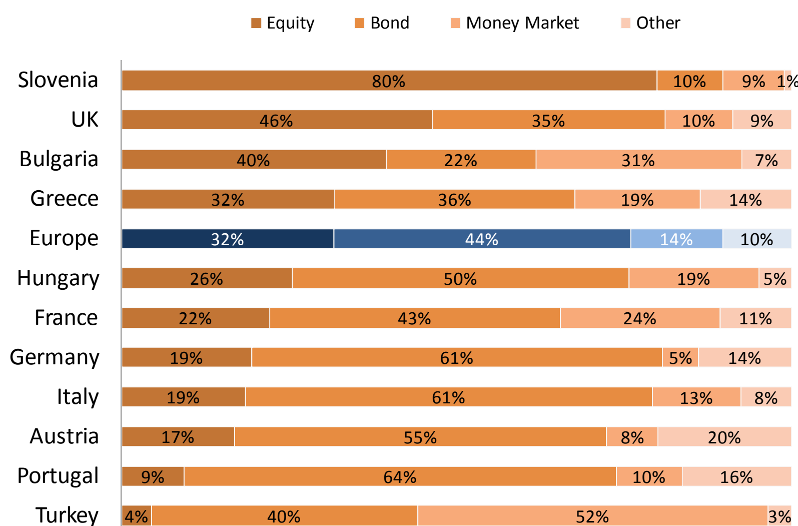
Exhibit 32 Asset allocation



6.1 Asset Allocation by Country

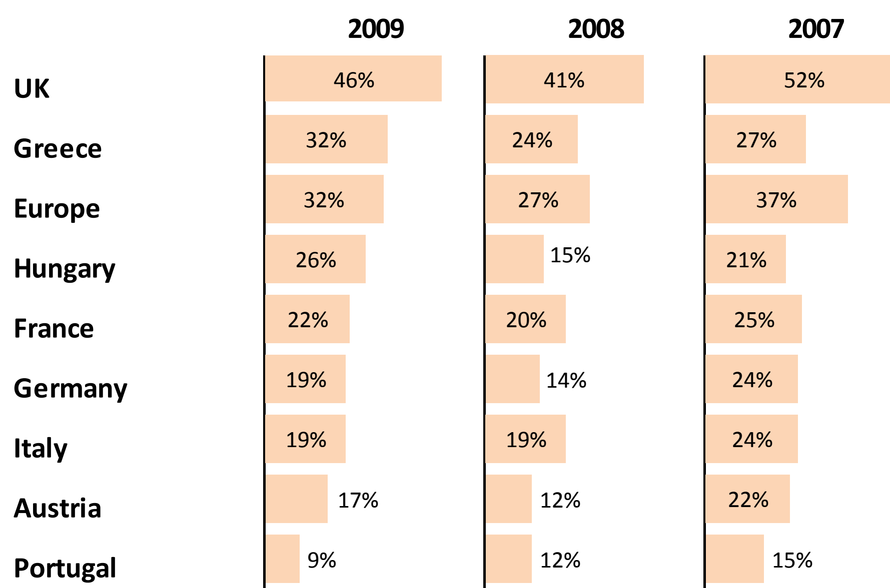
Exhibit 33 displays the differences between countries in terms of how asset managers allocate investments on behalf of their clients across different asset classes. It is important to bear in mind that given the large degree of cross-border delegation of asset management, the national differences in asset allocation is not completely attributable to differences in terms of the preferences of home-domiciled clients. It also reflects the preferences of overseas investors. With respect to the UK, the 46% share of equity also reflects a strong equity bias, which stands in contrast to the traditional Continental Europe approach (see Exhibit 34 and 35). France held 22% of all assets in equity shares at end 2009, compared to 19% in Germany and Italy. By way of illustration, UK pension funds held 51% of their assets in equity at end 2009, and equity accounted for 63% of total investment funds under management in the UK. Excluding the UK, the European average share of equity would merely amount to 21%, whereas the share of bonds would rise to 51%.[22]

Exhibit 33 **Asset allocation by country at end 2009**



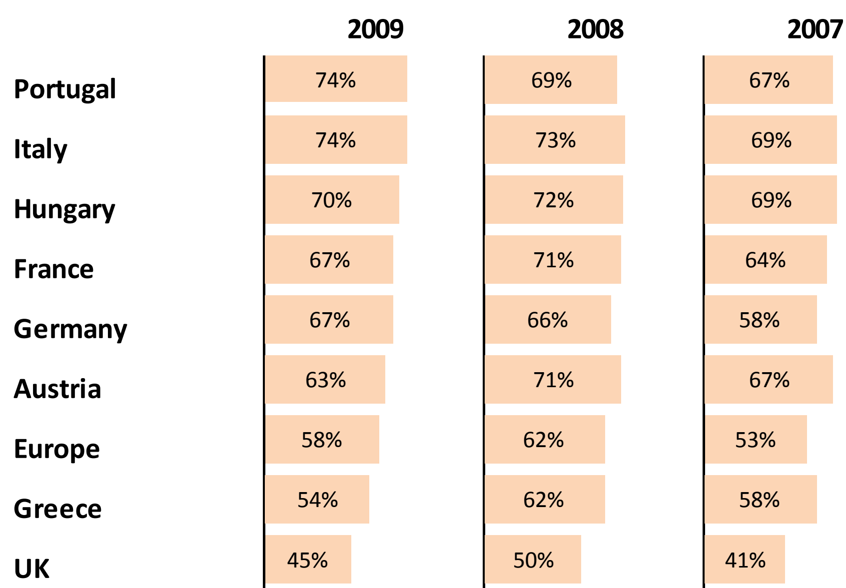
Most countries experienced a rise in the share of equity assets in the total asset mix. This reflected the rebound in stock markets after the lows reached at end 2008. Only Portugal saw a fall in the share of equity assets. Despite the rise in the share of equity assets during 2009, only Greece and Hungary have a higher allocation in 2009 than they had in 2007.

Exhibit 34 **Equity asset allocation by country**



In contrast to the allocation of equity assets, fixed income assets reduced in most European countries during 2009. This comes as investors appetite for risk improved during the second half of 2009 on the back of an improved economic outlook, increasing stock markets and intense competition from banking deposits.

Exhibit 35 **Fixed income asset allocation by country**



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

6.2 Asset Allocation in Investment Funds and Discretionary Mandates

There are also differences between how the assets in investment funds and discretionary mandates are allocated. Investment funds held on average 33% of their AuM in equity at end 2009, and 53% in fixed income securities. Discretionary mandates were generally more conservatively managed, with an average of 31% invested in equity and 62% in fixed income securities (see Exhibits 36 and 37). Equity exposure in the asset allocation of both investment funds and discretionary mandates increased in 2009 to 31% from 27% in 2008. Equity assets now account for 33% of total investment fund assets (up from 29% in 2008) and 31% of total discretionary mandate assets at end 2009 (up from 27% in 2008).

Exhibit 36 **Asset allocation in investment funds at end 2009**

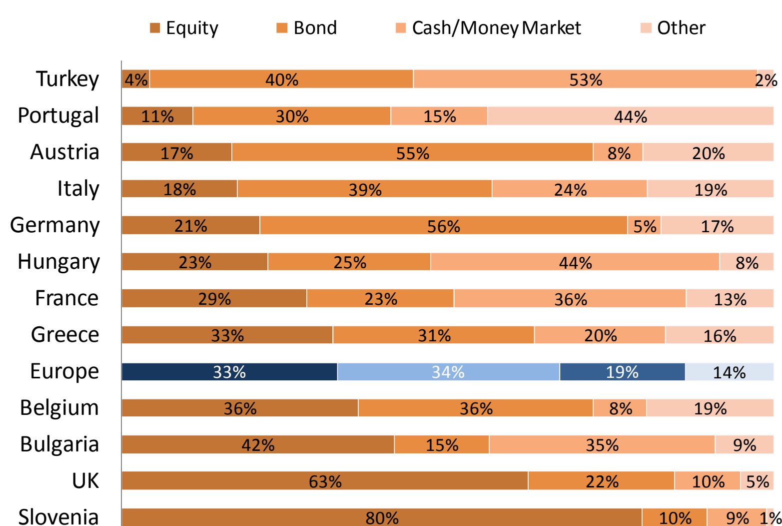
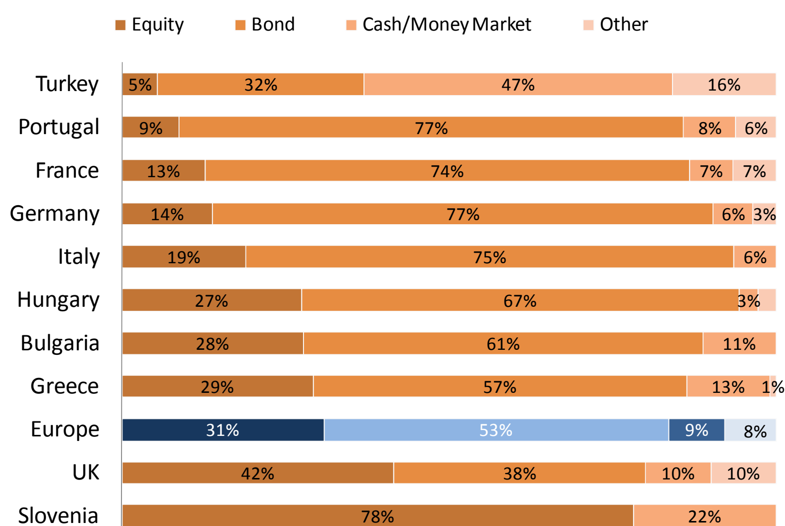


Exhibit 37 **Asset allocation in discretionary mandates at end 2009**



Exhibits 36 and 37 show the large differences in asset allocations across countries in terms of investment funds and discretionary mandates. Although the figures give some indication on the dominant risk preferences in various countries, it should be recalled that the European asset management industry is highly internationalized, with mandates and investment funds being often managed for foreign clients. For instance, investors in a country with dominant low equity exposure product solutions may choose to appoint asset managers to manage their equity investments.

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

The share of equity in the asset allocation is the largest in Slovenia and the UK in both segments of the market. As the UK accounts for roughly one third of total AuM in Europe, this strong weighting influences heavily the European average. The high share of equity in investment and mandates assets in the UK can be attributed to a long established culture of equity investing in parallel with the growth of defined-benefit occupational schemes and more recently with the growth of the defined-contribution market.

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

Another important observation is the large share of other assets held by investment funds in certain countries. In France, regulated hedge funds account for a significant share of other assets.

7 Financing of the Economy by European Asset Managers

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

7.1 Financing Contribution of Euro Area Investment Funds

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

Exhibit 38 shows that the outstanding stock of securities other than shares issued by euro area residents amounted to EUR 15,278 billion at end 2009. Investment funds domiciled in the euro area held 13.1% of this total, or EUR 1,999 billion. The market share of euro area investment funds in the debt issued by euro area governments and MFIs reached 13.8% and 14.4%, respectively.

Exhibit 38 Holdings of securities other than shares issued by euro area residents and held by euro area investment funds (end 2009)

Euro area issuer	Securities held by euro area IF (EUR billion)	Total quoted securities issued (EUR billion)	Share of euro area IF
General Government	810	5,882	13.8%
MFIs	776	5,375	14.4%
Other	413	4,020	10.3%
Total	**1,999**	**15,278**	**13.1%**

Source: ECB

Exhibit 39 shows that the total market value of quoted shares issued by euro area residents amounted to EUR 4,409 billion at end 2009. Out of this total, euro area investment funds held EUR 728 billion at end 2009, or 16.5%.[23] Using an estimation of the free-float market capitalization of euro area quoted companies calculated on the basis of the shares readily available in the market[24], i.e. excluding locked-in shares such as those held by governments, company officers, or controlling-interest investors, it can be estimated that euro area investment funds held 27.7% of the shares issued by euro area companies and available to public investors at end 2009.

Exhibit 39 Holdings of shares and other equity issued by euro area residents and held by euro area investment funds (end 2009)

Euro area issuer	Shares held by euro area IF (*) (EUR billion)	Total quoted shares issued (EUR billion)	Free-float euro area Mrkt Cap. (**) (EUR billion)	Share of euro area IF in	
				Full market	Free-float
	(1)	(2)	(3)	(4) = (1)/(2)	(5) = (1)/(3)
General Government	--	--	--	--	--
MFIs	98	566	--	17.3%	--
Non-financial corporations	571	3,494	--	16.3%	--
Other	59	349	--	16.9%	--
Total	**728**	**4,409**	**2,626**	**16.5%**	**27.7%**

(*) Excluding money market funds, which had a very limited equity exposure at end 2009 (EUR 5.8 billion).
(**) Based on the EURO STOXX Index
Source: Data from ECB and from STOXX Limited for the free-float market capitalization data

7.2 Financing Contribution of Asset Management

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

According to our calculations, the outstanding amount of debt and equity issued by euro area residents and held by European asset managers stood at EUR 3,761 billion and EUR 1,371 billion, respectively. Exhibit 40 highlights that European asset managers held 25% of the securities other than shares issued by euro area residents at the end of 2009, and 31% of the share and other equity issued by euro area residents. Using the value of the free-float market capitalization calculated by STOXX limited, it can be estimated that European asset managers held 52% of the value of the shares issued by euro area companies that were readily available for trading in the market at end 2009.

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. As explained in section 2, they provide 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 40 **Holdings of debt and equity issued by euro area residents and held by European asset managers (end 2009)**

	Securities other than shares (EUR billion)	Shares and other equity (EUR billion)
Euro area assets held by European asset managers [(1)]	3,761	1,371
Securities/Shares issued by euro area residents [(2)] (Free-float Mkt Cap.)	15,278	4,409 (2,626)
Total share of European asset managers (in % of Free-float Mkt Cap.)	25%	31% (52%)

(1) EFAMA estimations
(2) Data from ECB and from STOXX Limited for the free-float market capitalization data

8 Total AuM at end 2010

2010 has built upon the strong growth experienced in the second half of 2009 to pave the way for growth regaining much of the losses experienced during the worst financial crisis in 80 years. Investor confidence in the market outlook at the beginning of the year provided the positive backdrop for investors to seek higher yielding investments other than money market funds and bank deposits. However, the year has not been all plain sailing. The onset of the European sovereign debt crisis during the second quarter of the year highlighted the emergence of new types of risk relating to high levels of public debt and uncertainties about the euro area future. In the end the setting up of the European Financial Stability Facility, the strong ECB support to the countries in difficulty and resilient confidence in the global economic outlook helped ease investor concerns.

The developments in the sovereign debt markets also made for a turbulent year on European stock markets. Despite this, the STOXX Europe 600 index rose 9% during 2010. In Frankfurt the DAX rose 16% and the FTSE 100 in London also witnessed strong growth of 10%. However, fortunes were mixed across Europe, as not all countries experienced growth with the CAC 40 down 3% and the MIB in Milan down 13% in 2010.

Although the standing of the European asset management industry at end of 2010 will be analyzed in detail in next year's EFAMA Asset Management Report, it is possible to give some indication of the evolution of the AuM in 2010, starting with the investment fund sector.

According to EFAMA's statistics, the assets of investment funds domiciled in Europe increased by 14% in 2010.[25] Market appreciation was responsible for 65% of the increase in assets, whereas inflows added the remaining 35%. Investors increasing risk appetite at the beginning of the year, on the back on continued low interest rates and an improving economic outlook induced investors into higher yielding assets. This resulted in a strong rise in net sales of long-term UCITS (UCITS excluding money market funds) to EUR 292 billion from EUR 195 billion in 2009. Special funds reserved to institutional investors also gathered a record EUR 149 billion in 2010, EUR 100 billion more than in 2009. In parallel, very low short-term interest rates and competition from bank deposits convinced investors to shift assets away from money market funds. Reflecting these developments, equity funds experienced the strongest asset increase in 2010 (19%), followed by bond funds (17%), balanced funds (16%) and money market funds (-16%). Applying these growth rates to the asset mix observed in the investment fund assets managed in Europe, those assets can be estimated to have increased to EUR 6,900 billion in 2010.

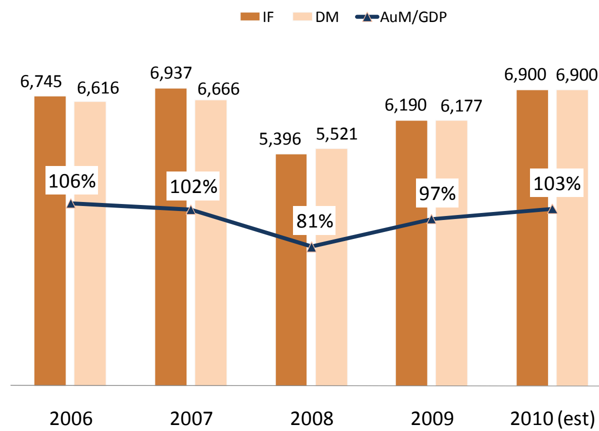
To estimate the evolution of the AuM in discretionary mandates in 2010, we took into account the following factors. First, we extrapolated the observed market developments on to the asset class portfolio composition of discretionary mandates. Second, we assumed that discretionary mandates continued to attract new money in 2010, in the order of 3% of AuM. This assumption is conservative in regard of the following information. More than 70% of discretionary mandate assets are managed for insurance companies and pension funds, which continued to draw net contributions from occupational pension plans and life-insurance contracts in 2010[26]. Taken

altogether, and according to our estimations discretionary mandate assets may have increased by around 11% in 2010 to EUR 6,900 billion.

Consequently, following this approach European AuM rose by some 11% in 2010 to EUR 13.8 trillion. Exhibit 41 shows the estimated evolution of AuM in discretionary mandates and investment funds between end 2006 and end 2010.

In relation to GDP, this level of AuM is estimated to have reached 103% at end 2010, compared to 81% at end 2008 and 97% at end 2009. The relatively modest increase in this ratio in 2010 reflected a slower growth in AuM (11% compared to 13%) as well as the rebound in economic growth in Europe to 1.8% in 2010, compared to a 4.1% decline in 2009.

Exhibit 41 European AuM (EUR billion and percent)



Appendix

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

The first step consisted of collecting ECB data directly relevant to the debt and equity issued and held by euro area investment funds. The data is presented in Exhibits 39 and 40 in the report and summarized in the table below.

End 2009 (EUR billion)	Euro area investment fund assets:		
	held by euro area investment funds	issued by euro area residents	Share of euro area IF
Debt	1,999	15,278	13.1%
Equity	728	4,409	16.5%

According to the ECB, euro area debt (i.e. securities other than shares) and equity (i.e. shares other than equity) held by euro area investment funds represented 30.4% and 11.1% of their total portfolio assets, which totaled EUR 6,572 billion at end 2009. The rest of the portfolio was held in debt and equity issued outside the euro area, as well as other assets such as deposits, non-financial assets and financial derivatives.

The second step was to assume that the remaining part of the assets managed in Europe at end 2009, which was estimated at EUR 5,795 billion, i.e. total AuM (EUR 12,307 billion) minus total assets held in euro area investment funds (EUR 6,572 billion), had the same exposure to debt and equity issued by euro area residents as euro area investment funds, i.e. 30.4% and 11.1%, respectively. To support this assumption it may be argued that the population of euro area investment funds is extremely large and diversified both in terms of end investors and investment strategies and can therefore provide a proxy for estimating the asset allocation of the pool of financial assets held in investment funds and discretionary mandates across Europe. The fact that the pool of assets held in investment vehicles in the UK is more heavily exposed to equity than euro area investment funds may point to some limitation to this approach. This said, it is also quite likely that the market share of the shares issued in the UK tends to be high in the asset pools managed in the UK, given a home bias and the size of UK's market capitalization. This factor may compensate for the different asset allocation between the euro area investment funds and the overall UK asset management industry.

Following this approach, the holdings of debt and equity issued by euro area residents and managed by European asset managers in investment vehicles other than euro area investment funds, would total EUR 1,762 billion and EUR 643 billion, respectively.

The third step was to add up the assets calculated in steps 1 and 2, and to compare the figures with the total amount of securities other than shares and quoted shares issued by euro area residents at the end of 2009. The results are presented in Exhibit 40 in the report.

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

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

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

[3] See "The Economics of Money, Banking and Financial Markets", by Frederic S. Mishkin.

[4] 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.

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

[6] See "Les emplois dans la gestion pour compte de tiers en France" published by AFG in May 2011 on www.afg.asso.fr in the section "économie-statistiques/etudes et analyses".

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

[8] Over 3,100 asset management companies reported in 2009, compared to approx. 2,600 in 2008. The large rise relates to revisions of data in some countries and a broader definition of what is an asset management company to include special investment boutiques also.

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

[10] For the UK, if non members of the IMA and in particular those of the hedge fund industry were included, the number of firms would be significantly higher than 186.

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

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

[13] See Asset Management in the UK 2009-2010, The IMA Annual Survey, which can be downloaded from: http://www.investmentuk.org/research/ima-annual-industry-survey.

[14] Figures for median assets in the UK and Germany are taken from surveys undertaken by the IMA (UK) and BVI (Germany), covering a sample of firms and not the entire dataset as presented in Exhibit 6.

[15] 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.

[16] 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, amounting to approx. 2%.

[17] Data for Luxembourg are not available.

[18] For Austria, data on outsourcing covers investment funds only.

[19] Data on assets outsourced from Austria and Portugal cover only investment funds.

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

[21] See Global Pension Statistics on www.oecd.org.

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

[23] By way of comparison, investment funds domiciled in France held 12% of the total value of all outstanding shares of French publicly-traded companies at end June 2010: see "Contribution des OPCVM aux fonds propres des entreprises, C. Pardo and T. Valli, Cahiers de la Gestion, February 2001" on www.afg.asso.fr in the section "économie-statistiques/études et analyses".

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

[25] See "Trends in the European Investment Fund Industry in the Fourth Quarter of 2010 and Results for the Full Year 2010", EFAMA's Quarterly Statistical Release N°44, February 2011, available on www.efama.org.

[26] By way of illustration, according to ECB data the net asset acquisition of euro area insurance companies and pension funds reached EUR 214 billion in 2009, or 4.4% of these investors' assets at end 2008.