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EUROPEAN FUND INDUSTRY REVIEW - 2019

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EXECUTIVE SUMMARY

Review Q1-2019-European Investors Return to the Bond Markets

- The European fund industry faced estimated net outflows in Q1 2019. These outflows came after the first year with estimated net outflows since 2012.

- The overall fund flows for mutual funds in Europe amounted to net outflows of €58.3 bn for Q1 2019.

- Bond funds (+€34.8 bn) was the best-selling individual asset type overall for Q1 2019.

- Bond Emerging Markets Global in Hard Currencies (+€11.3 bn) was the best-selling sector among long-term funds for Q1 2019.

- **PIMCO**, with net sales of €8.3 bn, was the best-selling fund promoter for Q1 2019 overall, well ahead of **Credit Mutuel** (+€3.7 bn) and **AB** (+€3.3 bn).

- The outflows over Q1 2019 were nearly equally split between non-retail and retail investors.

- The European fund market increased by 28 funds over the course of Q1 2019.

EUROPEAN FUND INDUSTRY REVIEW Q1 2019

The European fund industry faced estimated net outflows of €58.3 bn in Q1 2019. These outflows came after the first year with estimated net outflows since 2012. The flows were mainly driven by the discussions about a possible trade war between the U.S. and China, a possible return of the Euro crisis caused by developments in Italy and France, an environment of rising interest rates in the U.S., and a general economic slowdown with decreasing earnings at the company level. Nevertheless, since the equity markets showed a rebound over the course of Q1 2019, one would have expected to see net inflows into mutual funds. That said, even as the general environment was negative, some fund promoters still enjoyed significant inflows. It was also not surprising to witness that the European fund industry experienced further mergers and acquisitions on the asset manager side, as well as in the service provider segment.

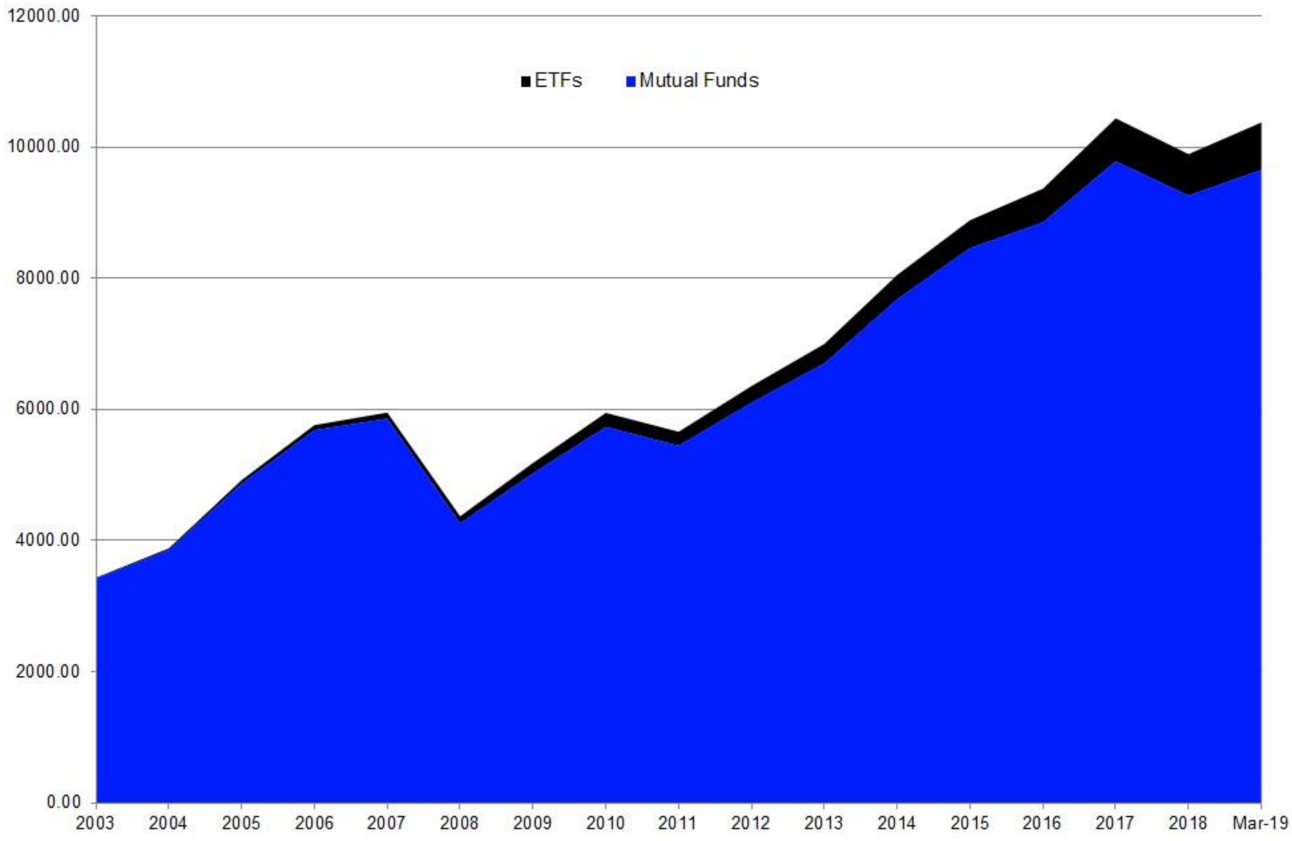
Assets Under Management in the European Fund Industry

The assets under management in the European fund industry increased from €9.9 tr to €10.4 tr in 2019 year to date. This increase was driven by the performance of the underlying markets (-€542.2 bn), while net sales contributed outflows of €58.3 bn.

Since exchange-traded funds (ETFs) have become an important part of the European fund industry, it is essential to review that market segment separately to get a better picture of the underlying trends in the market, although the numbers for ETFs are included in the overall numbers for the European fund industry.

The European ETF industry enjoyed in Q1 2019 a further increase in popularity with all types of investors. This popularity was seen in the form of net sales (+€27.2 bn), and increasing assets under management up to €725.2 bn, from €633.1 bn, at the end of December 2018.

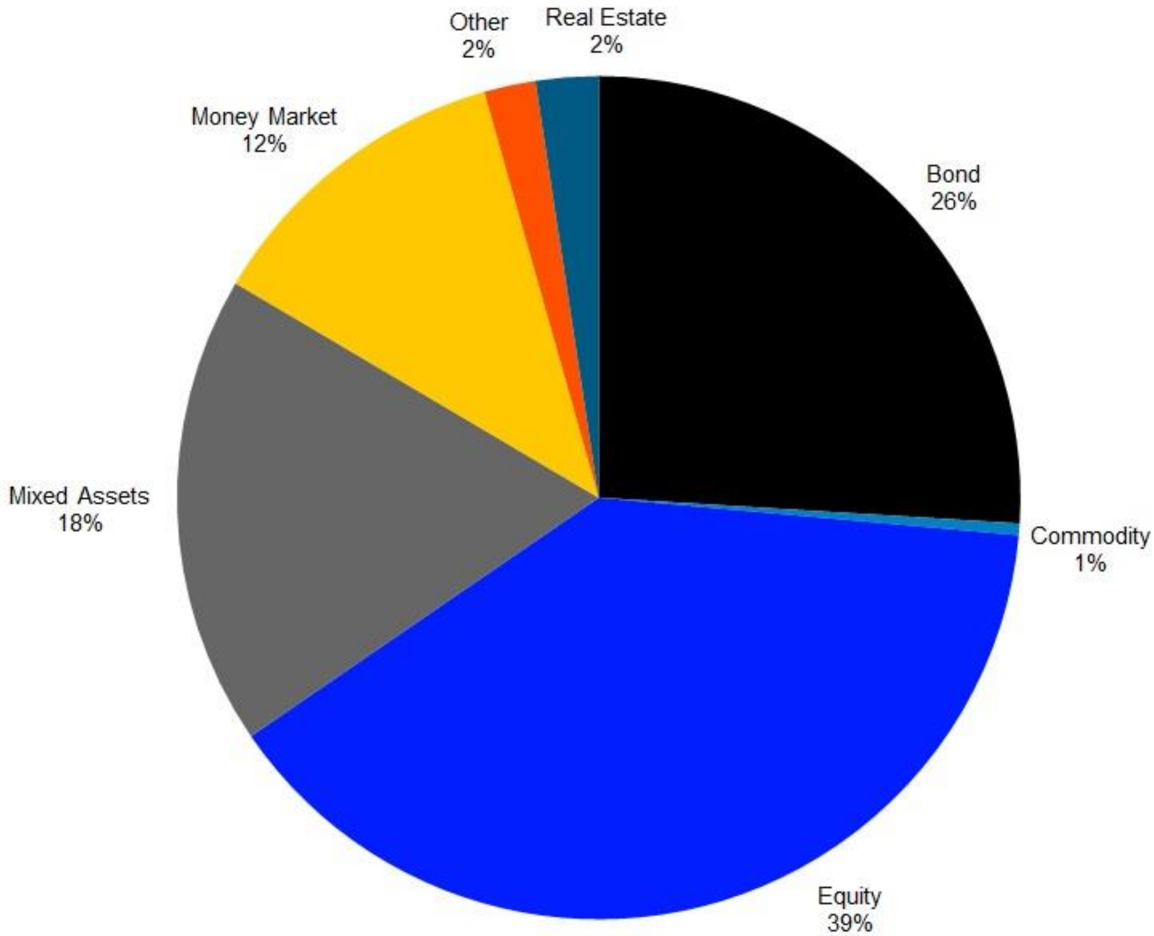
Graph 1: Assets Under Management in the European Fund Industry by Product Type (Euro Billions)



Source: Lipper at Refinitiv

With regard to the overall number of funds, it was not surprising that equity funds (€3.9 tr) were the asset type with the highest assets under management, followed by bond funds (€2.7 tr), mixed-asset products (€1.8 tr), money market funds (€1.2 tr), alternative UCITS funds (€0.6 tr), real estate funds (€0.2 tr), "other" products (€0.2 tr), and commodity funds (€0.04 tr).

Graph 2: Market Share by Asset Type (March 31, 2019)

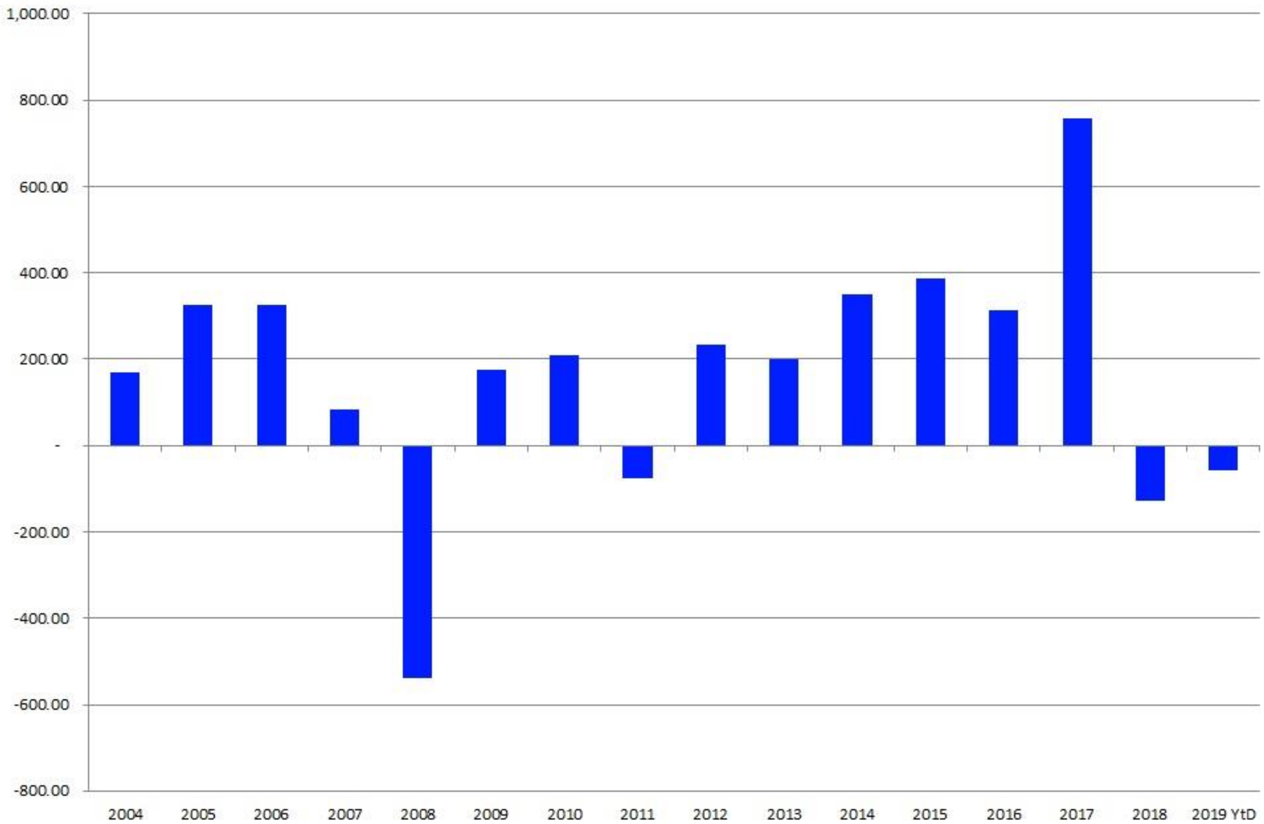


Source: Lipper at Refinitiv

European Fund Flow Trends Q1 2019

Generally speaking, the year 2019 has so far been a tough year for the European fund management industry since mutual funds (-€58.3 bn) faced further outflows. That said, it seems to be a bit surprising that 2019 has been a good year for the promoters of ETFs, as ETFs enjoyed inflows of €27.2 bn year to date. Upon further review, however, this pattern seems to be rather normal since ETFs also experienced inflows during other periods where mutual funds experienced outflows, such as the financial crisis in 2008 (+€52.8 bn) and the Euro crisis in 2011 (+€16.7 bn).

Graph 3: Estimated Net Flows in the European Mutual Fund Industry (Euro Billions)



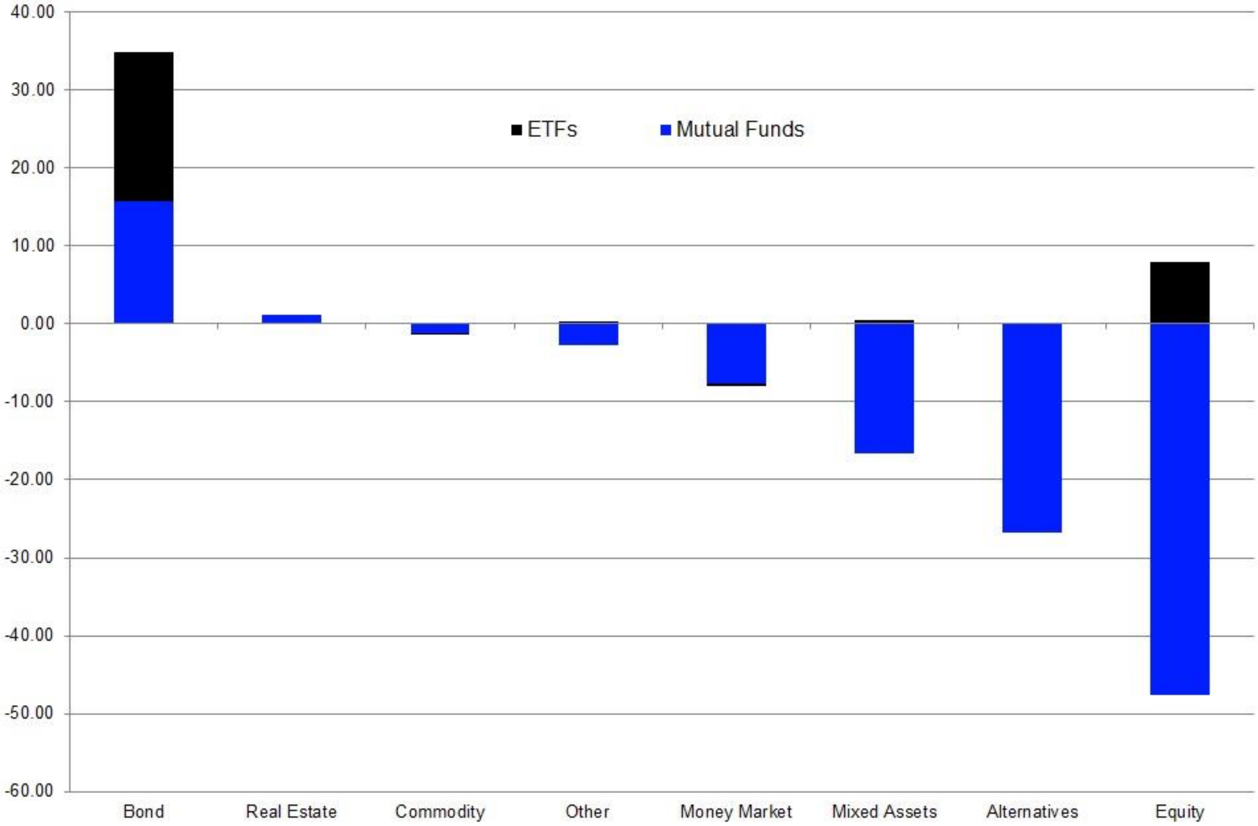
Source: Lipper at Refinitiv

Fund Flows Into Long-Term Mutual Funds

A more detailed view by asset type reveals that not all asset types had outflows in Q1 2019. Bond funds (+€34.8 bn) was the best-selling asset type, followed by real estate funds (+€1.1 bn), while equity funds (-€39.6 bn) was the asset type with the highest outflows overall, bettered by alternative UCITS funds (-€26.8 bn), mixed-asset funds (-€16.1 bn), money market funds (-€8.0 bn), “other” funds (-€2.4 bn), and commodity funds (-€1.4 bn). These fund flows added up to overall net outflows of €50.3 bn from long-term investment funds year to date. These flows may indicate that European investors decreased the risk in their portfolios, even as they bought corporate and emerging markets bonds, which are not considered safe haven products.

The European ETF segment showed different overall dynamics, as these products enjoyed inflows (+€27.2 bn) over the course of the first quarter of 2019. With regard to net inflows, bond ETFs was the asset type with the highest net inflows (+€19.0 bn), followed by equity ETFs (+€8.0 bn), mixed-asset ETFs (+€0.5 bn), "other" ETFs (+€0.3 bn), and alternative UCITS ETFs (+€0.1 bn), while commodity ETFs (-€0.2 bn) and money market ETFs (-€0.4 bn) faced outflows. These flows may indicate that European investors have a preference for the product features of ETFs (transparency and liquidity) when investing in bonds and equities during rather uncertain market conditions.

Graph 4: Estimated Net Sales by Asset Type, Q1 2019 (Euro Billions)



Source: Lipper at Refinitiv

Fund Flows into Money Market Products

As European investors sold long-term mutual funds, one would expect they would have bought money market funds instead, as these products are considered so-called safe haven products. That said, it was surprising money market products (+€8.0 bn) faced outflows over Q1 2019.

This flow pattern led the overall fund flows to mutual funds in Europe to net outflows of €58.3 bn for 2019 year to date.

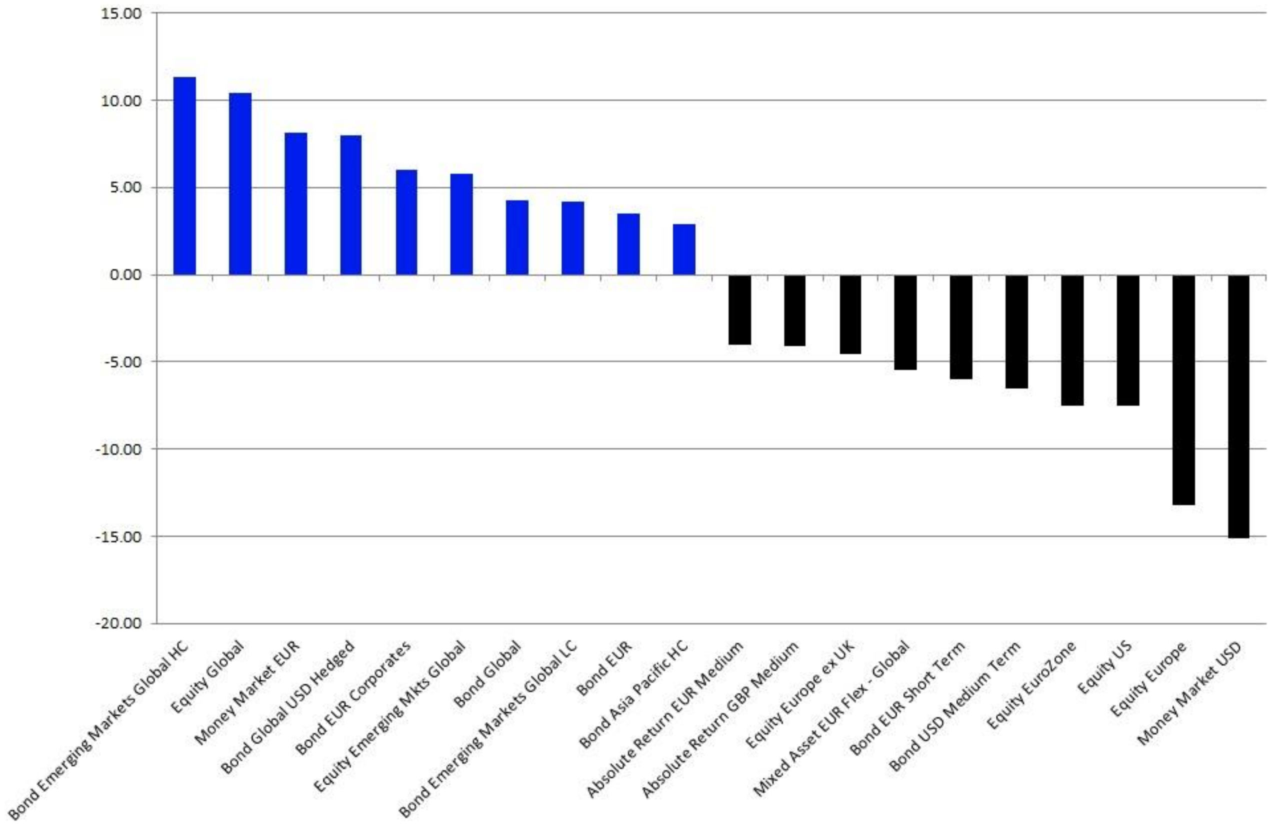
Money Market Products by Sector

Money Market EUR (+€8.2 bn), followed by Money Market GBP (+€1.0 bn) and Money Market Other (+€0.5 bn) were the three best-selling money market sectors for Q1 2019. At the other end of the spectrum, Money Market USD (-€15.1 bn) suffered the highest net outflows overall, bettered by Money Market EUR Leveraged (-€2.3 bn) and Money Market CHF (-€0.5 bn).

Fund Flows by Sectors

Bond Emerging Markets Global in Hard Currencies (+€11.3 bn) was the best-selling sector within the segment of long-term mutual funds, followed by Equity Global (+€10.4 bn), Bond Global USD Hedged (+€8.0 bn), Bond EUR Corporates (+€6.0 bn), and Equity Emerging Markets Global (+€5.8 bn).

Graph 5: The 10 Best and Worst Selling Sectors for Q1 2019 (Euro Billions)



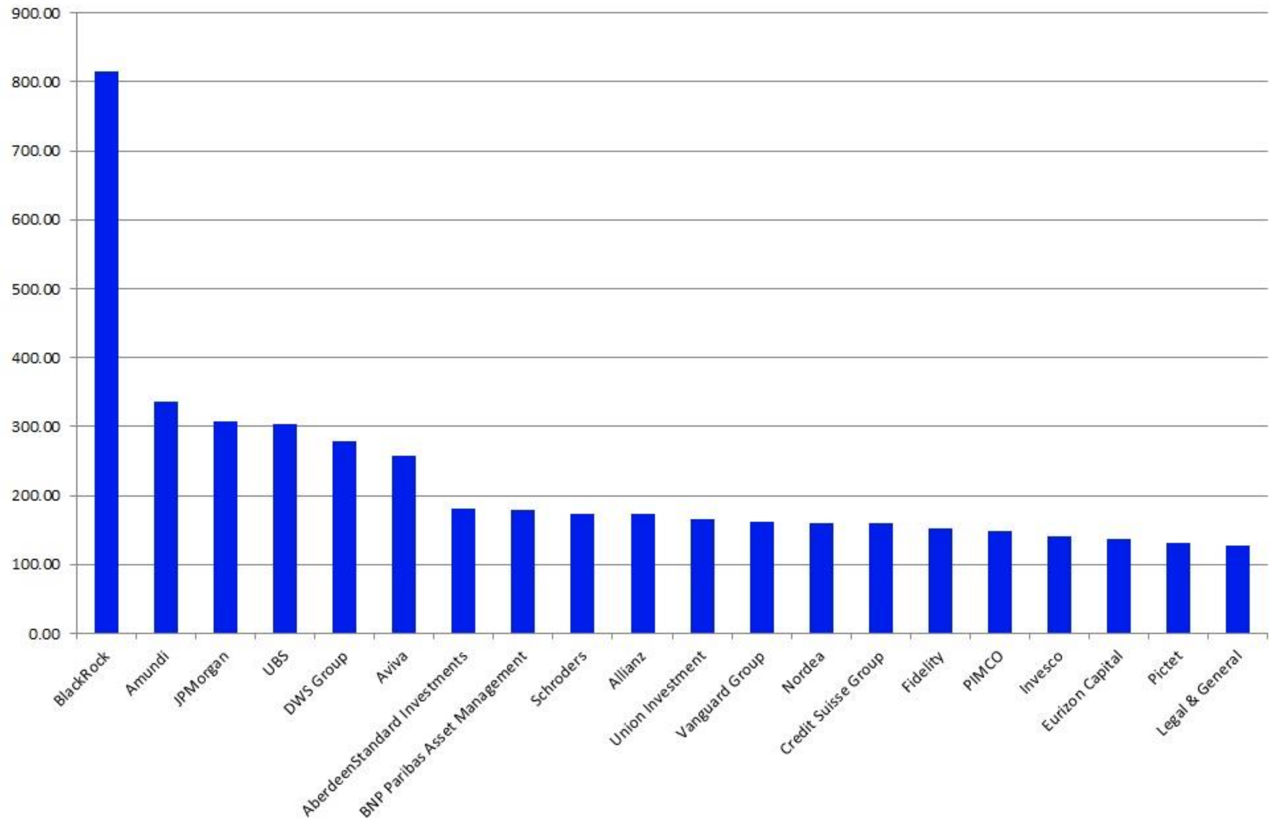
Source: Lipper at Refinitiv

At the other end of the spectrum, Equity Europe (-€13.2 bn) suffered the highest net outflows from long-term mutual funds, bettered by Equity US (-€7.5 bn), Equity Eurozone (-€7.5 bn), Bond USD Medium Term (-€6.5 bn), and Bond EUR Short Term (-€6.0 bn).

Assets Under Management by Promoters

A closer look at the assets under management in the European mutual fund industry shows that **BlackRock** (€814.4 bn) was by far the largest fund promoter in Europe, followed by **Amundi** (€336.9 bn), **JP Morgan** (€307.4 bn), **UBS** (€304.3 bn), and **DWS Group** (€278.3 bn).

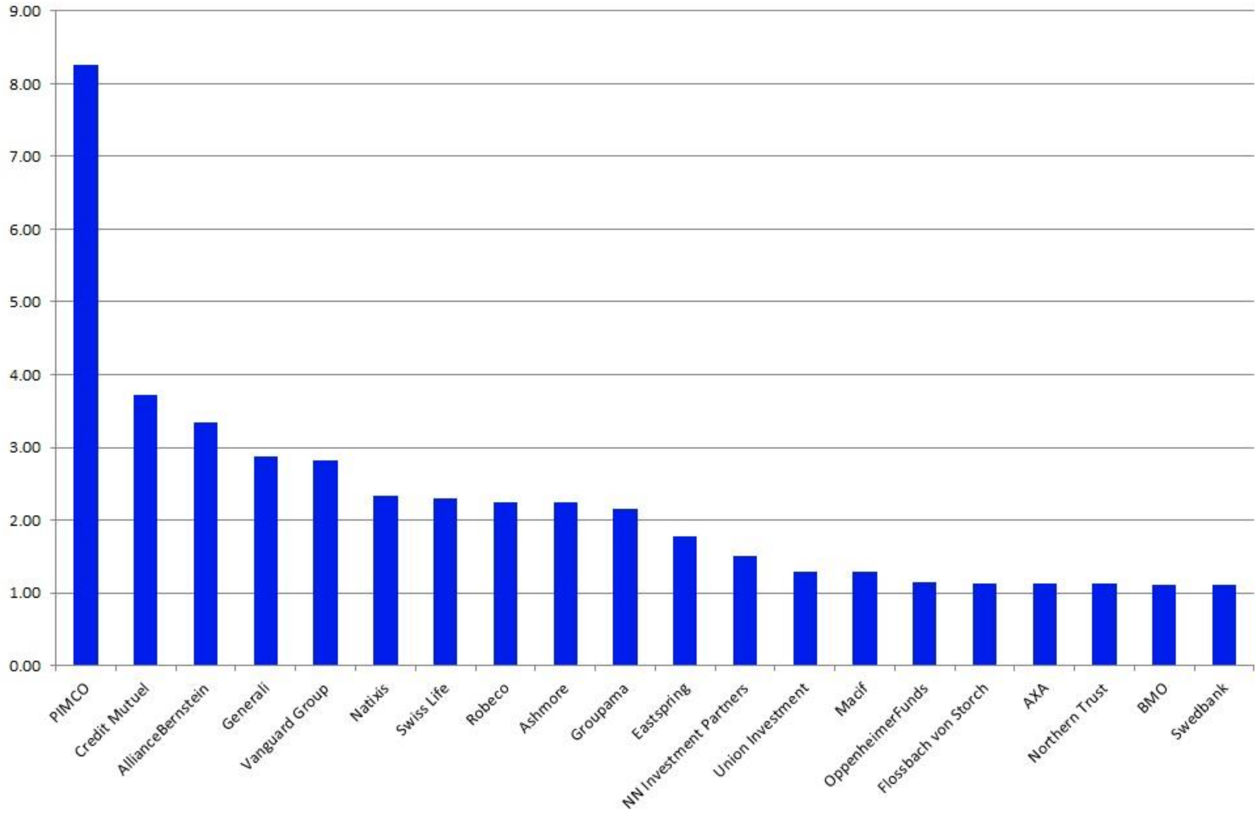
Graph 6: The 20 Largest Promoters by Assets Under Management in Europe, March 31, 2019 (Euro Billions)



Source: Lipper at Refinitiv

Fund Flows by Promoters
PIMCO, with net sales of €8.3 bn, was the best-selling fund promoter for Q1 2019 overall, well ahead of **Credit Mutuel** (+€3.7 bn), **AB** (+€3.3 bn), **Generali** (€2.9 bn), and **Vanguard Group** (€2.8 bn).

Graph 7: Twenty Best Selling Promoters, Q1 2019 (Euro Billions)



Source: Lipper at Refinitiv

Considering the single-asset bases, **BlackRock** (+€12.3 bn) was the best-selling promoter of bond funds for Q1 2019, followed by **PIMCO** (+€8.4 bn), **AB** (+€3.2 bn), **Vanguard Group** (+€2.9 bn), and **JP Morgan** (+€2.4 bn).

Within the equity space, **UBS** (+€6.7 bn) stood at the head of the table, followed by **KBC** (+€2.8 bn), **Union Investment** (+€1.4 bn), **Robeco** (+€1.3 bn), and **Lindsell Train** (+€1.1 bn).

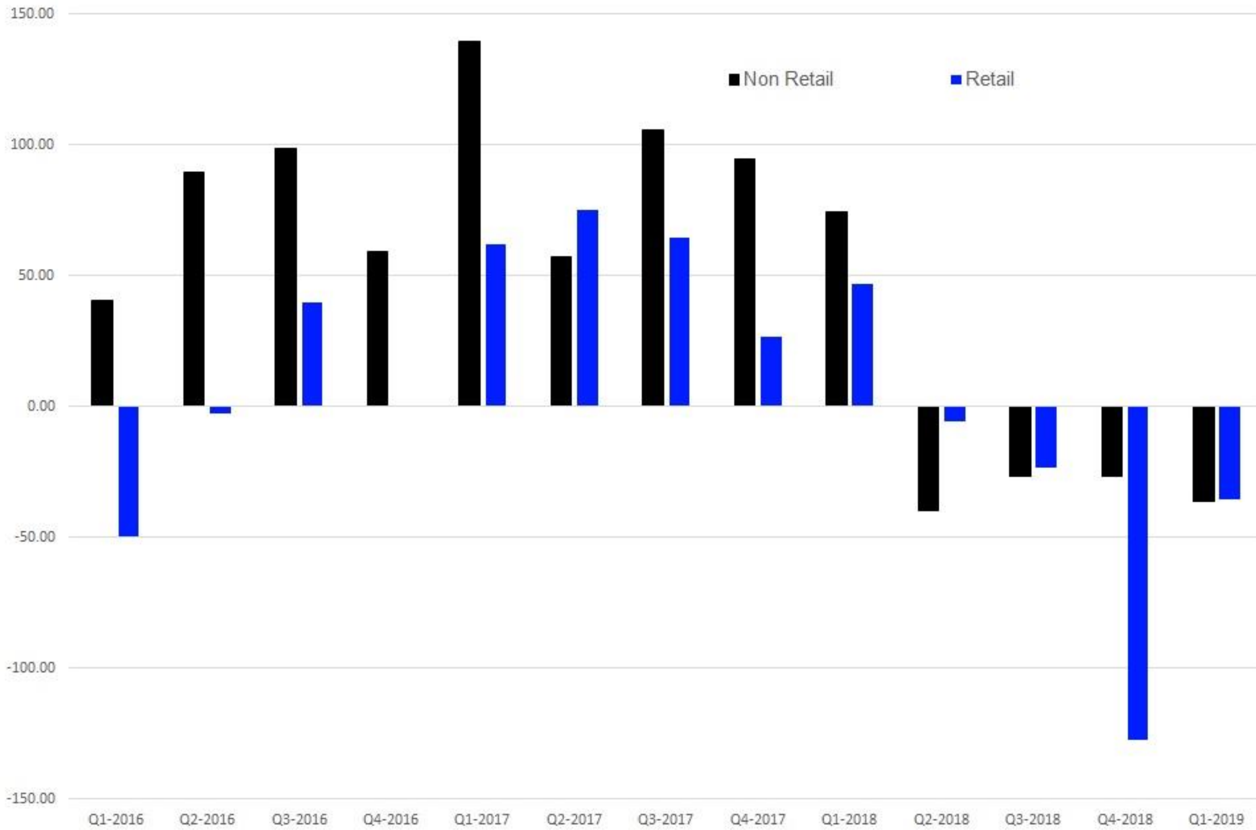
Union Investment (+€0.8 bn) was the leading promoter of mixed-asset funds in Europe for Q1 2019, followed by **Flossbach von Storch** (+€0.6 bn), **River and Mercantile** (+€0.4 bn), **Aviva** (+€0.3 bn), and **Baillie Gifford** (+€0.3 bn).

Flossbach von Storch (+€0.4 bn) was the leading promoter of alternatives funds over the course of Q1 2019, followed by **Lazard** (+€0.4 bn), **DWS Group** (+€0.3 bn), **H2O Asset Management** (+€0.2 bn), and **PIMCO** (+€0.2 bn).

Fund Flows by Investor Type

Within this section, we compare fund flows in mutual funds that are defined as institutional funds/share classes by the fund promoter or have a minimum investment of more than €50,000 (non-retail), and funds that have low or no restrictions for the minimum investment (retail). This does not mean there are only retail investors in the so-called retail funds, as these funds are open for all kind of investors. In addition, it is noteworthy that the retail flow numbers do include ETFs.

Graph 8: Quarterly Fund Flows by Investor Type (in bn EUR)

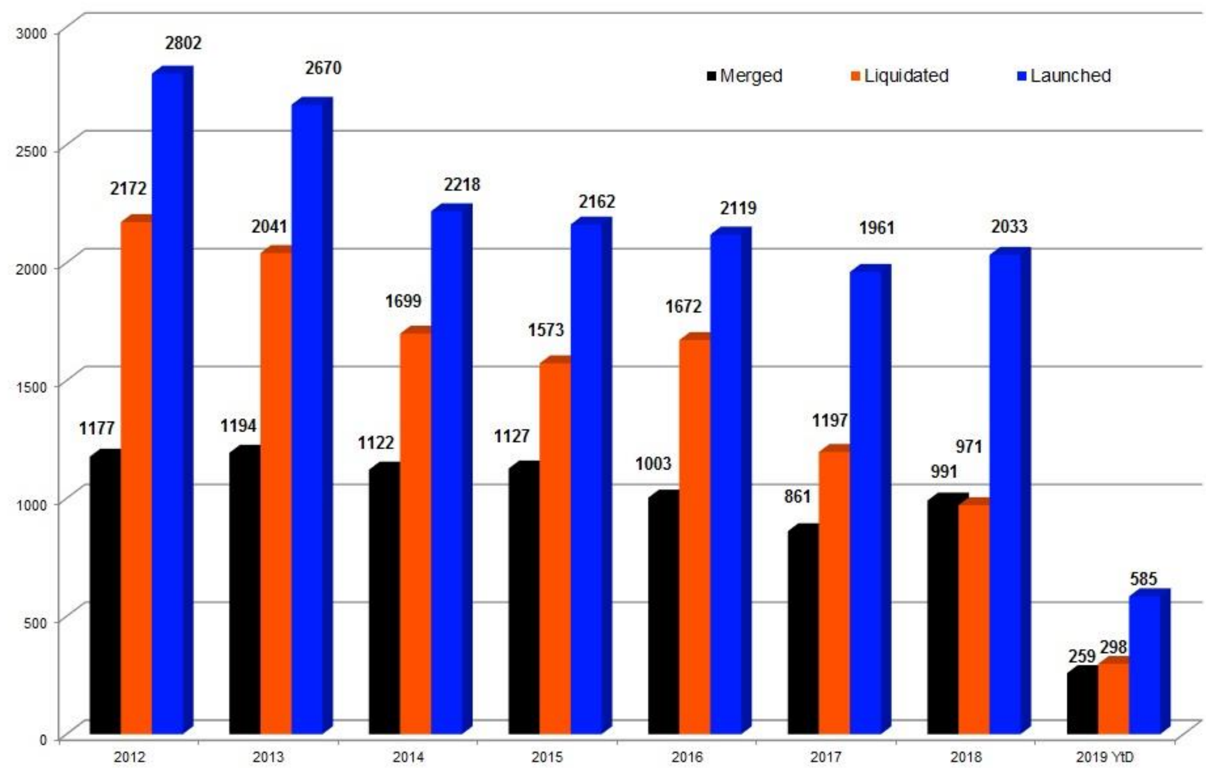


Source: Lipper at Refinitiv

As depicted in graph 8, the outflows over Q1 2019 were nearly equally split between non-retail (-€36.2 bn) and retail (+€35.2 bn) investors. The slightly higher outflows from non-retail funds over the course of Q1 2019 is somewhat in line (except Q4 2018) with the trends of the previous quarters with outflows within the last three years. From our point of view, the unusual high outflows from retail funds in Q4 2018 might have also been caused by transactions from professional investors, since a high number of these investors—especially in funds of funds and wealth management segment—do use retail funds and can, therefore, cause massive inflows and outflows over a short period of time. Retail investors, meanwhile, normally cause smaller but steady flows in one or the other direction.

Promoter Activity–Fund Launches, Liquidations, and Mergers
So far, 2019 has been a tough year with regard to net flows into mutual funds. Conversely, overall assets under management in the European fund industry increased as the equity markets recovered. Within this environment, the promoter activity with regard to fund launches, liquidations, and mergers indicated the industry is in a growth mode, as we witnessed an increasing number of funds in Europe over the course of Q1 2019. More generally, the increasing number of funds was continuing a trend in Europe since the rate of decline slowed down for six consecutive years and turned positive in 2018. The main reasons for the mergers and liquidations at the fund level were mergers of fund managers, as well as restructurings of the general product offerings; i.e. some fund promoters merged funds with similar investment objectives to strengthen their product ranges. Especially the activities of Lyxor and Amundi with regard to closing funds domiciled in France, and transfer of those assets under management to newly launched funds with the same strategy in Luxembourg, was one of the key drivers behind those numbers. Another factor that causes fund liquidations or mergers is low profitability because of the lack of assets under management in a fund. Especially since the implementation of new regulations, currently MiFID II, does increase the cost for maintaining a fund, we expect that the trend with regard to mergers and liquidations of small funds will continue in 2019.

Graph 9: Fund Launches, Liquidations and Mergers



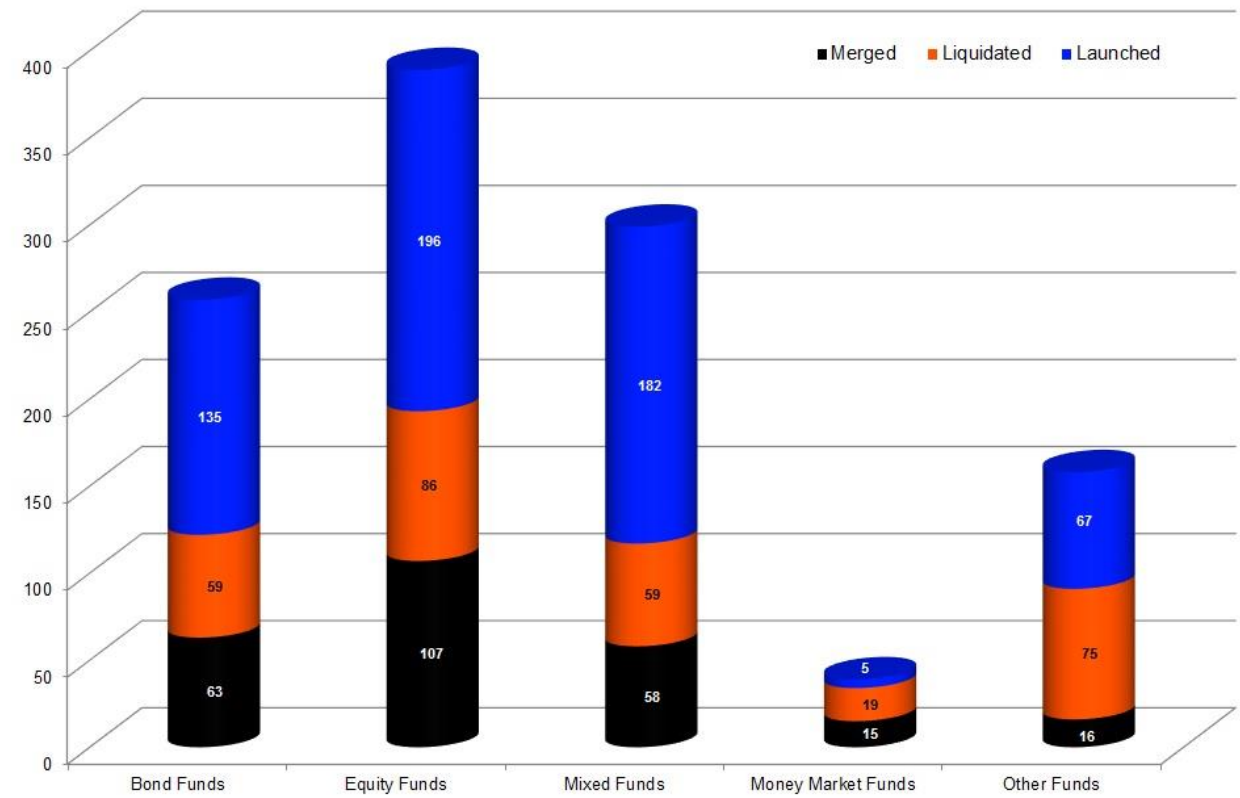
Source: Lipper at Refinitiv

The European fund promoters liquidated 298 funds over the course of Q1 2019, while 259 funds were merged into other funds. In contrast, European fund promoters launched 585 funds. This meant the European fund market increased by 28 funds over the course of Q1 2019.

A more detailed view shows that equity funds showed the highest number of mergers (107), liquidations (86), and fund launches (196). With regard to the broader trends in the financial markets, it was surprising equity funds showed the highest number of fund mergers and liquidations, given the current environment of rising equity markets.

It was, however, not surprising that mixed-asset products showed the highest net growth in the number of products available to investors in Europe as the fund industry reacts to investor behavior and mixed-asset products have experienced years of high net flows. Another driver for fund launches in the mixed-asset segment might be the fact that investors are looking for alternatives to bond products, as there are some uncertainties for different types of bonds ahead. Since the performance of many "old" mixed-asset products was heavily dependent on developments in the bond markets, it was not surprising that fund promoters liquidated (59) or merged (58) these products into their new product offerings (182), the so-called multi-asset funds. This helped to streamline the product ranges and generate assets under management for their successor funds.

Graph 10: Fund Launches, Liquidations and Mergers in Q1-2019 by Asset Type



Source: Lipper at Refinitiv

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