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EUROPEAN FUND INDUSTRY REVIEW - H1 2019

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EXECUTIVE SUMMARY

Review H1-2019-Diversification is key for European Investors

- The European fund industry enjoyed estimated net inflows over the course of the first half of 2019. These inflows follow the first year with estimated net outflows since 2011.

- The overall fund flows for mutual funds in Europe amounted to net inflows of €41.3 bn for H1 2019.

- Bond funds (+€130.7 bn) was the best-selling individual asset type overall for H1 2019.

- Bond Global USD (+€32.9 bn) was the best-selling sector overall.

- **AXA**, with net sales of €28.6 bn, was the best-selling fund promoter for H1 2019 overall, well ahead of **BlackRock** (+€23.1 bn), and **PIMCO** (+€23.0 bn), bn).

- The overall flows from non-retail (+€15.6 bn) and retail investors (+€25.5 bn) were in the same direction, even as Q2 2019 showed an opposite flow pattern.

- The European fund market increased by 43 funds over the course of H1 2019.

EUROPEAN FUND INDUSTRY REVIEW H1 2019

The European fund industry enjoyed estimated net inflows of €41.3 bn in H1 2019. These inflows follow the first year with estimated net outflows since 2011. These inflows occurred in a volatile but positive market environment driven by discussions of a possible trade war between the U.S. and China, a possible return of the Euro crisis caused by developments in Italy and France, and a general economic slowdown with decreasing earnings at the company level. Nevertheless, since the equity markets showed a rebound over the course of H1 2019, one would expect to see net inflows into mutual funds. That said, 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, as the pressure on fees and margins continues.

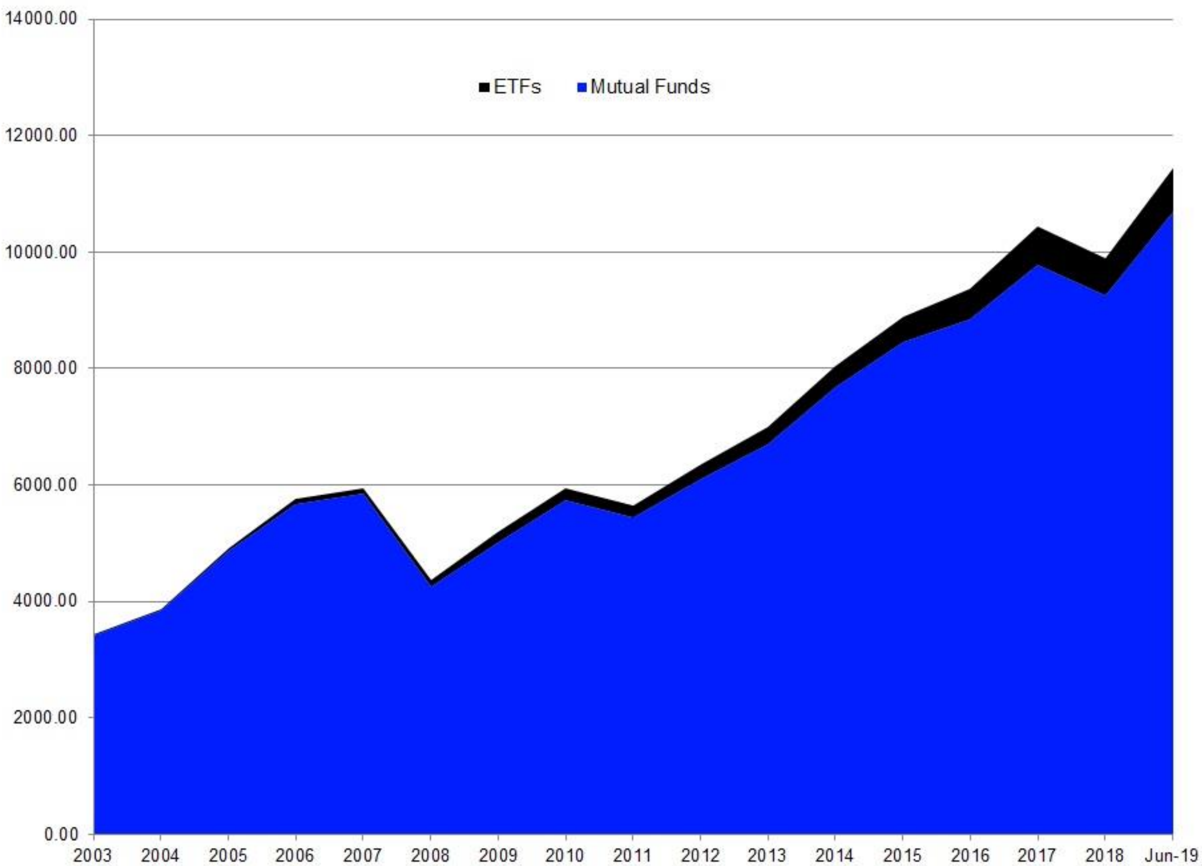
Assets Under Management in the European Fund Industry

The assets under management in the European fund industry increased from €9.9 tr to €11.4 tr in 2019 year to date. This increase was driven by the performance of the underlying markets (+€1.5tr), while net sales contributed outflows of €41.3 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 even though the numbers for ETFs are included in the overall numbers for the European fund industry.

The European ETF industry enjoyed in H1 2019 a further increase in popularity with all types of investors. This popularity was seen in the form of net sales (+€36.1 bn), and increasing assets under management to €746.8 bn, up from €633.1 bn, at the end of December 2018.

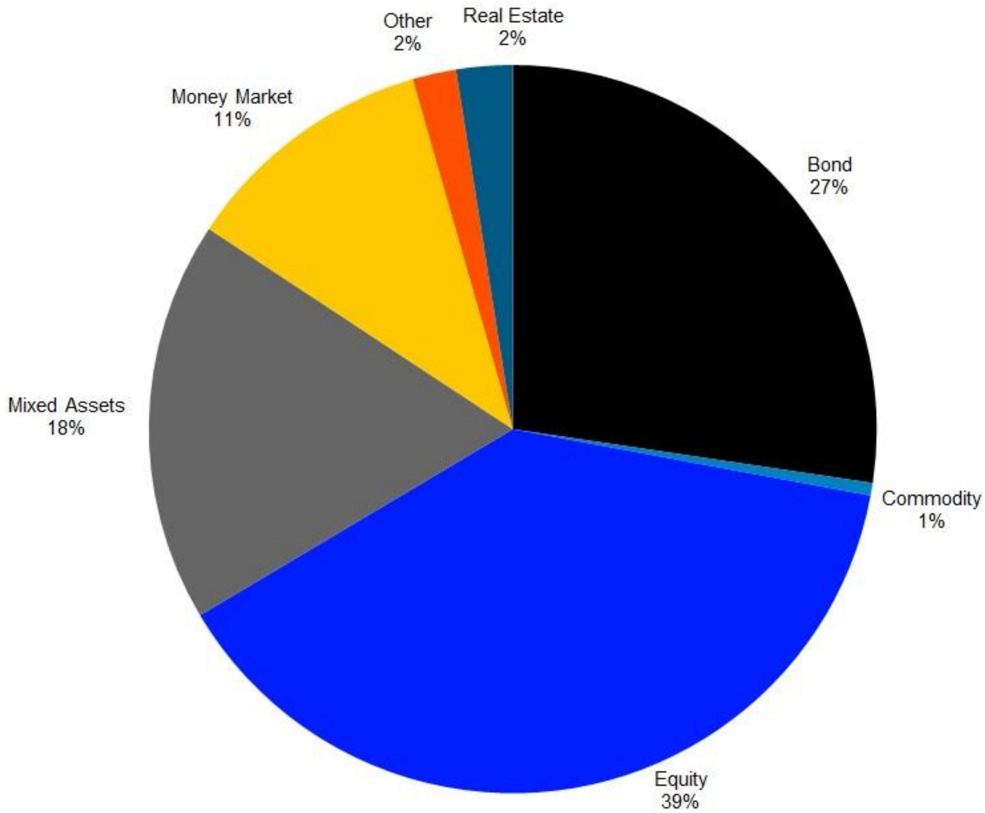
Graph 1: Assets Under Management in the European Fund Industry by Product Type (Euro Billions)



Source: Lipper from Refinitiv

With regard to the overall number of funds, it was not surprising that equity funds (€4.2 tr) were the asset type with the highest assets under management, followed by bond funds (€3.0 tr), mixed-assets products (€1.9 tr), money market funds (€1.2 tr), alternative UCITS funds (€0.6 tr), real estate funds (€0.3 tr), “other” products (€0.2 tr), and commodity funds (€0.06 tr).

Graph 2: Market Share by Asset Type (June 30, 2019)

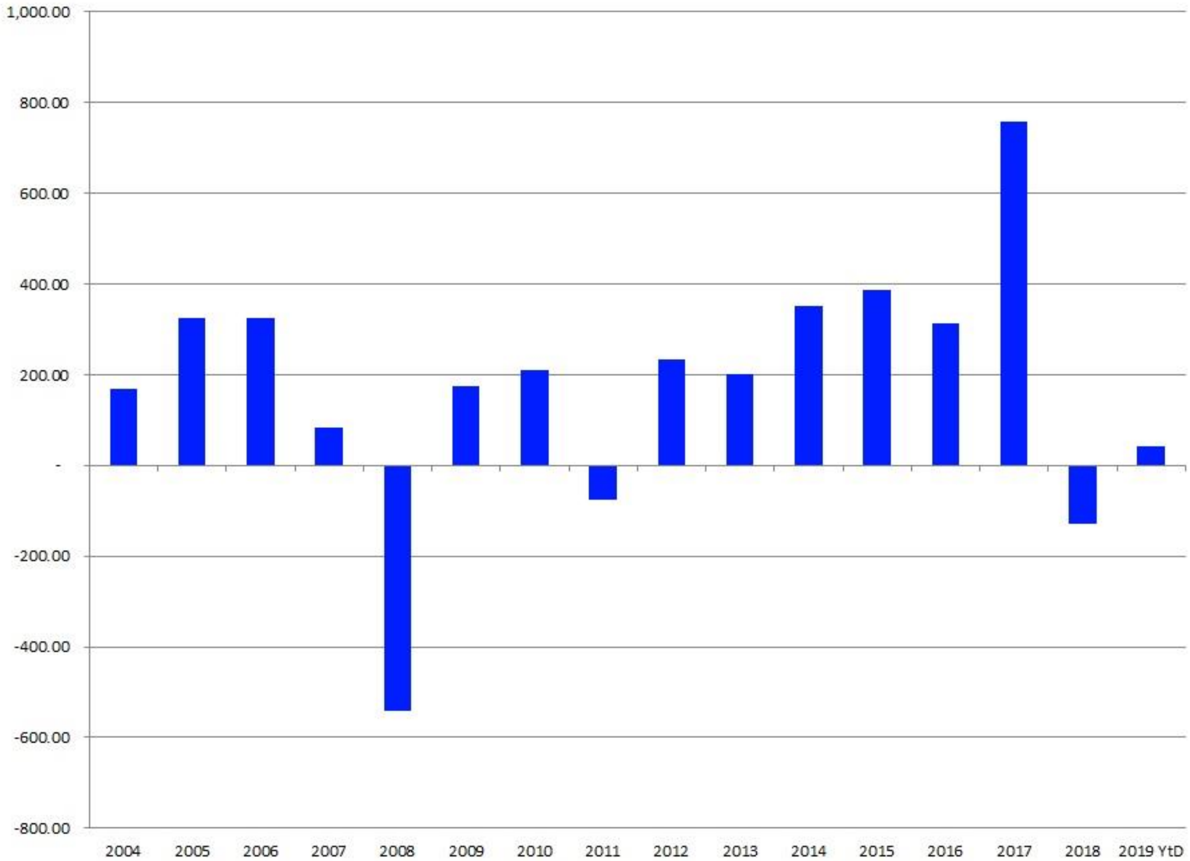


Source: Lipper from Refinitiv

European Fund Flow Trends H1 2019

Generally speaking, 2019 has so far been a tough year, with split results for some asset managers in the European fund management industry. Nevertheless, the year can be considered as positive, as mutual funds (+€41.3 bn) enjoyed net inflows. Regarding this, it is not surprising that 2019 has been a good year for the promoters of ETFs, as ETFs enjoyed inflows of €36.1 bn year to date.

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



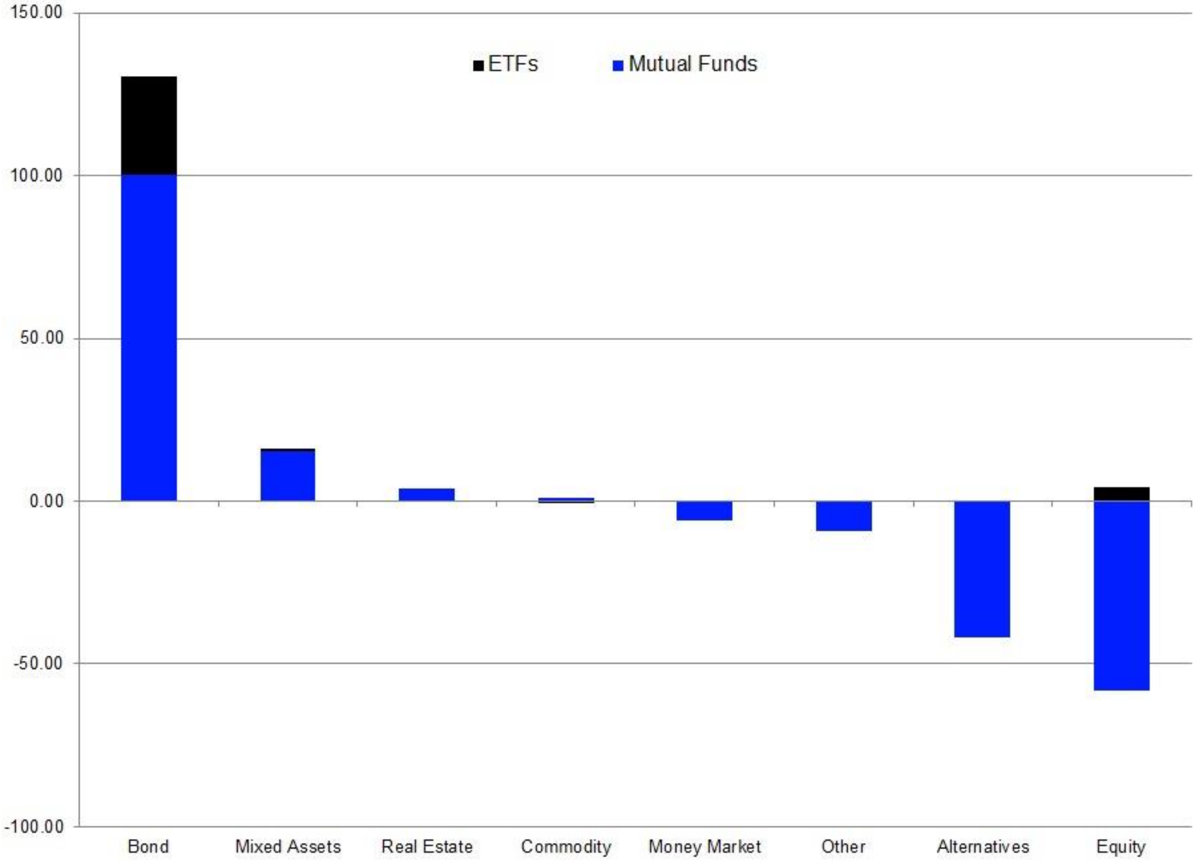
Source: Lipper from Refinitiv

Fund Flows Into Long-Term Mutual Funds*

A more detailed view by asset type reveals that not all asset types enjoyed inflows in H1 2019. Bond funds (+€130.7 bn) was the best-selling asset type, followed by mixed-asset funds (+€16.0 bn), real estate funds (+€4.0 bn), and commodity funds (+€0.6 bn). Conversely, equity funds (-€53.7 bn) was the asset type with the highest outflows overall, bettered by alternative UCITS funds (-€41.7 bn) and “other” funds (-€9.1 bn). These fund flows added up to estimated overall net inflows of €46.9 bn into 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 somewhat different overall dynamics, as these products enjoyed estimated net inflows (+€35.7 bn) over the course of the first half of 2019. With regard to net inflows, bond ETFs was the asset type with the highest net inflows (+€30.4 bn), followed by equity ETFs (+€4.5 bn), mixed-assets ETFs (+€0.6 bn), “other” ETFs (+€0.3 bn), and alternative UCITS ETFs (+€0.3 bn), while commodity ETFs (-€0.3 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 equities during rather uncertain market conditions.

Graph 4: Estimated Net Sales by Asset Type, H1 2019 (Euro Billions)



Source: Lipper from Refinitiv

Fund Flows into Money Market Products*

Regarding the overall market environment, one would expect to see net inflows into money market products because these products are considered so-called safe-haven products. Instead, money market products showed net outflows of €5.6 bn (including money market ETFs [-€0.4 bn]).

This flow pattern led the estimated overall fund flows into mutual funds in Europe to a net of €41.3 bn for 2019 year to date.

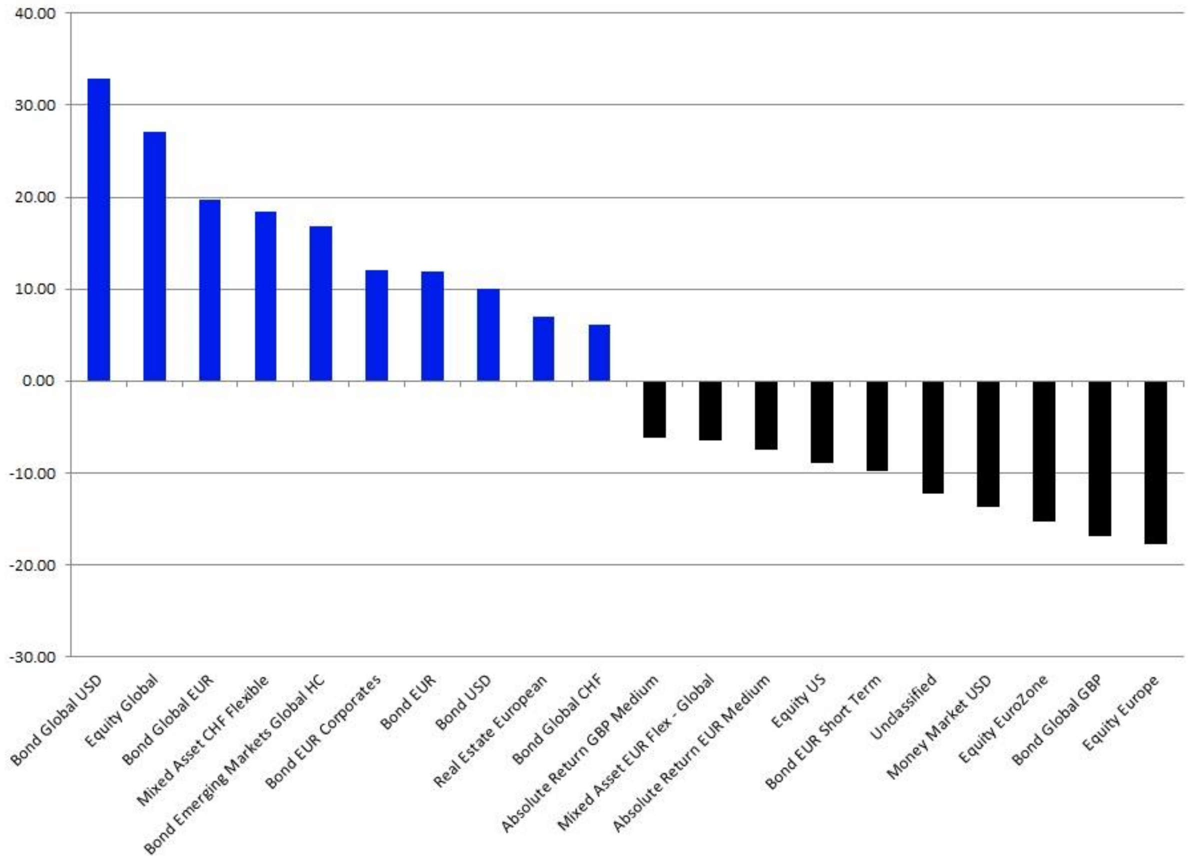
Money Market Products by Sector*

Money Market EUR (+€4.1 bn), followed by Money Market GBP (+€3.4 bn) and Money Market Other (+€3.2 bn) were the three best-selling money market sectors for H1 2019. At the other end of the spectrum, Money Market USD (-€13.7 bn) suffered the highest net outflows overall, bettered by Money Market EUR Leveraged (-€3.1 bn) and Money Market PLN (-€0.9 bn).

Fund Flows by Sectors*

Bond Global USD (+€32.9 bn) was the best-selling sector within the segment of long-term mutual funds, followed by Equity Global (+€27.1 bn), Bond Global EUR (+€19.8 bn), Mixed Asset CHF Flexible (+€18.4 bn), and Bond Emerging Markets Global in Hard Currencies (+€16.8 bn).

Graph 5: The 10 Best and Worst Selling Sectors for Q2 2019 (Euro Billions)



Source: Lipper from Refinitiv

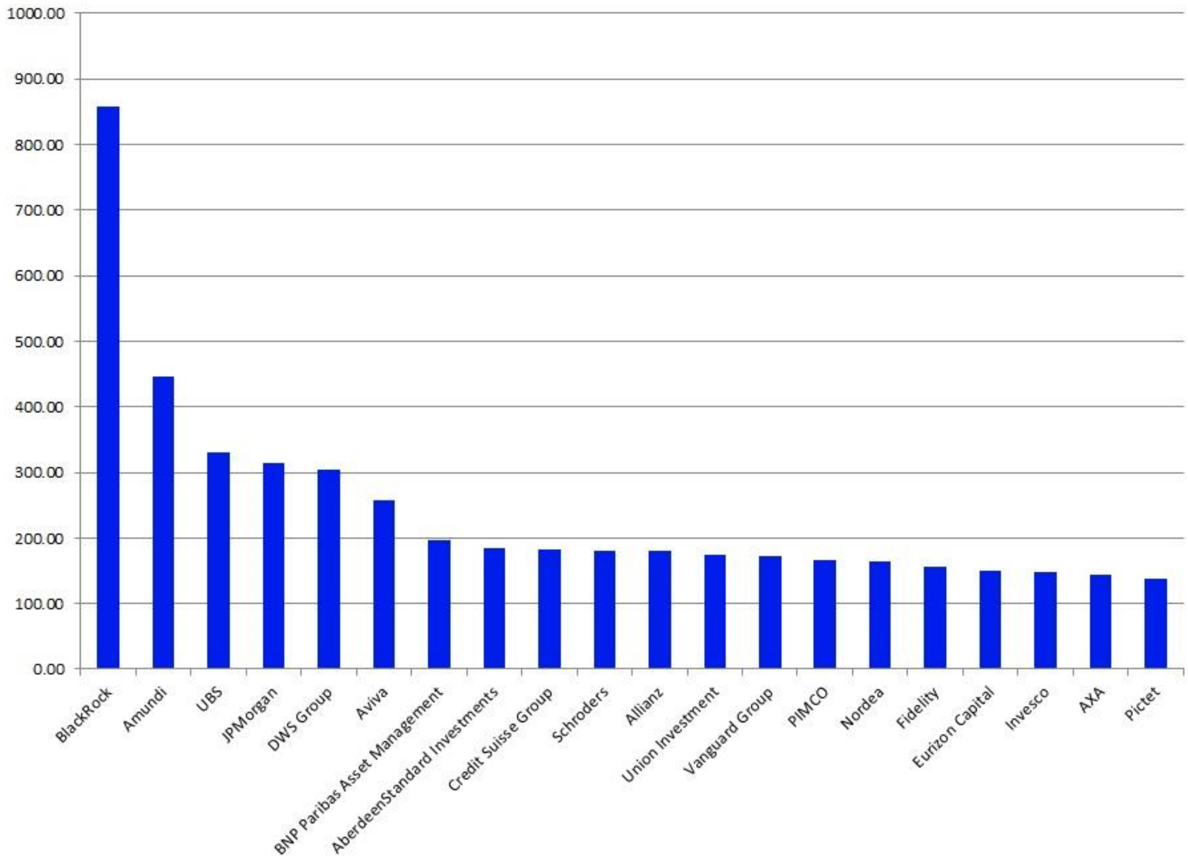
At the other end of the spectrum, Equity Europe (-€17.8 bn) suffered the highest net outflows from long-term mutual funds, bettered by Bond Global GBP (-€16.9 bn), Equity Eurozone (-€15.3 bn), Money Market USD (-€13.7 bn), and Unclassified products (-€12.3 bn).

***Please note that Lipper launched an updated Lipper Global Classification Scheme in May 2019 which caused some shifts with regard to the assets under management and the estimated net flows within the single asset types and/or sectors. Please visit our [website, to learn more about the new Lipper Global Classifications](#).**

Assets Under Management by Promoters

A closer look at the assets under management in the European mutual fund industry shows that **BlackRock** (€857.8 bn) was by far the largest fund promoter in Europe, followed by **Amundi** (€447.0 bn), **UBS** (€330.0 bn), **JP Morgan** (€314.6 bn), and **DWS Group** (€303.2 bn).

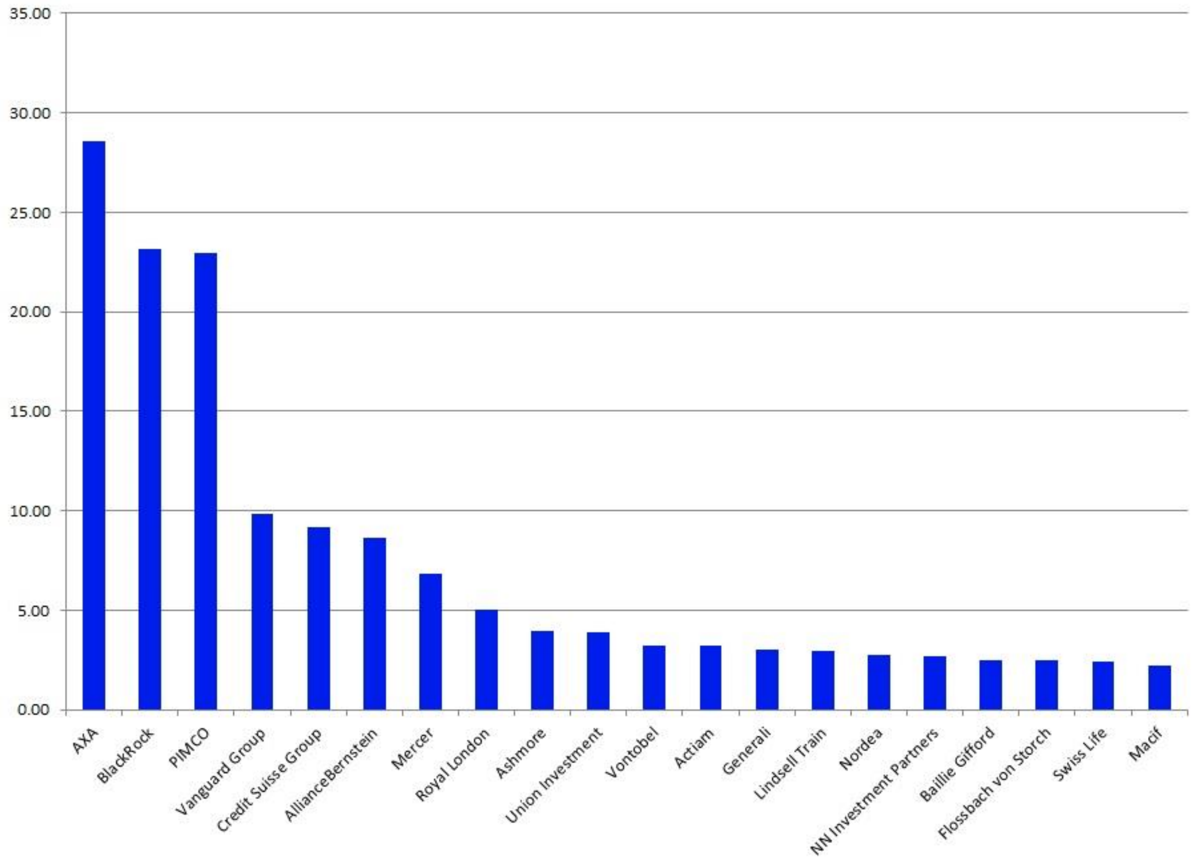
Graph 6: The 20 Largest Promoters by Assets Under Management in Europe, June 30, 2019 (Euro Billions)



Source: Lipper from Refinitiv

Fund Flows by Promoters
AXA, with net sales of €28.6 bn, was the best-selling fund promoter for H1 2019 overall, well ahead of **BlackRock** (+€23.1 bn), **PIMCO** (+€23.0 bn), **Vanguard Group** (€9.9 bn), and **Credit Suisse Group** (€9.2 bn).

Graph 7: Twenty Best Selling Promoters, H1 2019 (Euro Billions)



Source: Lipper from Refinitiv

Considering the single-asset bases, **PIMCO** (+€23.1 bn) was the best-selling promoter of bond funds for H1 2019, followed by **BlackRock** (+€23.0 bn), **AB** (+€8.1 bn), **AXA** (+€7.4 bn), and **Vanguard Group** (+€5.2 bn).

Within the equity space, **KBC** (+€4.1 bn) stood at the head of the table, followed by **Mercer** (+€3.7 bn), **Lindsell Train** (+€2.9 bn), **Union Investment** (+€2.0 bn), and **Vanguard Group** (+€1.9 bn).

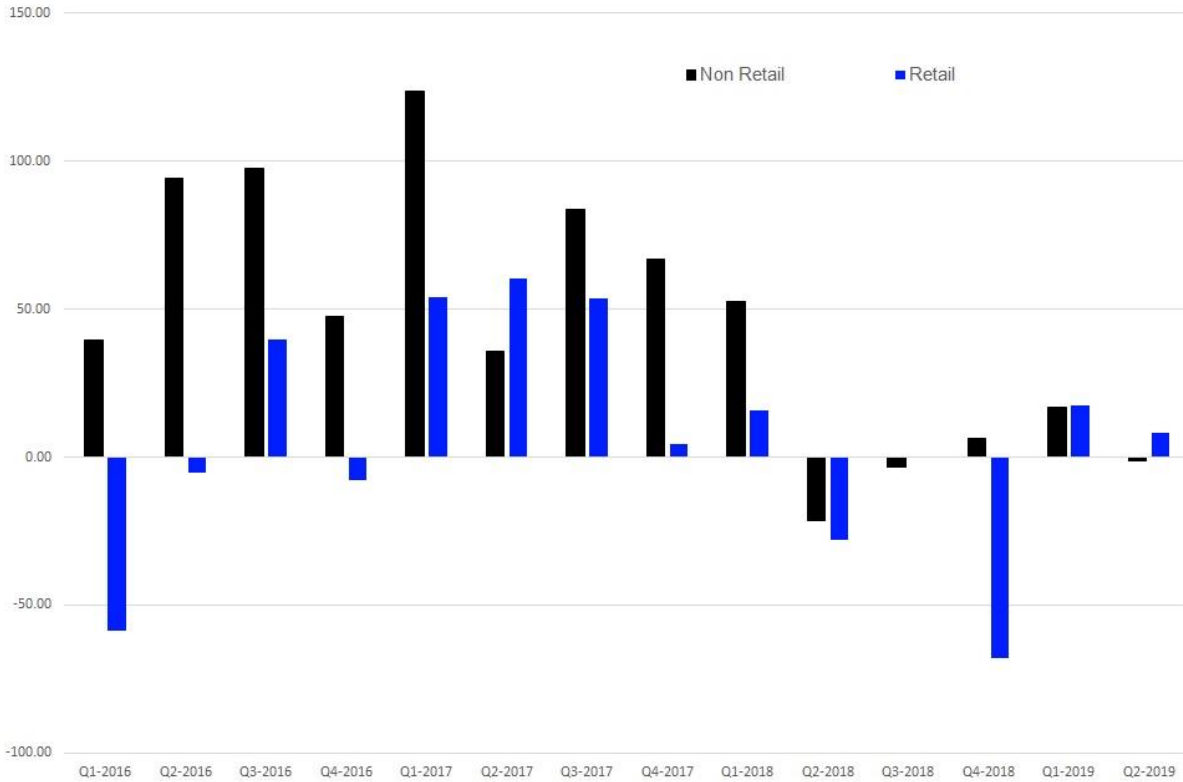
AXA (+€18.3 bn) was the leading promoter of mixed-assets funds in Europe for H1 2019, followed by **Mercer** (+€2.8 bn), **Vanguard Group** (+€2.7 bn), **Generali** (+€2.0 bn), and **Union Investment** (+€1.8 bn).

DWS Group (+€1.5 bn) was the leading promoter of alternatives funds over the course of H1 2019, followed by **Artemis** (+€1.2 bn), **Legal & General** (+€1.1 bn), **Credit Suisse** (+€1.0 bn), and **Societe Generale** (+€0.9 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 kinds 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)



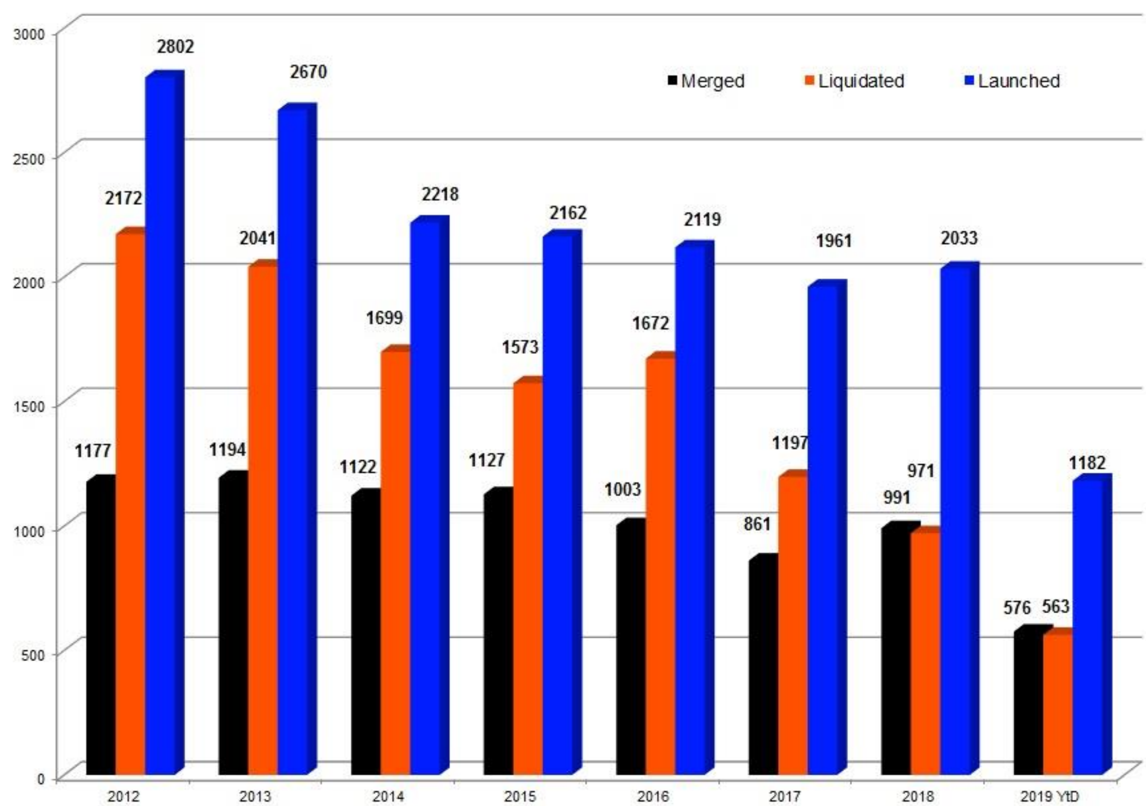
Source: Lipper from Refinitiv

As depicted in graph 8, the fund flows over Q1 2019 were nearly equally split between non-retail (+€16.7 bn) and retail (+€17.5 bn) investors. This flow pattern changed over Q2 2019 as non-retail investors (-€1.1 bn) pulled money out of mutual funds, while retail investors (+€8.0 bn) further bought mutual funds. From our point of view, the outflows from non-retail funds in Q2 2019 might indicate that professional investors have become more cautious and put their money on the sidelines in an unstable market environment.

Promoter Activity–Fund Launches, Liquidations, and Mergers

So far, 2019 has been a rather difficult year for the European asset management industry. Nevertheless, the promoters of mutual funds enjoyed overall inflows and increasing assets under management over the course of 2019 to date. Within this environment, the promoter activity regarding 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 H1 2019. More generally, the increasing number of funds was continuing a positive 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 and 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 Amundi, BNP Paribas, and Lyxor regarding the closure of 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 of mergers and liquidations of small funds will continue in 2019.

Graph 9: Fund Launches, Liquidations and Mergers



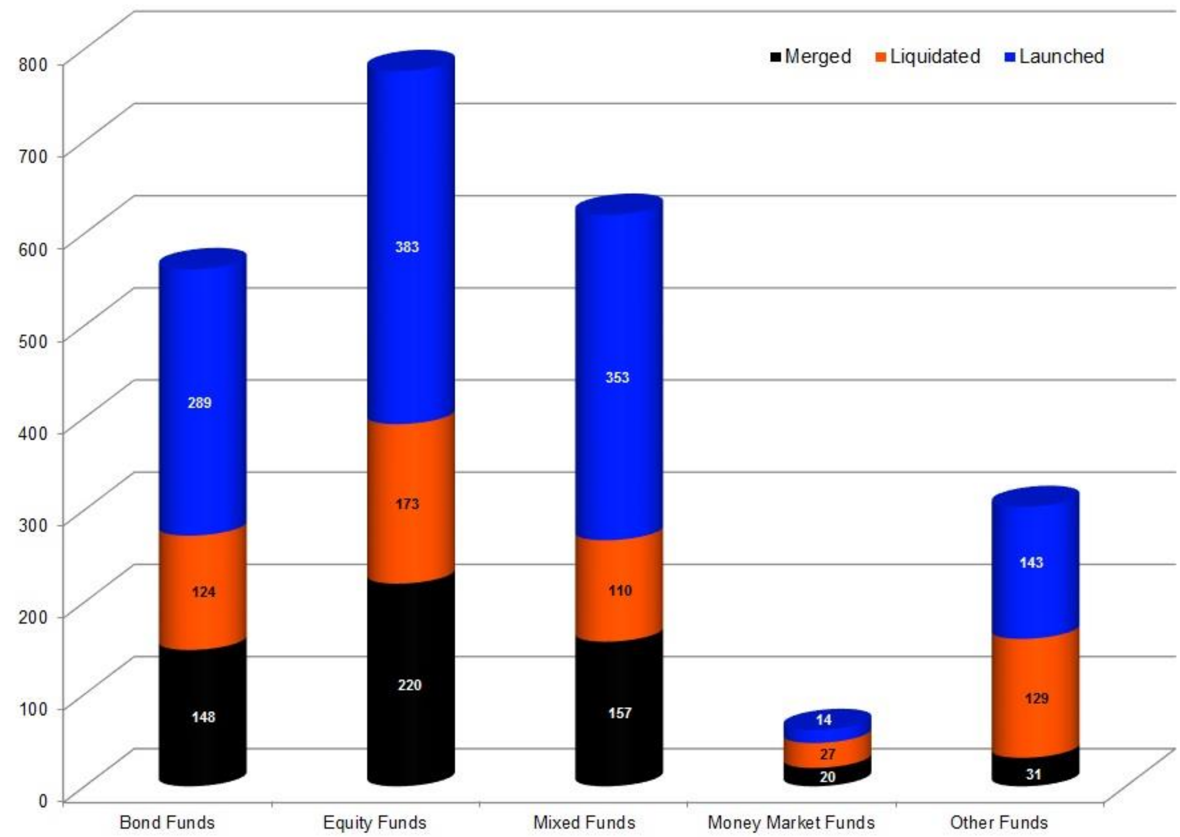
Source: Lipper from Refinitiv

The European fund promoters liquidated 563 funds over the course of H1 2019, while 576 funds were merged into other funds. In contrast, European fund promoters launched 1,182 funds. This meant the European fund market increased by 43 funds over the course of 2019 year to date.

A more detailed view shows that equity funds experienced the highest number of mergers (220), liquidations (173), and fund launches (383). Regarding the broader trends in the financial markets, it was surprising that 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 (+21) 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 (110) or merged (157) these products into their new product offerings (353), 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 Q2-2019 by Asset Type



Source: Lipper from Refinitiv

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