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Asset Management in Europe

Facts and Figures

7th ANNUAL REVIEW



European Fund and Asset Management Association



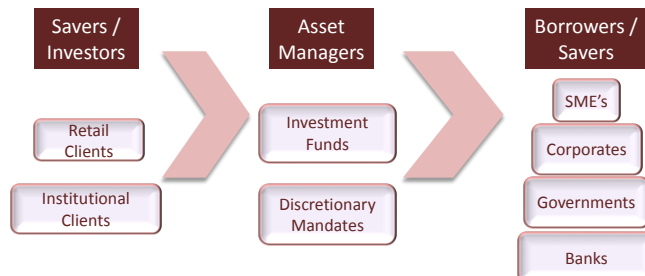
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Key Facts and Figures

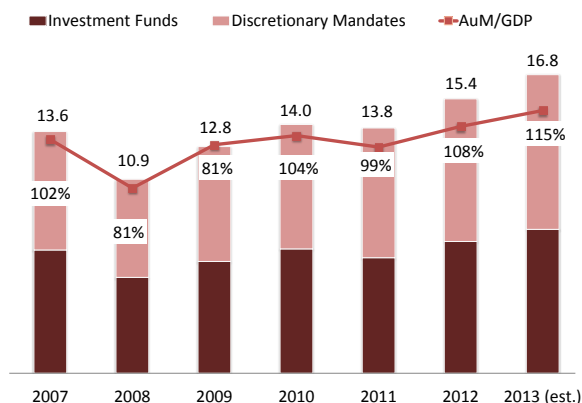
Asset managers play a key role in channeling savings toward investment.

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



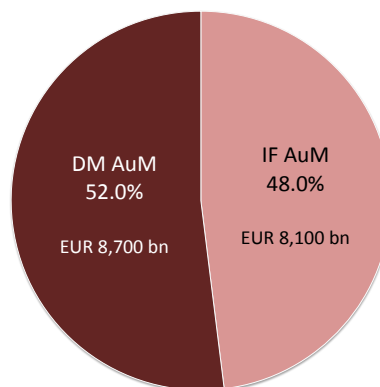
The asset base managed in Europe reached a new record high in 2013.

Total assets under management (AuM) in Europe increased 11% in 2012 and close to 9% in 2013, to reach an estimated EUR 16.8 trillion at end 2013. This growth was driven by net flows and market movements, on the back of improved financial market conditions and renewed investor confidence. This brought the ratio of AuM to aggregate European GDP to 115% of GDP at end 2013.



Asset managers specialize in managing discretionary mandates and investment funds.

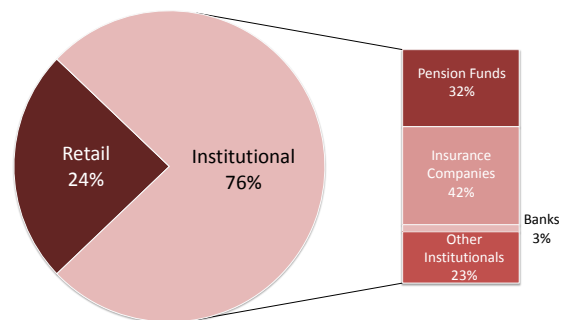
Discretionary mandate assets at end 2013 are estimated at EUR 8.7 trillion or 52% of AuM, whereas investment funds accounted for the remaining EUR 8.1 trillion or 48%. Typically, asset managers receive mandates from institutional clients and high-net-worth individuals, whereas investment funds serve both retail and institutional clients' investment needs.



Key Facts and Figures

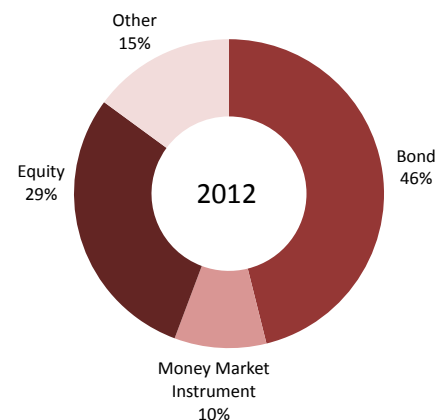
Institutional clients represent the largest client category of the European asset management industry, accounting for 76% of total AuM in Europe.

Insurance companies and pension funds, acting on behalf of millions of households, accounted for 42% and 32% of total institutional AuM, respectively.



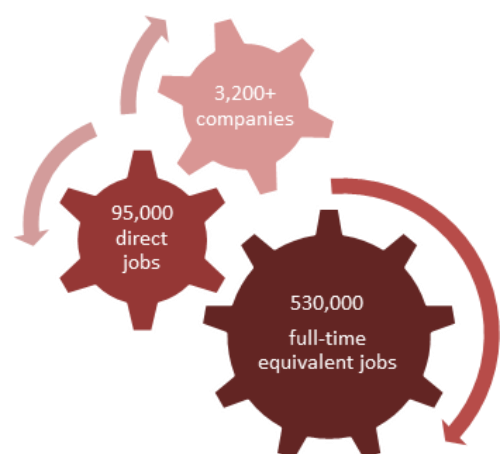
Asset managers play a key role in the financing of the economy.

Holdings of bond and equity assets remain asset managers' preferred asset classes, with 46% and 29% of total AuM, respectively, at end 2012. By providing credit capital directly via corporate bonds or indirectly via money markets, as well as equity capital in both primary and secondary markets, asset managers are financing the economy. According to our estimations, European asset managers held 23% of the debt securities issued by euro area sectors at end 2012, and 31% of shares and other equity issued by euro area corporations.



More than 3,200 asset management companies in Europe employ 95,000 people directly at end 2012.

Taking into account related services along the asset management value chain, it is estimated that another 435,000 people are indirectly employed engaging in functions servicing the asset management industry. Thus, bringing total employment closer to 530,000.



1 EFAMA Annual Asset Management Report

The seventh annual report undertaken by EFAMA on the European asset management industry represents an effort to provide a snapshot of the asset management industry in Europe.¹ Its focus is on the value of assets professionally managed in Europe with a distinction between investment funds and discretionary mandate assets, and across both the retail and institutional landscape.

The focus of this report is to highlight and analyze facts and figures on the asset management industry from the perspective of where the assets are managed. There is therefore a clear distinction between the data presented in this report and the data on investment funds analyzed in other research reports from EFAMA, such as the EFAMA Fact Book and the EFAMA Monthly/Quarterly Statistical Releases. In general these other reports compare the European countries' market shares in terms of investment fund domiciliation.

The report is primarily based on responses to a questionnaire sent to EFAMA member associations covering data at end 2012. The questionnaire methodology has focused around the coverage of data on assets under management (AuM) split by products, clients and asset types. Thirteen associations provided us with data on the value of the assets managed in their countries: Austria, Belgium, Bulgaria, France, Germany, Greece, Hungary, Italy, Netherlands, Portugal, Romania, Turkey and the UK. According to our estimations, these countries account for 76% of the AuM in Europe. To compensate for those associations unable to answer the questionnaire or those who can only provide partial information, additional internal and external data were used to estimate the value of total AuM in Europe presented in Section 3.²

This year's report is broken down into sections from 2-7. The purpose of section 2 is to provide an overview of the asset management industry, its key functions, specificities compared within the wider financial system, and its contribution to the financing of the economy. Section 3 highlights the assets under management by the industry in Europe and per country across Europe. This section also puts Europe into a global context, whilst also presenting a first estimation of the assets managed by the industry in Europe at end 2013. Thereafter, section 4 discusses the recent trends in the assets managed through investment funds and discretionary mandates. 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 industrial organization of the asset management industry and its contribution to the European economy in terms of employment.

2 Third-Party Asset Management

2.1 Key Functions

Asset management can be exercised either on an own account or for third parties. If it is done on an own account, investors have to manage their own portfolios. Alternatively, private and institutional investors may delegate the management of their portfolios to companies specialized in asset management and so rely on the expertise of these third-party asset managers for the management of their assets. Third-party asset management (hereafter "asset management" for the sake of simplicity) refers to the professional management and trading of securities and other types of assets to achieve a specific investment goal as set out by the client/investor. Asset management portfolios can be made up of investment funds and/or discretionary mandates. Investment funds are pools of assets with specified risk levels and asset allocations, into which one can buy and redeem shares. A discretionary mandate is a mandate given by a client to an asset manager to manage a portfolio of assets and execute orders in compliance with a predefined set of rules and principles, on a segregated basis and separate from other clients' assets. Asset managers must stick to the terms of the investment objectives agreed with their clients and cannot go beyond this remit.

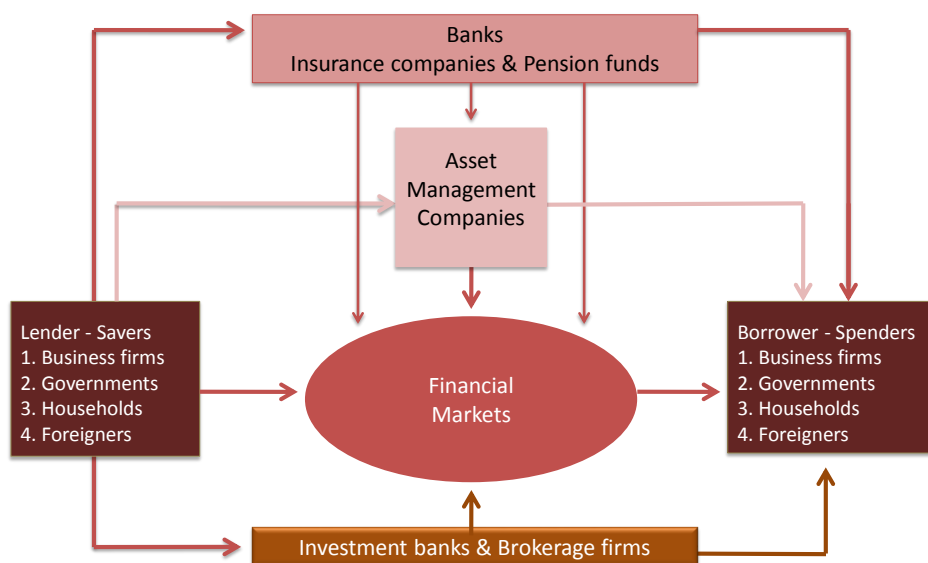
This section presents an overview of the role of asset management companies in the economy and on financial markets. Exhibit 1 is our starting point; it is adapted from Mishkin (2008) and shows that one of the basic functions of asset management companies is to channel funds from those that have saved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

borrow funds to finance their spending, the borrower-spenders, are on the right.

Borrowers can borrow funds directly from lenders in financial markets by selling financial instruments, such as certificates of deposit, commercial paper, corporate bonds, government securities and stocks. This route (the route at the bottom of exhibit 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. This process, which is often called financial intermediation, is the primary route for moving funds from lenders to borrowers. The main difference between this route and that of direct finance is that the lender-savers do not know who the ultimate lender of their funds is, whereas in the direct finance route, the lender-saver knows to which borrower their funds are being channeled to.

The principal financial intermediaries fall into three broad categories: banks and other deposit-taking institutions, life insurance companies and pension funds, and asset management companies. These three categories provide specialist services in the economy. Typically, banks are financial intermediaries that accept deposits from individuals and institutions and make loans. Insurance companies and pension funds take in savings from households and company employees, and invest them in money market and capital market instruments and other assets. Asset management companies provide an efficient way of pooling funds for investment purposes.

Exhibit 1: Flow of Funds in the Asset Management Industry



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

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. They achieve this by providing equity capital in both primary (IPOs and private placements) and secondary markets, as well as credit capital – directly via corporate bonds or indirectly via money

markets. 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. If asset managers were not contributing to the supply of funds in financial markets, 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.

Last but not least, voting at shareholder meetings is a way for asset managers to play a role in improving corporate governance of issuers, and in helping to build shareholder value while protecting the managers' portfolio investments. Indeed, by voting, asset managers pay attention to the quality and appropriateness of the information provided by issuers and, ultimately, may monitor in the medium-term their behavior. So, voting has become a part of the responsibility taken on by asset managers to represent exclusively the best interests of savers and investors.⁴

2.2 A Standalone Industry

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

Agency business model

The business model followed by asset managers is different to that followed by other financial services firms. In playing their role, asset managers act as “stewards” of their clients’ interest. Their value proposition is to enable their clients to reach their investment objectives. As such, they act as an agency on behalf of their clients, meaning that they transact for their clients and not for themselves. Asset managers carry out a fiduciary duty in the best interests of their clients. The performance of the portfolio is attributed to the client, be it good or bad. The property of the assets remains with the client, i.e. assets are not on the balance sheet of the asset managers. Nevertheless asset managers remain in charge of the assets managed and accountable to the clients for those assets.

Limited balance sheet risk

Asset managers do not act as lenders or providers of credit to individuals or corporations, nor do they provide custody or related functions. Asset managers do not act as counterparties in derivatives, financing or securities transactions. They do not use their balance sheets to leverage or to fund their day-to-day operations. As a result there is no asset-liability mismatch on asset managers’ balance sheets, which remain very small compared to that of a bank. Therefore, asset managers do not assume high levels of balance sheet risk.

Protection of client assets

Asset managers are subject to comprehensive regulation, which requires among other things, to maintain comprehensive risk management and compliance policies and procedures. Investment fund assets must generally be entrusted to depositories, which have wide-ranging responsibilities in addition to safe keeping of fund assets. In mandated asset management, there is a requirement in all countries that client assets be held separately from the firm’s assets. These regulatory regimes protect asset managers’ clients from a liquidation or failure of an asset manager, in particular because the clients’ assets remain outside the reach of the creditors of the asset manager at all times.

Fee based compensation

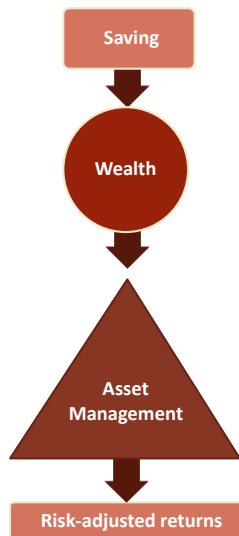
Asset managers normally charge an agreed-upon fee based on the size of their AuM. This contrasts with commission-based compensation, in which a firm makes money based on the amount of trades made or the amount of assets sold to the client. Fee-based compensation implies that reduced AuM due to market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

2.3 Key Services to Clients

Asset managers provide a key service to their clients wishing to maximize the return on their wealth. Exhibit 2 highlights the transmission mechanism by which funds flow from clients to the industry. Savings are funds which households do not consume from their income. For institutional clients such as insurers and pensions funds, this includes the recurrent contributions these institutions receive from their members. These savings or income streams are added to household wealth or the reserves of institutional investors. The asset management industry can then invest this

money on the client's behalf in order to generate a return for the client. This return is then fed back in to savings and the cycle begins once again.

Exhibit 2: Central Role of Asset Management in Investing



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

Risk reduction

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

invest.⁵ 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 a small proportion 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 number of investors the more stable net flows will be. Secondly, the larger the size of the portfolio, the greater the scope is for averaging assets in so 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.

2.4 Financing of the Economy

The asset management industry contributes to channeling the savings of governments, corporates and households effectively and efficiently to the right users and uses through direct capital market financing.

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

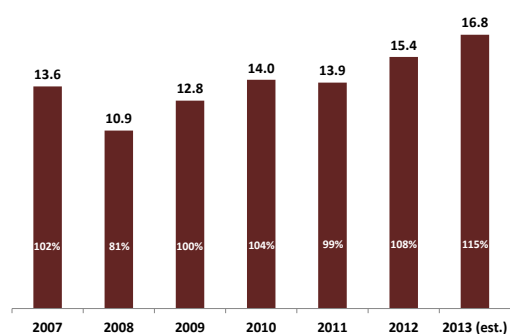
According to our calculations, European asset managers held 23% of the securities other than shares issued by euro area residents at the end of 2012, and 31% of the share and other equity issued by euro area residents. The order of magnitude of this estimation confirms the essential economic function played by asset managers in Europe in providing an essential link between investors seeking appropriate savings vehicles and borrowers who need funds to finance their activities and developments. By performing this function asset managers make a significant contribution to the overall development of the real economy.

3 European Asset Management Industry

3.1 Evolution of AuM

2012 was a good year for the European asset management industry, as professionally managed assets in Europe rose by 11.4% to stand at EUR 15.4 trillion. This strong growth came on the back of improved investor confidence and progress in strengthening the governance of the euro area. It was the ECB's commitment to "do whatever it takes" to save the euro, which was a game changer for the fortunes of financial markets and investors in Europe in 2012.

Exhibit 3: European AuM (EUR trillion) and AuM/GDP (percent)



The situation continued to improve in 2013, as countries made progress in implementing measures to reduce deficits and improve competitiveness. The gradual improvement in the economic outlook that followed, fuelled the hope that the crisis was over. Against this background, financial markets enjoyed a bumper year with stock markets rebounding strongly during the year.

Reflecting these developments, the demand for investment funds accelerated during the year. Net assets of equity funds experienced a surge in 2013 (21%), as rising stock markets attracted investors amid encouraging economic data, whereas fixed income funds experienced an increase in assets of 5%. Overall, investment funds domiciled in Europe ended the year 9% higher according to EFAMA statistics.⁶ Net assets of funds

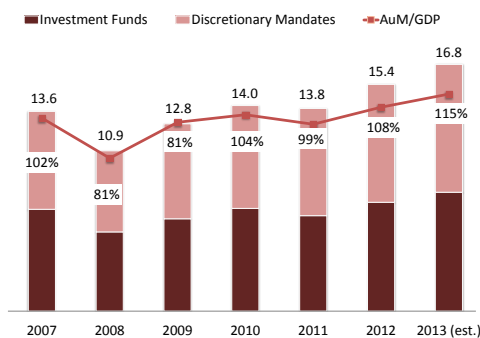
reserved to institutional investors increased 11% in 2013 as insurance companies, pension funds and other institutional investors continued to use these vehicles to invest the recurrent contribution collected from their members. Applying these growth rates to the asset mix observed in investment fund assets managed in Europe, those assets can be estimated to have increased to EUR 8,100 billion in 2013.⁷

To estimate the evolution of the AuM in discretionary mandates in 2013, we took into account the following factors. First, we extrapolated the observed market developments on to the asset class portfolio composition of discretionary mandates. Second, we assumed that discretionary mandates continued to attract funds during the year, in the order of 5% of AuM. This is slightly higher than the net inflows into investment funds of 4.6% of fund AuM witnessed in 2013. We consider this to be a conservative estimate considering that 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 2013. Taken altogether, and according to our estimations, discretionary mandate assets have increased to EUR 8,700 billion in 2013.

Following this approach it can be estimated that total AuM in Europe increased by approximately 9% in 2013 to EUR 16.8 trillion. Exhibit 4 shows the evolution of AuM in discretionary mandates and investment funds between end 2007 and end 2013. In relation to GDP, the value of AuM is estimated to reach 115% at end 2013, up from 108% in 2012.⁸ This increase reflects the increase in AuM (9%) as well as economic growth in Europe of 1% in 2013.

Between 2007 and 2013 total assets of the European asset management industry have grown 24%, despite the severity of the financial crisis and the subsequent sovereign debt crisis that followed in Europe. This compares favorably to stock market performances over the same period. In Europe, the STOXX 600 index remained 10% lower at end 2013 than at end 2007.

Exhibit 4: European AuM (EUR trillion and AuM/GDP in percent)



3.2 AuM across Europe

Exhibit 6 shows the AuM in Europe with a country breakdown at end 2012, including the yearly change in AuM, the market share and the AuM/GDP ratio for each country.

It can be seen that the pool of professionally managed assets in Europe remains centered around a small number of financial centers in the larger European countries. The UK is the largest asset management market in Europe, followed by France and Germany. The combined AuM of these three countries amounted to EUR 10 trillion, or approximately two-thirds of the total AuM in Europe at end 2012. This high concentration is partly to do with larger populations, GDP and large pool of savings in these countries but also to their well established reputation for financial services. Other centers where significant asset management operations are carried out include Italy and the Netherlands.

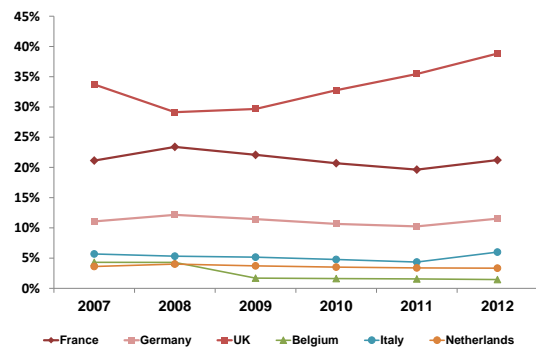
The large AuM/GDP ratios in the UK (282%) and France (146%) give an indication of the relative importance taken by third-party

asset managers in these countries, and the responsibility they have taken in managing institutional investors' assets. Elsewhere in Europe, the AuM/GDP ratios are considerably lower, including in Germany (61%) and in Italy (54%).

Most countries enjoyed growth in AuM in 2012, however, this growth masked wide variations across Europe. Italy recorded total AuM growth of 38% on account of positive market movements and the restructuring of a large Italian asset manager, which brought the management of assets back to Italy from abroad, also contributed to this large growth rate. Germany registered growth of 13%, followed by the UK (9%) and France (8%).

In terms of market share, the UK held the largest share representing 35% of the total market. France followed with a market share of 19% and Germany held a 10% market share at end 2012. The share of "other" countries, which made up 24% of the European market is composed of the Nordic countries and Switzerland, which have large traditions of using asset managers to manage savings and prepare for retirement.

Exhibit 5: Evolution of Country Shares



The recent evolution in the market shares of the largest countries are highlighted in exhibit 5. It can be seen that the market share of the UK has increased to 35% in 2012. This is higher than the 34% market share held at end 2007 and considerably larger than the 30% market share held in 2009. This jump in market share is related to the large equity holdings of UK asset managers. Stock market movements

Exhibit 6: European AuM at end 2012 (EUR billion) and AuM/GDP (percent)

Countries	AuM	AuM % change ⁽¹⁾	Market Share	AuM / GDP
UK	5,449	9%	35%	282%
France	2,977	8%	19%	146%
Germany	1,618	13%	10%	61%
Italy	841	38%	5%	54%
Netherlands	469	-1%	3%	78%
Belgium	225	4%	1%	60%
Austria ⁽²⁾	84	11%	1%	27%
Portugal	66	-6%	0.43%	40%
Hungary	21	10%	0.14%	22%
Turkey	16	-14%	0.10%	3%
Greece	8	14%	0.05%	4%
Rest of Europe ⁽³⁾	3,662	14%	24%	97%
TOTAL	15,434	11%	100%	108%

(1) End 2012 compared with end 2011.

(2) Investment fund assets only.

(3) Including Bulgaria (EUR 247 million) and Romania (EUR 2.1 billion).

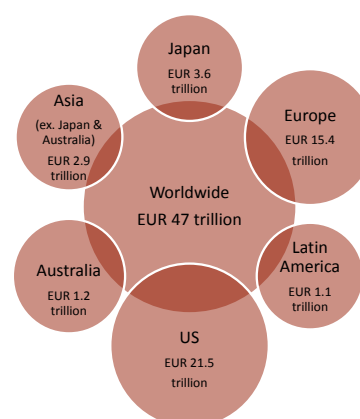
therefore played a large role in these movements. Italy also increased its market share in 2012 due to the large growth in asset management carried out in Italy during the year.

3.3 A Global Comparison

Europe ranks as the second largest market in the global asset management industry – managing 33% of the EUR 47 trillion global asset management industry at end 2012. The European asset management industry has traditionally held a share of approximately one-third of the global industry.

The world’s largest market is the United States, which represents EUR 21.5 trillion in AuM and makes up approximately 46% of global AuM. Growth in the United States reached 8% in 2012, and total AuM surpassed the EUR 20 trillion mark for the first time since its 2007 peak. Australia recorded growth of 9% in 2012, whilst Japan registered 6%. Emerging markets continued to register strong growth in 2012 as Latin America recorded a 14% increase in AuM in 2012.⁹

Exhibit 7: Global AuM at end 2012



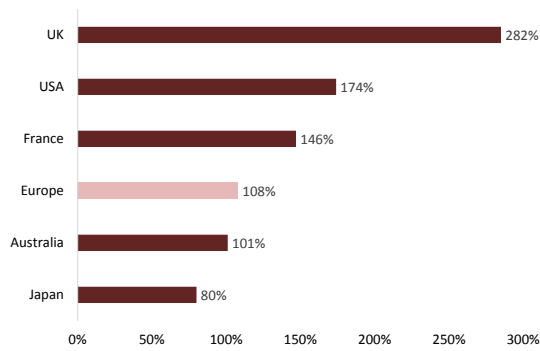
Source: BCG, EFAMA

Exhibit 8 highlights the AuM/GDP ratio for the largest markets around the world at end 2012. It can be seen that in the United States AuM represented 174% of GDP. This high ratio gives an indication of the relative importance taken by asset management activities in the United States. It also highlights the ability of this country to attract institutional mandates from abroad. Only the United Kingdom has a higher AuM/GDP ratio than the United States.

As discussed above, Europe has an AuM/GDP ratio of 108%, however, this is heavily

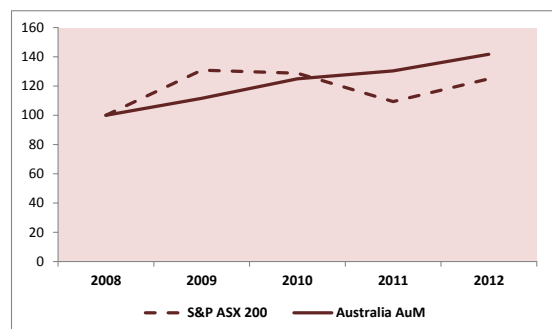
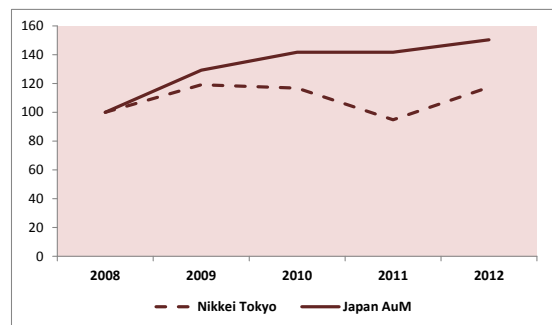
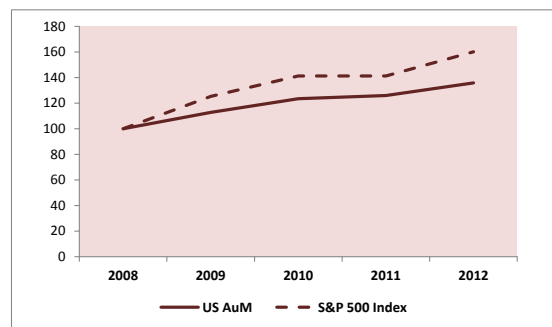
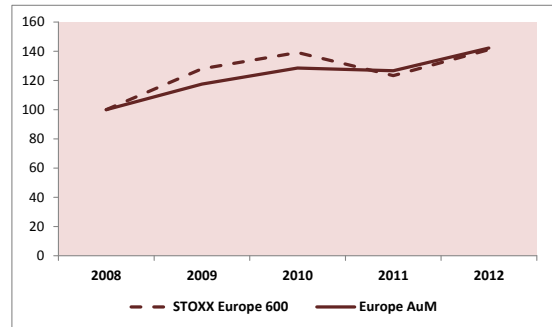
skewed on account of the large amount of assets managed in the UK and France which both have significantly more AuM than GDP. Australia also has a significant asset management industry representing 101% of GDP. In Japan, the AuM/GDP ratio stood at 80% at end 2012.

Exhibit 8: AuM/GDP at end 2012



Financial markets entered a growth phase in 2012 as stock markets around the globe rebounded strongly. The evolution of AuM in the main global regions and that of stock markets are indexed in exhibit 9, with 2008 set as the base year. It can be seen that growth in AuM has outperformed the growth of stock markets in all countries/regions, except the United States. Despite the volatility of stock markets, a clear correlation between stock market performance and growth in AuM over the period can be seen in all countries/regions.

Exhibit 9: Global AuM Vs Stock Market Performance



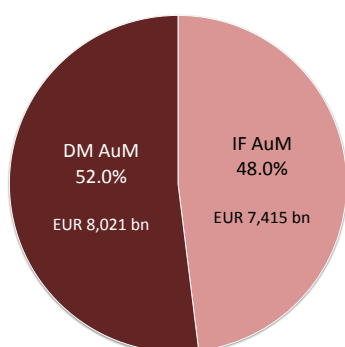
Source: BCG, Bloomberg, STOXX, EFAMA

4 AuM in Investment Funds and Discretionary Mandates

The assets under management that are professionally managed in Europe can be broken down into two main categories: investment fund assets and discretionary mandate assets. Asset managers typically receive mandates from institutional clients, e.g. pension funds and insurance companies and high-net-worth individuals, whereas retail investors are generally offered investment funds. This section of the report provides a general overview of the evolution of assets managed through investment funds and discretionary mandates.

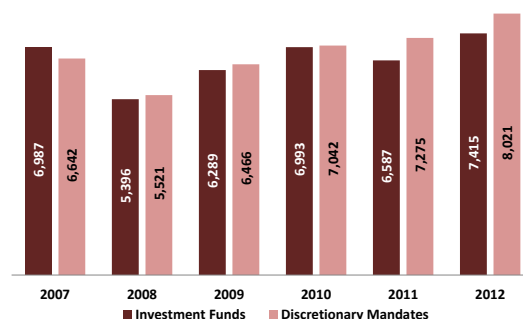
In Europe, discretionary mandates represented EUR 8,021 billion or 52% of total AuM at end 2012. The share of investment fund assets in total AuM stood at 48% and amounted to EUR 7,415 billion at year end.

Exhibit 10: Discretionary Mandates Vs Investment Funds (end 2012)



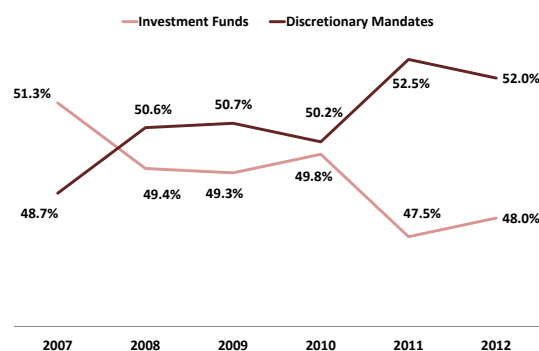
Turning to the evolution of investment funds and discretionary mandates (see exhibit 11), it can be seen that both investment vehicles enjoyed strong growth in 2012. Discretionary mandates registered a fourth consecutive year of growth as AuM increased by 10%. Investment fund assets increased by 13%. This strong growth came on the back of a decrease in AuM in 2011. Both investment fund and discretionary mandate assets stood at record high levels at end 2012.

Exhibit 11: Evolution of Investment Funds and Discretionary Mandates AuM (EUR billion)



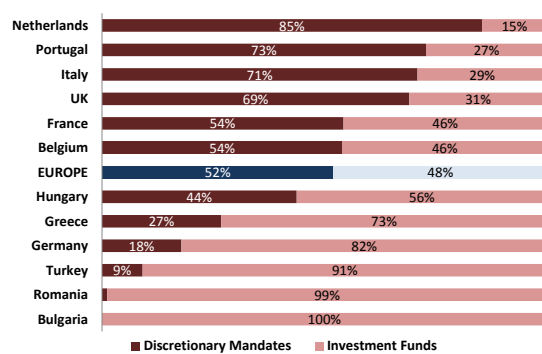
The evolution of the share of total assets held by discretionary mandates and investment funds can be seen in exhibit 12. The share of discretionary mandates narrowed in 2012, as investment fund assets grew at a faster pace during the year. Nevertheless, discretionary mandate assets remain 8% larger than investment fund assets. This stands in contrast to 2007, when investment fund assets made up the lion's share. Discretionary mandates tend to be more risk averse than investment funds as they invest a higher proportion of assets into fixed-income securities than investment funds. In addition, they depend primarily on the institutional client segment of the market, which has grown at a faster pace than the retail market over the past five years.

Exhibit 12: Share of Discretionary Mandates and Investment Fund Assets in Total AuM (2007-2012)



Regarding the split between investment funds and discretionary mandates observed at national level, quite a number of countries cluster around the European average. However, one may contrast between the two extremes of the spectrum: whereas in the Netherlands, Portugal and Italy discretionary mandates represented more than 70% of total AuM at end 2012, the corresponding figures for Romania, Bulgaria and Turkey were less than 10%. An interesting observation is the difference between the largest markets for asset management. In Germany discretionary mandates accounted for 18%, whereas in France they represented 54% of total assets and in the UK, they represented 69% (see exhibit 13).

Exhibit 13: Share of Discretionary Mandates and Investment Fund Assets in Total AuM in 2012



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

While looking at the figures shown in exhibit 13, 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 77% for Germany.¹⁰ 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

Investment funds are pools of assets with specified risk levels and asset allocations, into which one can buy and redeem shares. By pooling savings from various sources, they offer investors a number of advantages, particularly in terms of risk diversification and lowered costs by economizing on scale. The market for European investment funds is highly internationalized. In essence, it is organized around domestic markets served predominantly by domestic players, and cross-border activities, where funds can be domiciled in one country, managed in a second and sold in a third, either within Europe or overseas. The statistics reported in this report on investment funds refer to UCITS and non-UCITS.¹¹

UCITS are products offered in accordance with the UCITS Directive, and thereby regulated in terms of supervision, asset allocation and separation of management and safekeeping of assets to ensure the highest level of investor protection.

Non-UCITS or alternative investment funds (AIF) represent collective investment vehicles set up in accordance with specific national laws, such as real estate funds and special funds dedicated to institutional investors; only regulated hedge funds are reported in our statistics. The introduction of the Alternative Investment Fund Managers Directive (AIFMD)¹² in 2013 created a one-size-fits-all approach to all non-UCITS funds and their managers. The AIFMD applies to any fund which is either an EU fund or has an EU manager, or is marketed to EU investors. The AIFMD is a UCITS-like regime with authorization and ongoing supervision and a European Passport for distribution of these non-UCITS investments to professional investors. It is expected that the AIFMD will create a second European quality label for asset managers and funds, next to the already well-established UCITS label.

European professionally managed investment funds totaled EUR 7.4 trillion at end 2012 (see exhibit 14). Total AuM of investment funds increased 13% in 2012, due to a turnaround in investor sentiment in Europe, after the ECB committed itself to do “whatever it takes” to save the euro. This calmed investor fears over a break-up of the monetary union. The longer-term refinancing operations carried out by the ECB also helped struggling banks pay off maturing debts and resume lending to strained

governments and customers. All these operations contributed to restore stability in financial markets and strengthen investor confidence, thereby strengthening the demand for investment funds.

The largest financial centers (the UK, France and Germany) managed 61% of European investment fund assets at end 2012. The relatively high market share of the rest of Europe (32%) is largely attributable to other countries with large fund management, such as Switzerland and the Nordic countries, as well as Luxembourg and Ireland, where some investment fund assets are also managed.

Investment funds AuM increased throughout much of Europe, with only a few exceptions. Italy led the way with growth of 19%, followed by Germany (18%), thanks to strong growth of investment funds reserved to institutional investors. The UK registered a growth of 11% and France saw its investment fund AuM increase by 5%.

When comparing AuM to GDP it can be seen that investment fund assets managed in the UK represented 87% of GDP, compared to 73% in France and 50% in Germany. These high ratios reflect 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. They also explain why the European average is relatively high (52%).

Exhibit 14: Investment Fund Assets by Geographical Breakdown of AuM at end 2012 (EUR billion)

Countries	AuM	AuM % change ⁽¹⁾	Mkt Share	AuM/ GDP
UK	1,688	11%	23%	87%
France	1,482	5%	20%	73%
Germany	1,329	18%	18%	50%
Italy	245	19%	3%	16%
Belgium	103	3%	1%	27%
Austria	84	11%	1%	27%
Netherlands	69	7%	1%	11%
Portugal	18	-4%	0.24%	11%
Turkey	14	-12%	0.19%	2%
Hungary	12	13%	0.16%	12%
Greece	6	15%	0.07%	3%
Rest of Europe ⁽²⁾	2,364	17%	32%	62%
TOTAL	7,413	13%	100%	52%

(1) End 2012 AuM compared to end 2011 AuM.

(2) Including Bulgaria (EUR 247 million) and Romania (EUR 2.1 billion).

In order to portray a more comprehensive picture of the extent to which countries manage investment fund assets domiciled abroad, exhibit 15 illustrates the relative degree to which AuM in a particular European country originate from funds domiciled abroad.

Exhibit 15: Share of Foreign Domiciled Investment Funds in Total Investment Fund AuM (end 2012)

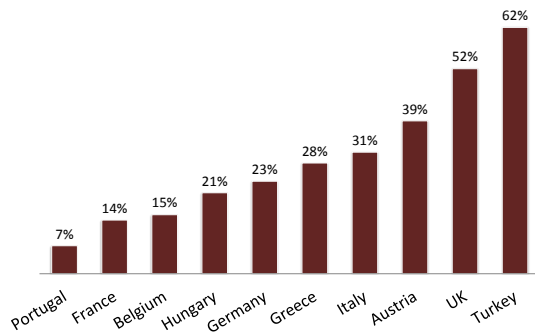
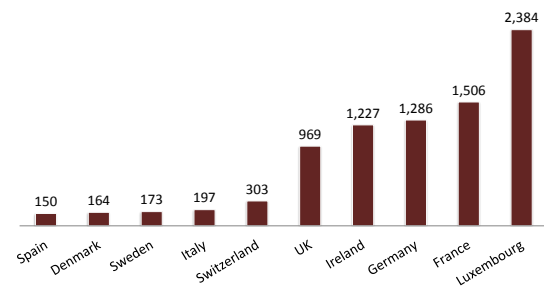


Exhibit 15 shows that a significant share of investment fund assets managed in the UK and Turkey relate to foreign domiciled funds. By contrast, over 85% of investment fund assets in Portugal, France and Belgium are both domiciled and managed in these countries. Thus, exhibit 15 confirms the notion that there is a spectrum across Europe in terms of whether investment funds are primarily domiciled in the country where they are managed, or whether domiciliation abroad is common.

It is worth keeping in mind that the focus of this report is to highlight figures on the asset management industry from the perspective of where the assets are managed. There is therefore a clear distinction between the data presented in this report and the data on investment funds analyzed in other research reports from EFAMA, such as the EFAMA Fact Book and the EFAMA Monthly Fact Sheet. In general these reports compare the European countries' market shares in terms of investment fund domiciliation. The top 10 fund domiciles at end 2012 are reported in exhibit 16.

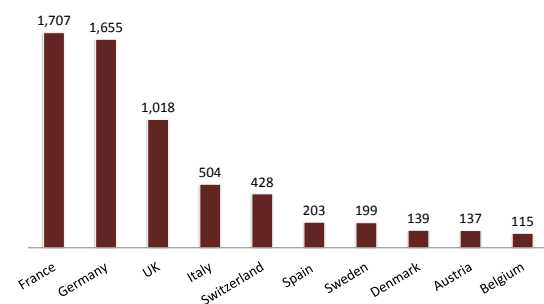
Exhibit 16: Investment Fund Assets by Country of Domicile at end 2012 (EUR billion)



Source: EFAMA Fact Book 2013

The EFAMA Fact Book also provides estimates of the size of the total demand for investment funds. It can be seen that France and Germany were the largest markets for investment funds in 2012, followed by the UK, Italy and Switzerland. Whereas investment funds domiciled in the UK, France and Germany account for 42% of the European investment fund market, asset managers in these countries manage 60% of investment fund assets in Europe. The difference between market shares in domiciliation and management of fund assets demonstrates further the degree of specialization of certain European countries which have become important exporters of investment management.

Exhibit 17: Investment Fund Assets by Country of Fund Ownership at end 2012 (EUR billion)



Source: EFAMA Fact Book 2013

4.2 Discretionary Mandates

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

Discretionary mandate AuM are dominated by two markets: the UK and France, which together managed approximately 66% of total European discretionary mandates at end 2012 (see exhibit 18). The significant market share of the UK (47%) can be related to the very large base of pension fund assets managed for UK and overseas pension

funds, the treatment of some pooled vehicles as discretionary mandates rather than investment funds, and the role of London as an international financial center. In France, the market share of 19% reflects the size of the French insurance industry and the high level of asset management delegation by French and foreign institutional investors to asset managers.

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

Exhibit 18: Discretionary Mandates AuM at end 2012 (EUR billion and percent)

Countries	AuM			AuM/ GDP
	AuM	% change ⁽¹⁾	Mkt Share	
UK	3,761	9%	47%	195%
France	1,495	11%	19%	74%
Italy	596	47%	7%	38%
Netherlands	400	-2%	5%	67%
Germany	289	-7%	4%	11%
Belgium ⁽²⁾	121	4%	2%	32%
Portugal	48	-6%	1%	29%
Hungary	9	7%	0.11%	9%
Greece	2	13%	0.03%	1%
Turkey	1	-10%	0.02%	0.2%
Rest of Europe ⁽³⁾	1,298	11%	16%	34%
Total	8,021	10%	100%	56%

(1) End 2012 AuM compared to end 2011 AuM.

(2) Figure for Belgium includes unit linked insurance products and pension funds.

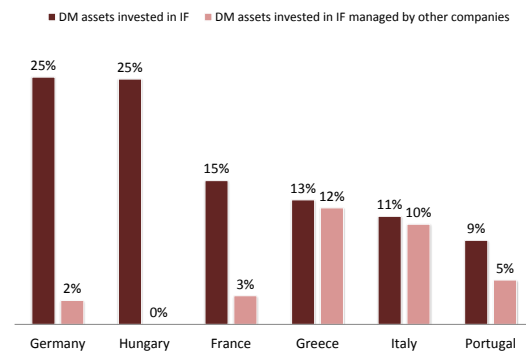
(3) Includes Romania (EUR 25 million).

The evolution of discretionary mandates AuM in 2012 painted a mixed picture across Europe, with several of the smaller countries (in terms of AuM) posting declines in discretionary mandate AuM, whereas the largest markets for discretionary mandates, all posted large rises in AuM. Overall, total assets in discretionary mandates increased by 10% during the year thanks to increases in the larger markets. AuM in the UK rose 9% during the year compared to 11% in France and 47% in Italy. As mentioned above, the asset growth in Italy was as a result of a restructuring of business by a large Italian asset manager, which saw the management of assets being moved to Italy. Elsewhere, discretionary mandate assets in Germany decreased by 7% during the year.

In relation to AuM/GDP, the UK stands out with AuM amounting to 195% of GDP. France follows with AuM/GDP amounting to 74% and the Netherlands 67%. These AuM/GDP ratios are well above the European average of 56%.

Discretionary mandates often invest in investment funds to take advantage of the benefits offered in terms of diversification and cost efficiency (see exhibit 19).¹³ In Germany and Hungary, the share of discretionary mandate assets invested in investment funds amounted to 25%, followed by France (15%) and Greece (13%). Exhibit 19 also identifies the extent to which discretionary mandates are invested in investment funds managed by the asset managers themselves or by other asset managers. By way of illustration, in Italy 10% of discretionary mandates were invested in investment funds managed by other asset managers, compared to only 3% in France and 2% in Germany.

Exhibit 19: Share of DM assets Invested in IF at end 2012

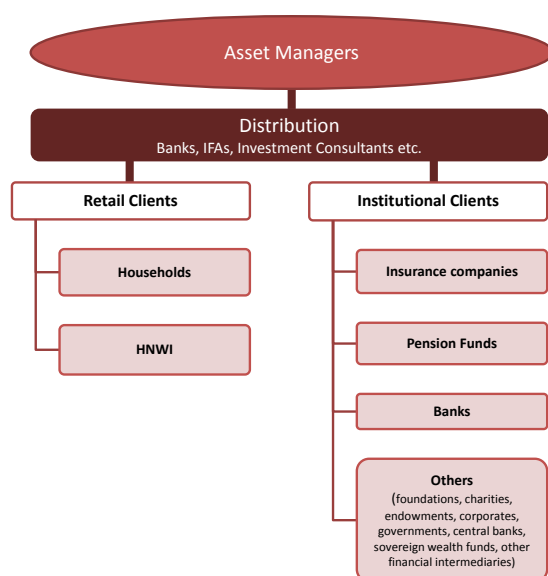


5 Clients of the European Asset Management Industry

The client base of the asset management industry is commonly divided into retail clients – usually composed of households and high net worth individuals (HNWI) – and institutional clients – usually referring to insurance companies, pension funds, other financial institutions, corporates and governmental entities.

Concerning its retail client base, asset managers are often dependent on the quality of third-party distributors. Nevertheless, retail investors are increasingly accessing investment funds through asset managers' internet platforms in some countries.

Exhibit 20: Asset Managers' Client Base



Although some insurance companies and pension funds manage assets in-house, a substantial number of these firms do rely on the expertise of third-party asset managers. By way of illustration, in France, institutional investors outsource the management of more than 60% of assets to third party asset managers.¹⁴ In addition, asset managers serve other institutional clients by managing financial reserves held by non-financial companies, banks, government, local authorities, and endowments. Many of these clients invest through a combination of

investment funds and discretionary mandates. In providing these solutions, asset managers have become a key part of financial services industry.

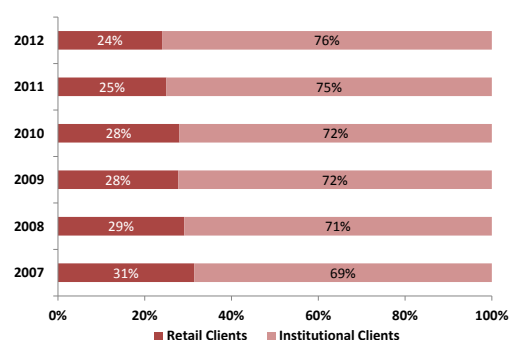
This section covers the following themes: the evolution of asset managers' client base, the relative importance of retail and institutional clients in discretionary mandates and investment funds, and finally, the assets managed for institutional clients.

5.1 Evolution of the Institutional and Retail Segments

Exhibit 21 highlights the gradual increase of institutional clients' share of total AuM, rising from 69% in 2007 to 76% in 2012. Institutional clients, especially insurance companies and pension funds, have continued to use the expertise of the asset management industry to invest and manage the recurrent contributions collected from their members throughout the financial crisis.

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

Exhibit 21: Asset Managers' Client Base (end 2012)



There are significant variations in the client base across Europe. In France and the UK institutional clients accounted for over 80% of all clients (see exhibit 22). This reflects the ability of these countries to attract large institutional mandates from pension funds (UK) and insurance companies (France). The European average is heavily skewed by the overwhelmingly large institutional client base in these two countries.

Exhibit 22: Asset Managers' Client Base across Europe (end 2012)

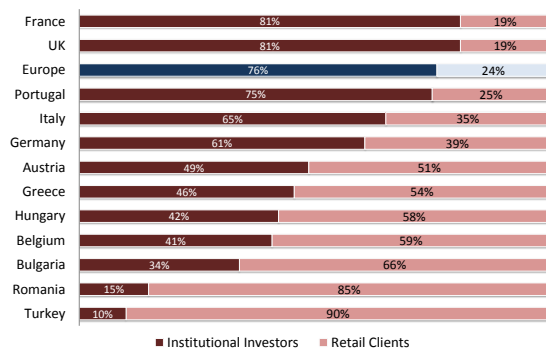
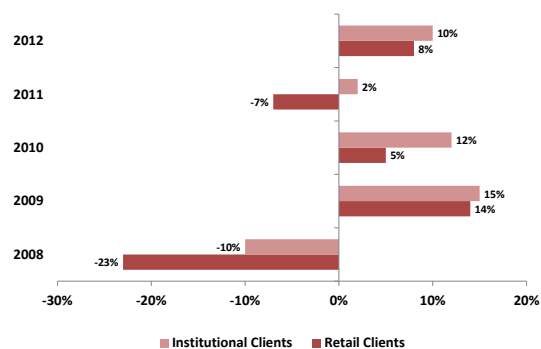


Exhibit 23 depicts the growth rates of AuM by client type. Growth of AuM for institutional clients reached 10% in 2012 and has outpaced growth of AuM for retail clients since 2008. AuM for retail clients has been more volatile over the period, experiencing declines in 2008 and 2011. However, AuM rose 8% in 2012.

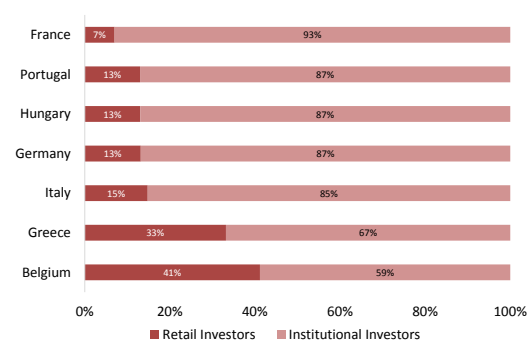
Exhibit 23: AuM Annual Growth Rates by Client Type



5.2 Investment Funds and Discretionary Mandates per Client Type across Countries

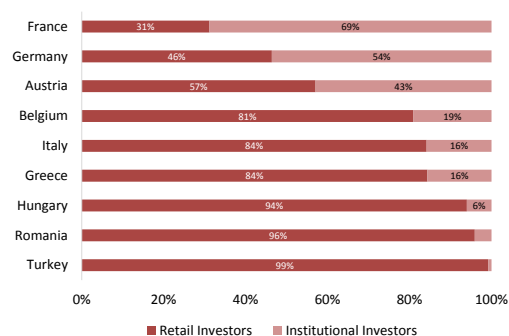
Turning to the importance of institutional and retail client types in discretionary mandates and investment funds, exhibit 24 demonstrates that institutional investors dominate the discretionary mandate segment of the market in the selected European countries. In France, discretionary mandates managed for institutional clients account for 93% of total discretionary mandate assets, whilst in Portugal, Germany and Hungary they top 87% and 85% in Italy. Such specialization can be attributable to two factors. Firstly, mandates are typically associated with minimum assets under management thresholds, making them less attractive investment vehicles for retail investors. Second, mandates can offer specific investment solutions according to the investor' sophisticated needs, such as asset-liability management, liability driven investments and separation of alpha and beta investment approaches. In general, asset managers deliver such customized solutions and services to clients with a relatively high level of investable assets, i.e. institutional investors, high-net-worth individuals and large corporates.

Exhibit 24: Discretionary Mandates by Client Type (end 2012)



The importance of institutional and retail client types in investment funds is presented in exhibit 25. Institutional and retail clients' shares of AuM in investment funds display a more heterogeneous picture across the European landscape with funds predominantly targeted at retail clients in Turkey, Romania, Hungary, Greece, Italy and Belgium. In France, institutional investors account for 69% of investment fund assets. This is partly due to the use of investment funds in workplace pension schemes as well as the important role played by money market funds in cash management of many French corporations. In Germany and Austria, special investment funds (Spezialfonds) are very popular investment vehicles dedicated exclusively to institutional investors, i.e. insurance companies, pension funds and municipal agencies.

Exhibit 25: Investment Funds by Client Type (end 2012)



5.3 Assets managed for Institutional Clients

Given that institutional clients represent the largest share of the asset managers' activity, we dedicate this section to expand the analysis of the asset managers' activity for this client segment in particular.

Institutional clients consist of a broad range of clients as depicted in exhibit 26. Despite the large number of clients fitting into this category, institutional clients are dominated by insurance companies and pension funds.

Overall, these two clients accounted for 74% of total AuM for institutional clients at end 2012. Insurance companies held the top position with 42% of the AuM, being the same level as in 2011. Pension funds held 32% of total AuM for institutional investors at end 2012, down from 33% in 2011.

Other institutional clients include corporates, foundations, and sovereign wealth funds. The aggregate share of these investors stood at 23% at end 2012, up from 22% registered at end 2011.

Exhibit 26: Breakdown of Institutional Investors by AuM

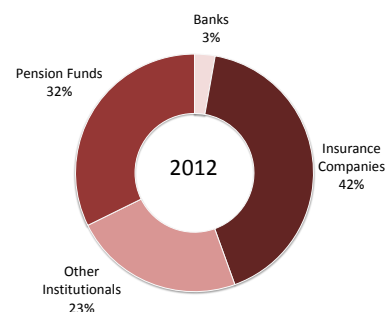
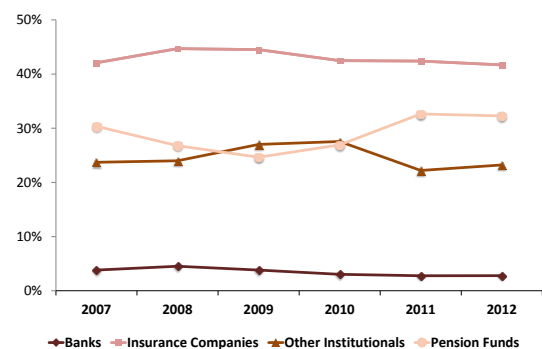


Exhibit 27 depicts the evolution of the breakdown of institutional clients in 2007-2012. The increase in the share of pension funds since 2009 can easily be seen in the graph, whereas the share of other institutionals has decreased somewhat since 2010.

Exhibit 27: Evolution of the Share of the breakdown between Institutional Clients



There are significant variances from country to country in the relative importance of each type of institutional client (see exhibit 28). This reflects differences in the role of insurance products in retirement savings, the structure of national pension systems and the role of banks in the distribution of retail investment products. Another influential factor is the degree to which asset managers in a particular country attract capital from certain categories of foreign investors.

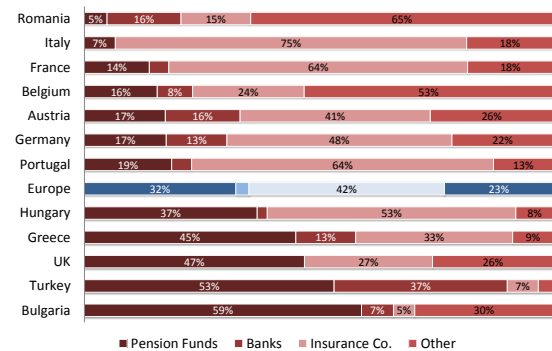
Exhibit 28 illustrates how important certain institutional clients are in a number of countries. Pension funds, for instance, represent the largest type of institutional mandates in the Bulgaria, Turkey, the UK and Greece, whereas they are a less important client category elsewhere.

Insurance companies represent the largest group of institutional clients in Italy, France, Portugal, Hungary, Germany and Austria.

Banks represent a small part of the total institutional AuM, except in Turkey where 37% of all AuM were managed for banks. The share of banks in Romania (16%), Austria (16%), Greece (13%) and Germany (13%) followed.

Finally, the share of other institutional clients can be also quite significant in a number of countries. The big share of other institutional clients in some countries can be partly attributable to the pension system. In Romania and Bulgaria, for instance, this large share (65% and 30%, respectively) is due to the first pillar bis public pension system, where contributions are managed by private management companies. In Belgium and the UK, other institutional clients account for 53% and 26% respectively, given the large business of fund of fund managers and also corporate companies. In Austria, other clients account for 26% of all institutional clients, consisting primarily of large corporations or foundations.

Exhibit 28: AuM by Institutional Client and Country (end 2012)

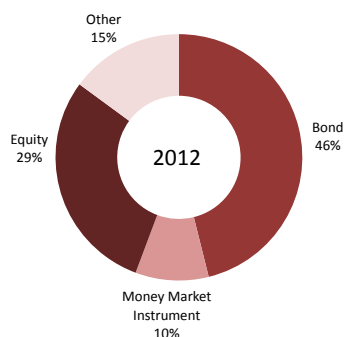


6 Asset Allocation

6.1 European Asset Allocation

This section provides an overview of asset managers' asset allocation. Depending on the type of clients, and their respective preferences in terms of risk level, time horizon and outcome target, the asset management industry can adjust the proposed asset allocation to meet the expectations of its diverse range of clients.

Exhibit 29: Asset Allocation



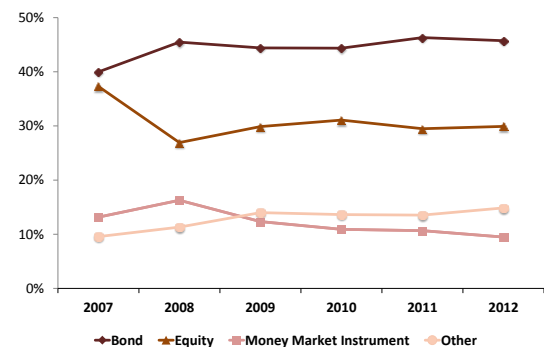
Bond assets dominate asset managers' asset allocation choice, with a share of 46% of all assets at end 2012. Equity assets accounted for 29% of assets, whilst money market and cash equivalents represented 10% of assets. The remainder was made up of other assets, which include a magnitude of products ranging from property and hedge funds to structured products and private equity. Other alternatives such as infrastructure assets are also included in this segment (see exhibit 31).

Looking at the evolution of the asset allocation over the past five years, it can be seen that the portfolio mix is considerably different at end 2012 than at end 2007 (see exhibit 30).

The asset allocation to bonds increased from 40% in 2007 to approximately 46% in 2008, and has hovered around this level since. Bonds benefitted from the extreme levels of risk aversion on financial markets following the collapse of Lehman Brothers in 2008 and

the attractiveness of corporate bonds in a low interest rate environment.

Exhibit 30: Evolution of Asset Managers' Asset Allocation

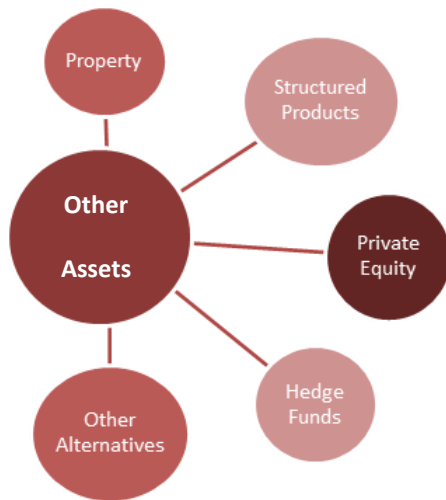


Asset managers' holdings of equity assets experienced a substantial drop during the financial crisis. In 2007, the asset allocation in equity stood at 37% and dropped to 29% in 2008 and hovered around this mark since then.

Holdings of money market instruments amounted to 10% at end 2012. The share has not stopped declining since 2008 when it rose to 16% from 13% in 2007.

Other assets, which have experienced growth in their share of total assets, increased from 10% at end 2007 to 15% at end 2012. This segment has gained greater prominence over the past number of years, primarily at the expense of money market instruments, as asset managers searching for yield and risk diversification moved towards this alternative asset base. This structural shift in the market came despite the limited liquidity offered by many alternative assets.

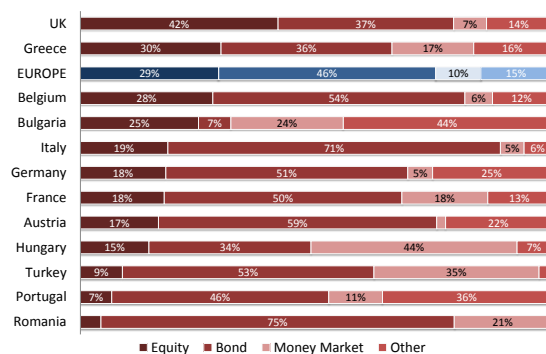
Exhibit 31: Other Assets



6.2 Asset Allocation by Country

Exhibit 32 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 preferences of overseas investors.

Exhibit 32: Asset Allocation by Country at end 2012



The high share of equity in the UK (42%) can be attributed to a long established culture of equity investing in parallel with the growth of defined-benefit occupational schemes and more recently with the growth of the defined-contribution market. The strong

equity share in the UK stands in contrast to the asset allocation in most other European countries. Given that the UK accounts for approximately one third of total AuM in Europe, the European average would be considerably different when excluding the UK. For instance in 2012, when excluding the UK, the European average share of equity would merely amount to 18%, whereas the share of bond assets would rise to 54%.

In the other large markets, equity assets represented 18% in France and Germany and 19% in Italy at end 2012. In contrast to the asset allocation to equity assets, the UK held just 37% of its portfolio in bond assets. This is considerably lower than the European average of 46%, and significantly lower than Italy, where portfolio holdings of bond assets amounted to 71%. In Germany bond assets accounted for 51% of total AuM and in France, they accounted for 50%.

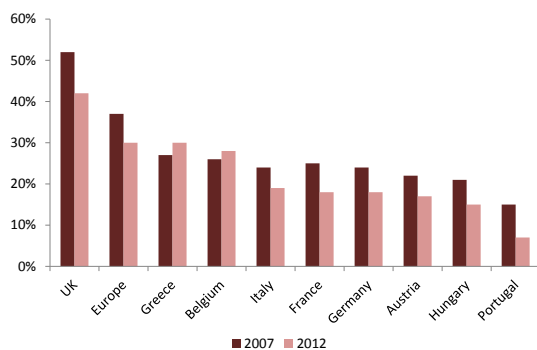
These high levels of bond allocations contribute to the financing of corporates. Indeed, bond portfolios are divided between securities issued by government agencies and by private issuers (financial and non-financial companies). In an environment of falling interest rates, corporates have received increasing attention from asset managers. This evolution seems to reflect two factors: first, the change in the type of financing of non-financial companies, which are making greater use of capital market financing as a result of the decline in bank lending, and second, the increased demand for their securities by asset managers in search of better diversification of risk and higher returns.¹⁵

In France, 18% of AuM are held in money market instruments, compared to 7% in the UK and 5% in Germany. An historic reason explains why France became Europe's largest center of money market funds: a regulation forbidding remuneration of banking accounts. Despite the abolition of this rule in 2005, money market funds remained an important segment of the French fund industry because their clients – mostly corporations, institutional investors and to a

lesser extent households – continued to value their advantages in terms of diversification of counterparty risk and services for cash management. The existence of large and deep money markets also allowed dynamic management of money market funds.

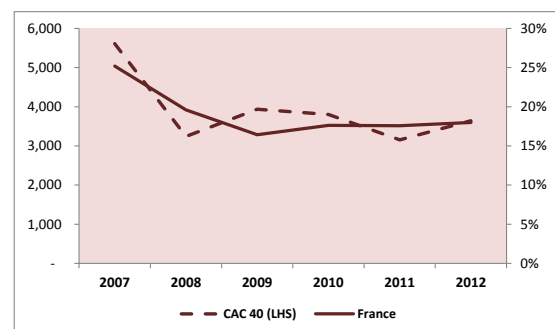
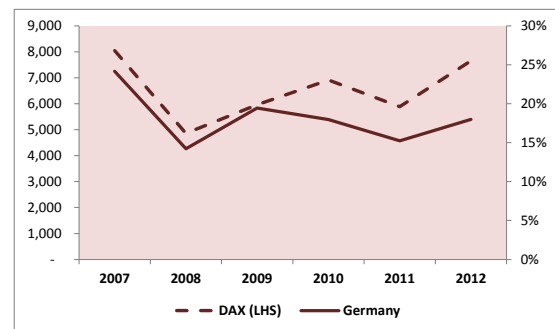
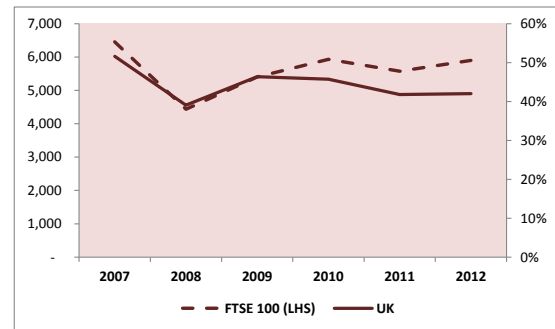
Exhibit 33 shows the asset allocation to equity assets across countries at end 2012 and compares this to the same holdings at end 2007. It can be seen that only two countries (Greece and Belgium) have increased their holdings of equity assets between 2007 and 2012. All other countries have reduced holdings of equity in their portfolio mix.

Exhibit 33: Equity Asset Allocation by Country



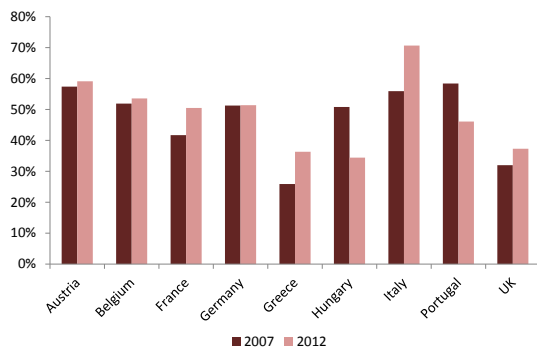
The correlation between the share of equity AuM and that of the performance of the local stock market for the largest financial centers can be seen in exhibit 34. It can be seen that the stock market fallout in 2008 was accompanied by a corresponding decrease in portfolio holdings of equity assets. And when the stock market recovered in 2008, the share of equity assets jumped as well. Since then, the share of equity AuM remained relatively stable. Exhibit 34 shows that the relative stability of the share of equity AuM in 2009-2012 in the UK and Germany contrasts to the good performance of the equity markets in these countries. In France, the evolution of the share of equity AuM mirrored the development of the benchmark French stock market index (CAC 40).

Exhibit 34: Local Stock Market Performance Versus Equity Asset Allocation by Country



In contrast to equity assets, the asset allocation to bond assets has risen in most European countries between 2007 and 2012 (see exhibit 35). The European average holding of bond assets increased to 46% in 2012 from 40% in 2007. This increase came during a time of unprecedented low interest rates. Investors favored fixed income products as the economic outlook remained uncertain during much of the past five years. Most countries held a larger proportion of their portfolio in bond assets, with the exception of Portugal and Hungary.

Exhibit 35: Bond Asset Allocation by Country



6.3 Asset Allocation in Investment Funds and Discretionary Mandates

This section discusses the breakdown of the portfolio mix held in investment funds and discretionary mandates. There are differences between how the assets in investment funds and discretionary mandates are allocated.

Investment funds held approximately 33% of their AuM in equity and 33% in bonds at end 2012. 14% of investment funds assets were held in money market instruments/cash, whilst other assets accounted for the remaining 20%.

Exhibit 36: Asset Allocation in Investment Funds at end 2012

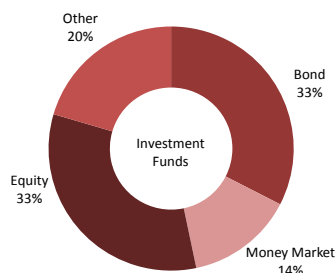
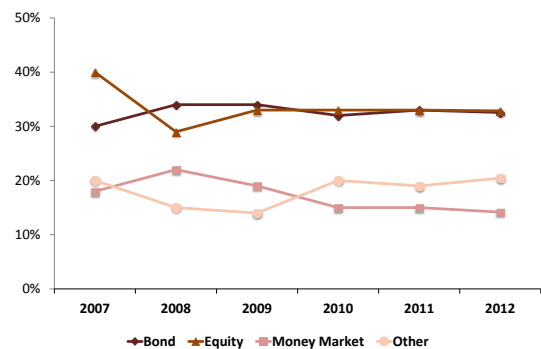


Exhibit 37 highlights the evolution of investment fund holdings since 2007. It can be seen that the asset allocation to equity stood at 40% at end 2007, after which it fell to 29% in 2008. Since 2009 holdings of equity by investment funds has remained at approximately 33%. In contrast, bond assets held by investment funds increased over the

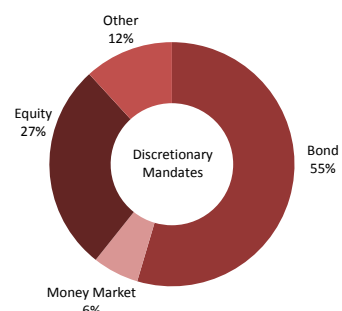
period from 30% to 33%. The reduction in holdings of equity assets and corresponding increase in bond holdings came over a period of uncertainty regarding the economic outlook, and falling interest rates. Holdings of money market/cash equivalents have decreased from a high of 22% in 2008 to 14% in 2012. Holdings of other assets have hovered around the 20% mark, with the exception of 2008 and 2009, when the asset allocation to these assets decreased to approximately 14%. Funds of funds and mixed funds would be included into this 'other funds' category.

Exhibit 37: Evolution of Asset Allocation in Investment Funds in 2007-2012



Turning to the portfolio mix held by discretionary mandates at end 2012, exhibit 38 shows that bond assets made up the lion's share in the portfolio mix of assets held by discretionary mandates (55%). Equity assets made up 27% of total assets. Money market instruments/cash made up 6% of discretionary mandates holdings at end 2012. The asset mix held by discretionary mandates has traditionally been more conservative than those held by investment funds.

Exhibit 38: Asset Allocation in Discretionary Mandates at end 2012



Looking at the evolution of portfolio holdings of discretionary mandates, holdings of bond assets accounted for 48% of the total asset mix at end 2007, whereas equity assets represented 35%. The onset of the financial crisis caused a shift in asset managers risk preferences which saw holdings of equity slump to 27% in 2008, whilst bond assets increased to 54%. The share of bond assets continued to increase to 58% in 2011, whilst equity assets represented 26% of the asset mix. The tide began to shift again in 2012 as holdings of equity increased and bond holdings decreased as the economic outlook improved and uncertainty about future interest rate developments rose. Holdings of money market instruments decreased from 10% in 2007 to 6% in 2012 as low interest rates persisted. On the other hand, holdings of alternative assets increased from 7% of at end 2007 to 12% at end 2012.

Exhibit 39: Evolution of Asset Allocation in Discretionary Mandates in 2007-2012

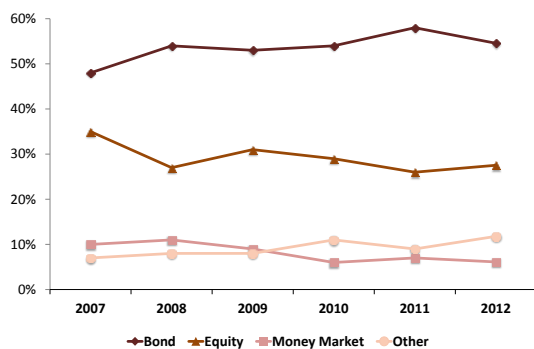
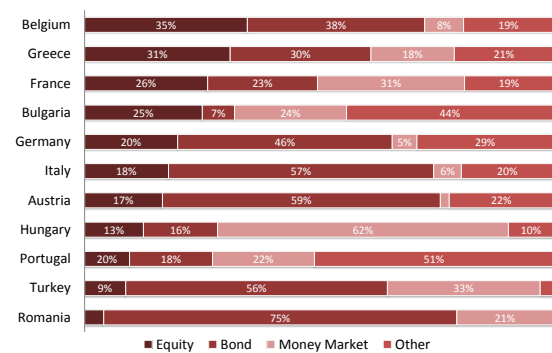


Exhibit 40 and 41 depict the asset allocation across countries in terms of investment funds and discretionary mandates at end 2012.¹⁶ Although the figures give some indication on the dominant risk preferences, it should be recalled that the European asset management industry is highly internationalized, with mandates and investment funds being often managed for foreign clients. For instance, investors in a country with predominantly low equity exposure product solutions may choose to appoint asset managers to manage their equity investments. Despite the impact from cross-border selection of asset managers, certain patterns can be distilled from the data on asset allocation.

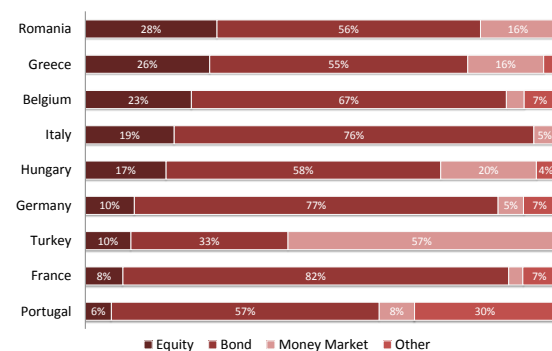
The asset allocation in investment funds varies between countries (exhibit 40). Only four countries have a quarter or more of investment fund assets invested in equity assets (Belgium (35%), Greece (31%), France (26%) and Bulgaria (25%)), whereas four countries have over half of all assets invested in bond assets (Romania (75%), Austria (59%), Italy (57%) and Turkey (56%)).

Exhibit 40: Asset Allocation in Investment Funds at end 2012



It is clear from exhibit 41 that discretionary mandates have an asset allocation much more biased towards bond assets than investment funds, thus underlying the conservative nature of discretionary mandates. It is interesting to note that the asset allocation to bond assets in discretionary mandates reaches 82% in France, 77% in Germany and 76% in Italy.

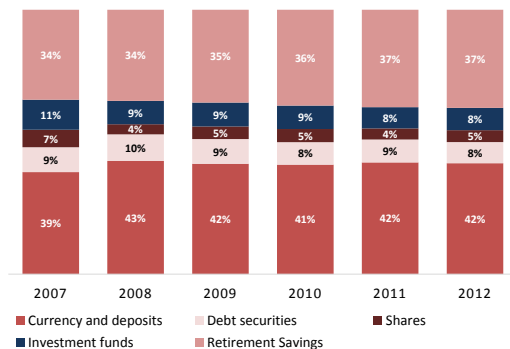
Exhibit 41: Asset Allocation in Discretionary Mandates at end 2012



6.4 Asset Allocation of Retail and Institutional Clients¹⁷

Since the start of the financial crisis in 2007, retail clients have shifted their wealth allocation further towards bank accounts and retirement savings products. This trend supports the idea that retail clients have an increasing preference for liquidity and security, which has been accentuated in a context of low economic growth, high unemployment and lower confidence in financial markets and investment products. Exhibit 42 illustrates this evolution by showing the euro area's financial asset allocation between 2007 and 2012. This evolution contributes to explain the low proportion of retail clients in the AuM of asset managers in Europe.

Exhibit 42: Euro Area Households Financial Asset Allocation

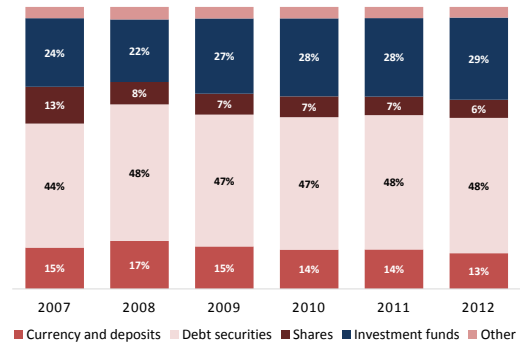


Source: ECB

All this being said, it should be recognized that retail clients are also indirect customers of the asset management industry through their contributions to occupational and personal pension plans. Indeed, as mentioned above, a large majority of providers of these plans appoint asset managers for the management of their plans' assets.

It is also true that pension funds and insurers tend to hold a growing share of their assets in investment funds (see exhibit 43). This evolution is responsible for an institutionalization of the European investment fund market.

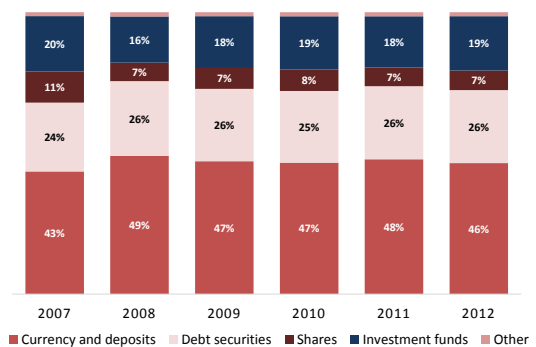
Exhibit 43: Financial Asset Allocation of Insurers and Pension Funds in the Euro Area



Source: ECB

Given this connection, it is possible to estimate the share of financial wealth that households are holding in investment funds directly and indirectly, i.e. via their pension plans contracted with insurers or pension funds. This is done by "looking through" the assets held by households in retirement savings, assuming that those assets are diversified according to the asset allocation of insurers and pension funds. Following this approach, it can be seen that the share of direct and indirect holdings of investment funds by euro area households stood at 19% at end 2012 (see exhibit 44).

Exhibit 44: Euro Area Households Financial Asset Allocation with Retirement Savings broken down by Underlying Assets



Sources: ECB and EFAMA

7 Industrial Organization

7.1 Asset Management Companies

There were approximately 3,200 asset management companies operating in Europe in 2012. Exhibit 45 shows the number of firms in each country, although this is an underestimation of the total number of asset management companies in Europe as the figure reported for some countries refers to the number of companies that are members of the local trade association and not the number of companies that are registered in those countries. Hedge funds and private equity asset managers are only included in the reported figures if they are members of the local trade association.¹⁸

France, Ireland, Luxembourg, Italy and Germany are home for the highest number of asset management companies. The high figure reported for France reflects the large number of independent and specialized asset managers, including management companies of private equity funds. The high number of asset management companies operating in Ireland and Luxembourg is on account of the role played by these two countries in the cross-border distribution of UCITS. The regulatory requirement that was in place until the introduction of UCITS IV¹⁹ that required fund houses to have a management company in each country where they have funds domiciled also plays a role in the high number of firms in Luxembourg and Ireland.

This does not mean that Luxembourg and Dublin have become asset management centers similar to London, Paris and Frankfurt. Indeed, most global asset management groups with a fund range from Luxembourg or Dublin operate under a “delegation model”, whereby the pure investment management functions are carried out in their asset management centers. Within the framework of the UCITS

regime, management companies have been permitted to manage funds cross-border, and are no longer required to appoint service providers in the domicile of the fund, except the custodian bank. This has the potential of reducing the number of management companies of cross-border UCITS through the centralization of asset management, administration and risk management operations.

Exhibit 45: Number of Asset Management Companies ⁽¹⁾

Countries	2011	2012
Austria *	29	29
Belgium	87	87
Bulgaria	33	32
Czech Republic	21	21
Denmark	16	16
Finland	35	35
France	599	604
Germany	293	296
Greece	60	56
Hungary	35	35
Ireland	431	431
Italy	283	276
Liechtenstein *	23	23
Luxembourg	361	351
Netherlands	196	196
Norway	22	22
Poland	36	36
Portugal	81	81
Romania	21	21
Slovakia *	13	13
Slovenia	11	11
Spain	115	107
Sweden	78	74
Switzerland	119	119
Turkey	32	34
United Kingdom *	191	194

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

An estimation of the average amount managed by asset management companies can be calculated using the figures from exhibits 5 and 45. On average, an asset management company managed EUR 4.8 billion of assets at end 2012. Exhibit 46 shows the average assets under management in each respective country. These figures are an arithmetic mean, which do not take into account the large variations managed by different companies.

Exhibit 46: Average AuM per Asset Manager at end 2012 (EUR billion)

Countries	Average AuM
UK ⁽¹⁾	7.9
Germany	4.9
France	4.9
Netherlands	3.8
Italy	3.0
Austria	2.9
Belgium	2.6
Portugal	0.8
Hungary	0.6
Turkey	0.5
Greece	0.1

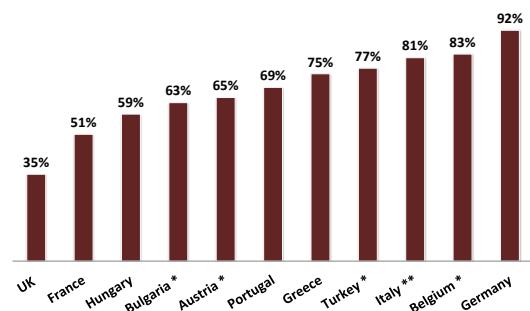
(1) Average calculated on the basis of the estimated total assets managed in the UK (€6.4trn) and the estimated total number of firms managing assets, including niche firms outside the IMA membership (800).²⁰

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 £6.4 billion (EUR 7.8 billion), with 12 IMA member firms each managing in excess of £100 billion at end 2012.²¹ In Germany, according to the German Association of Investment and Asset Management Companies (BVI), 3 firms were managing more than EUR 100 billion, with the BVI estimating the median at EUR 7.4 billion.²² AFG estimates the median AuM of the 100 largest firms in France to be EUR 5 billion, with 6 firms managing more than EUR 100 billion in France at end 2012. According

to Assogestioni, two companies in Italy managed assets over EUR 100 billion, with the median assets being calculated at EUR 1 billion.

The European investment fund industry is dominated by large players across countries. As one of the main aims of European economic integration is the achievement of the Single Market, it is useful to look at the concentration of the top five asset managers in each country as an indicator of the level of financial integration. Exhibit 47 shows the degree of concentration of individual portfolio management/mandates of the top 5 asset managers/fund companies in each country. The top five asset managers in the UK control 35% of the market.

Exhibit 47: Concentration of the Top 5 Asset Managers at end 2012



(*) = Top 5 asset managers of investment funds only
 (**) = Refers to managers of discretionary mandates only
 Source: EFAMA Fact Book 2013

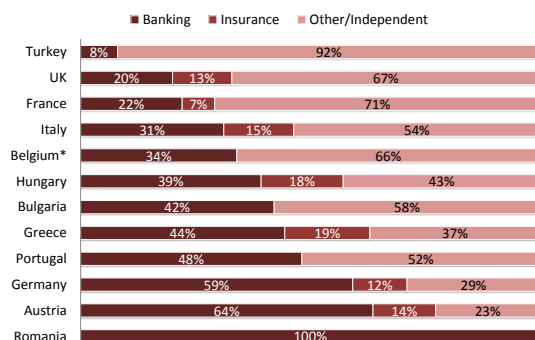
Another dimension of the industrial organization of the European asset management industry is the extent to which asset management firms operate as stand-alone companies, or form part of financial services groups. Such groups may be dominated by certain types of financial services, or may consist of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

As an indication of the dominant industrial organization across countries and an overview of the nature and importance of financial services groups, exhibit 48 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 48 relates to the number of firms, and not their AuM.

In most European countries banking groups represent the dominant parent company of the asset management industry controlling half or more of all asset management companies. Nevertheless, there are two big exceptions to this bank dominated model: the UK and France. In the UK, only 20% of asset managers are owned by banking groups, with insurance groups controlling 13%. In France, the majority of firms represent independent boutique asset managers. Banks retain ownership of 22% of asset managers and insurance companies consist of 7% of asset managers in France.

Exhibit 48: Number of Asset Management Companies by Parent Group Categories (end 2012)



(*) 34% for banking parent refers to banking/insurance parent company

7.2 Employment

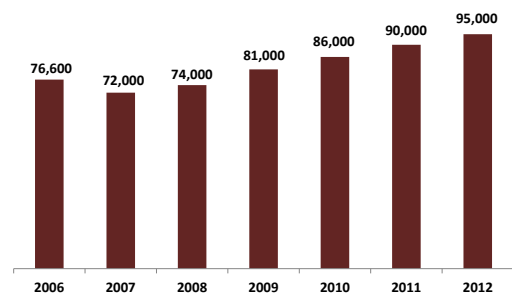
Exhibit 49: Direct Employment in the Asset Management Industry



An important indicator of the contribution of the asset management industry to the overall economy is the employment numbers

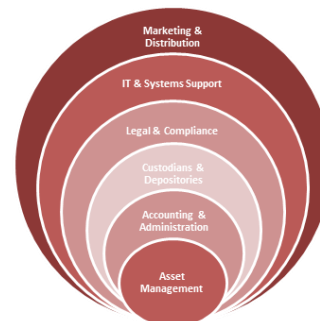
in asset management companies. The number of people directly employed in asset management companies in the UK, France and Germany alone is estimated to reach almost 62,000 at end 2012. Given these countries account for 65% of total AuM in Europe, we estimate that asset management companies directly employ around 95,000 individuals in Europe.

Exhibit 50: Evolution of Employment in Asset Management in Europe (estimate)



When looking at the number of people employed by the asset management industry, it is also necessary to take the employment associated with the related services of the core function of asset management into account such as accounting, auditing, custodianship, marketing, research, order processing, as well as distribution.

Exhibit 51: Asset Management and Related Services



In estimating total employment generated by the asset management industry in Europe, one also needs to include the jobs in Luxembourg and Ireland, the two leading

cross-border centers for fund administration and distribution inside and outside Europe. In Ireland, more than 12,000 people were employed directly in the investment fund industry at end 2012 providing a range of value-added services including fund administration, transfer agency, custody, legal, tax, and audit services.²³ In Luxembourg, 8,000 people were directly employed in the investment fund industry in Luxembourg in 2010, whereas employment in fund accounting and administration, transfer agents, custodians, trustees, client relationship management and related fund services was approximately 5,800.²⁴

Taking into account this wider scope of the industry, the French asset management association (AFG) has estimated that in France every direct position in asset management gives rise to 4.6 full time equivalent employees in related services.²⁵ This gives rise to approximately 84,000 jobs in the asset management industry and its related services in France alone. AFG has estimated that 48,300 of the additional jobs are related to the marketing and distribution of asset management products.²⁶ One way to get an estimation of the level of indirect employment in the European asset management industry is to apply this 4.6 ratio to the 95,000 people directly employed by asset managers across Europe. This would take total indirect employment of the asset management industry in Europe to approximately 435,000 jobs.

Exhibit 52: Total employment in the European Asset Management Industry in 2012



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

Appendix

The purpose of this annex is to explain the approach used in section 2.4 to estimate the market share of the European asset management industry in the financing of the euro area.

The first step consisted of collecting ECB data directly relevant to the debt and equity issued and held by euro area investment funds.

Exhibit 53 below shows that the outstanding stock of securities other than shares issued by euro area residents amounted to EUR 16,715 billion at end 2012. Investment funds domiciled in the euro area held 12.2% of this total, or EUR 2,032 billion. The market share of euro area investment funds in the debt issued by euro area governments and MFIs reached 11.5% and 13.2%, respectively.

Exhibit 53: Holdings of Securities Other than Shares Issued by Euro Area Residents and Held by Euro Area Investment Funds (end 2012)

Euro area Issuer	Securities held by euro area IF (EUR billion)	Total securities issued (EUR billion)	Share of euro area IF
General Government	798	6,953	11.5%
MFIs	718	5,433	13.2%
Other	515	4,330	11.9%
Total	2,032	16,715	12.2%

Exhibit 54 shows that the total market value of quoted shares issued by euro area residents amounted to EUR 4,498 billion at end 2012. Out of this total, euro area investment funds held EUR 721 billion at end 2012, or 16.0%.²⁷

Exhibit 54: Holdings of Shares and Other Equity Issued by Euro Area Residents and Held by Euro Area Investment Funds (end 2012)

Euro area Issuer	Shares held by euro area IF (*) (EUR billion)	Total quoted shares issued (EUR billion)	Share of euro area IF in
General Government	--	--	--
MFIs	61	402	15.2%
Non-financial corporations	582	3,742	15.6%
Other	78	353	22.0%
Total	721	4,498	16.0%

(*) Excluding money market funds, which had a very limited equity exposure at end 2012 (EUR 1 billion).

Source: Data from ECB

Estimating the overall contribution of European asset managers to the financing of the euro area, taking into account the debt and equity held by European investment funds domiciled outside the euro area and the discretionary mandates, is more difficult due to lack of consistent data. To overcome this problem, we have estimated that the remaining part of the assets professionally managed in Europe at end 2012, which is estimated at EUR 7,342 billion, i.e. total AuM (EUR 15,434 billion) minus total assets held in euro area investment funds (EUR 8,094 billion), had the same exposure to debt and equity issued by euro area residents as euro area investment funds, i.e. 25.1% and 8.9%, 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 1,842 billion and EUR 653 billion, respectively.

The second step was to add up the estimated assets held by European asset managers in euro area debt (EUR 2,032 billion and EUR 1,842 billion) and equity (EUR 721 billion and EUR 653 billion). On this basis, according to our calculations, the outstanding amount of debt and equity issued by euro area residents and held by European asset managers stood at EUR 3,875 billion and EUR 1,374 billion, respectively. Exhibit 55 highlights that European asset managers held 23% of the securities other than shares issued by euro area residents at the end of 2012, and 31% of the share and other equity issued by euro area residents.

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

Exhibit 55: Holdings of Debt and Equity Issued by Euro Area Residents and Held by European Asset Managers (end 2012)

	Securities other than shares (EUR billion)	Shares and other equity (EUR billion)
Euro area assets held by European asset managers ⁽¹⁾	3,875	1,374
Securities/Shares issued by euro area residents ⁽²⁾	16,715	4,498
Total share of European asset managers	23%	31%

(1) EFAMA estimations, (2) Data from ECB

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

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- ¹ The report has been prepared by Bernard Delbecque and Jonathan Healy. We are grateful to our member associations for providing the data that allow us to produce this report. We would like to thank [Effie Bourboulas, Sergio Brito, Hans Janssen Daalen, Ivo Ivanov, Armin Kammel, Teresa Lapolla, Jonathan Lipkin, Carsten Lüders, Carlos Pardo, Michael Pirl, Selin Sözer, Graham Taylor, Andras Temmel, Adrian Tudose, Thomas Valli and Andy Vangenck] for their contributions to the preparation of this report.
- ² Two main sources of information were used: the EFAMA 2013 Fact Book and the McKinsey & Company report: “Strong performance, but health still fragile: Global Asset Management in 2012, Will the goose keep laying golden eggs?” (July 2013).
- ³ See “The Economics of Money, Banking and Financial Markets”, by Frederic S. Mishkin.
- ⁴ See “Exercise of voting rights by asset management companies in France in 2013” published by AFG.
- ⁵ 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.
- ⁶ See “Trends in the European Investment Fund Industry in the Fourth Quarter of 2013 and Results for the Full Year 2013”, EFAMA’s Quarterly Statistical Release N°56, March 2014, available at www.efama.org.
- ⁷ The standing of the European asset management industry at end of 2013 will be analyzed in detail in next year’s EFAMA Asset Management Report.
- ⁸ European GDP relates to the GDP of the 27 EFAMA member countries.
- ⁹ See Boston Consulting Group report : « Global Asset Management 2013: Capitalizing on the Recovery» (July 2013).
- ¹⁰ More information about asset management data in Germany, and recent updates can be downloaded from the BVI website at: www.bvi.de/de/statistikwelt/Investmentstatis tik/index.html.
- 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 More information on AIFMD can be found on the European Commissions’ website at: http://ec.europa.eu/internal_market/investment/alternative_investments_en.htm.
- ¹³ The allocation of discretionary mandates to investment funds results in a certain degree of double counting. However, such double counting is negligible in relation to total assets (approx. 2%).
- ¹⁴ See “Paris EUROPLACE – Redonner sa Compétitivité au Pôle Investisseurs de la Place de Paris”, report published with contributions of the Boston Consulting Group, 20 September 2013.
- ¹⁵ For more information about this in France, see “Contribution des gestions au financement de l’économie française”, Carlos Pardo et Thomas Valli, AFG, cahier de la gestion n°3 2012.
- ¹⁶ Excluding the UK due to a change in collection method of data, which would not allow a precise breakdown between investment funds and discretionary mandates.
- ¹⁷ Financial assets are defined here as currency and deposits, debt securities, quoted shares, investment funds and insurance and pension reserves. Unquoted shares, loans and other accounts receivables and financial derivatives are excluded from the analysis.
- ¹⁸ By way of illustration, taking into account non-IMA member hedge funds and private equity funds, the total number of asset management companies in the UK would probably add to approx. 800.
- ¹⁹ UCITS IV refers to the recast UCITS Directive 85/611/EEC (entered into force in 1988 as amended by UCITS III in 2002) which brought a number of key enhancements to the UCITS regime, including the management company passport.
- ²⁰ The figure of total assets under management reported in this report for the UK (€5.4trn) corresponds to total assets under management by IMA members. Taking into account the assets managed by firms outside

the IMA membership base, including hedge funds, private equity vehicles, property funds and discretionary private client managers, IMA estimated that the assets managed in the UK would total €6.4trn at end 2012.

- ²¹ Figures for median assets in the UK are taken from surveys undertaken by the IMA (UK) covering a sample of firms and not the entire dataset as presented in exhibit 47. See Asset Management in the UK 2012-2013, The IMA Annual Survey, which can be downloaded from:
<http://www.investmentuk.org/research/ima-annual-industry-survey>.
- ²² Figures for median assets in Germany are taken from surveys undertaken by the BVI (Germany), covering a sample of firms and not the entire dataset as presented in exhibit 46.
- ²³ See
<http://www.irishfunds.ie/fs/doc/publications/why-ireland-january-2013.pdf>
- ²⁴ See “Etude d’impact de l’industrie financière sur l’économie luxembourgeoise”, version chiffres de 2010, Deloitte, January 2012. This study is available at the following address:
http://www.cssf.lu/fileadmin/files/Publication/Rapports_ponctuels/etude_impact_2010.pdf
- ²⁵ See study “Les emplois dans la gestion pour compte de tiers” published by AFG in September 2011 at:
http://www.afg.asso.fr/index.php?option=com_docman&task=doc_download&gid=2973&temid=158&lang=en
- ²⁶ This estimation represents the full-time equivalent jobs induced by the payments and compensations made by asset managers to distributors.
- ²⁷ By way of comparison, investment funds domiciled in France held 12% of the total value of all outstanding shares of French publicly-traded companies at end June 2010: see “Contribution des OPCVM aux fonds propres des entreprises, C. Pardo and T. Valli, Cahiers de la Gestion, April 2011” available at
http://www.afg.asso.fr/index.php?option=com_docman&task=doc_download&gid=2762&temid=158&lang=en. Also, this percentage would be considerably higher if it was calculated using the free-float market capitalization of euro area quoted companies (i.e. the shares readily available in the market excluding those locked-in or held by

governments, company officers or controlling-interest investors).