



Asset Management in Europe: *Facts and Figures*

EFAMA's Second Annual Report

efama



European Fund and Asset Management Association



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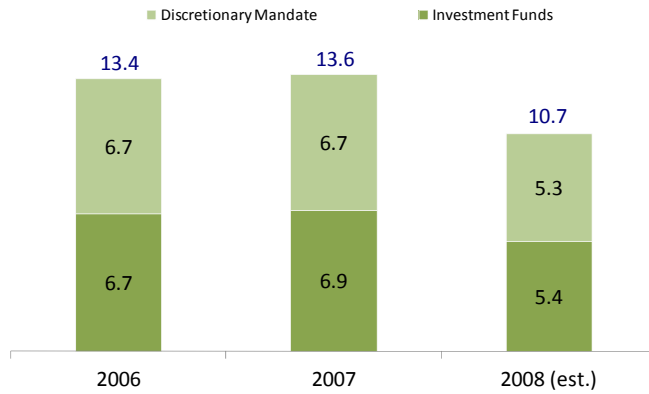
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Key Findings

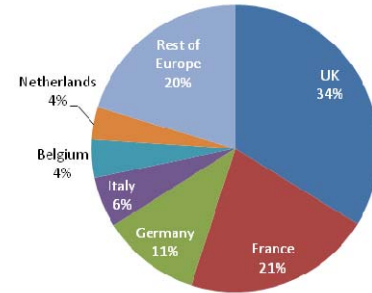
- Asset management is a vital source of economic growth. It provides a link between investors seeking appropriate savings vehicles and the financing needs of the real economy. The asset management industry also provides important employment opportunities across Europe, both in core asset management and related services.
- At the end of 2007, the assets managed by the European asset management industry amounted to EUR 13.6 trillion, representing more one than third of the assets of the global asset management industry. Investment funds represent 51% of assets managed in Europe, with discretionary mandates accounting for the remaining 49%.
- Asset management is concentrated in a limited number of countries. Reflecting the size of the domestic savings market, the degree of development of the local financial services sector and the level of financial delegation to asset management companies by institutional investors, the UK, France and Germany together accounted for 66% of total assets under management in Europe at the end of 2007. Italy and Belgium followed in this ranking.
- Certain European countries are highly specialized in terms of the services they provide in the asset management value-chain. In particular, there are large differences in terms of where investment funds are managed, domiciled and distributed. Also, the industry displays large variety across countries in terms of parent company types, dominant client categories, asset allocation and main products.
- To the benefit of its clients, the European asset management industry is highly integrated across borders. Asset managers frequently outsource asset management services to abroad-based providers. Such cross-border business often occurs within financial services groups operating in several countries, but also includes unrelated asset management companies to a significant extent.
- Discretionary mandates are in general more conservatively invested with relatively higher bond exposure, whereas investment funds assets are on average more heavily invested in equity. Although there are large differences across countries, on aggregate, the dominant asset classes are bond and equity, with 40% and 37% of total AuM respectively.
- Due to the financial crisis and collapse in stock prices, asset managers suffered a sharp fall in the value of their assets under management in 2008. According to our calculations, the value of assets professionally managed in Europe might have fallen to approximately to EUR 10.7 trillion at end 2008.

2 Key Figures at end 2007

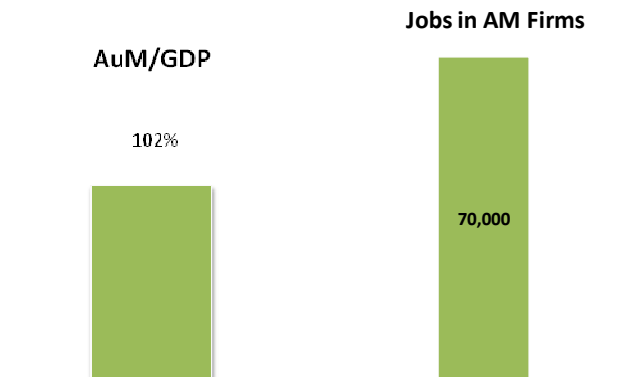
Total AuM (EUR trillion)



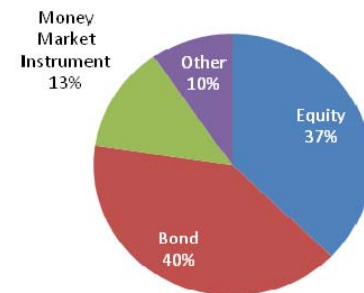
Market Share



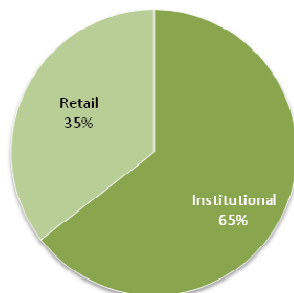
Economic Size



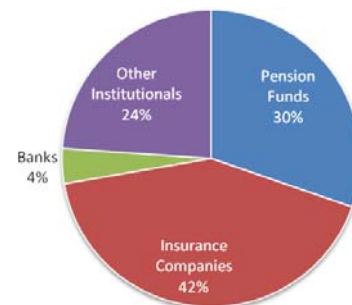
Asset Allocation



Clients



Institutional Clients



3 Introduction

3.1 The EFAMA's Annual Asset Management Report

EFAMA's Annual Asset Management Report represents an effort to provide a comprehensive annual overview of where assets are managed in Europe, focusing on the management of both investment funds and discretionary mandates. The series was initiated as a response to the lack of an encompassing perspective on the European asset management industry. Although several reports have been published on European asset management, they only provide partial coverage, focusing either on a subset of large asset managers or on domiciliation of investment funds.

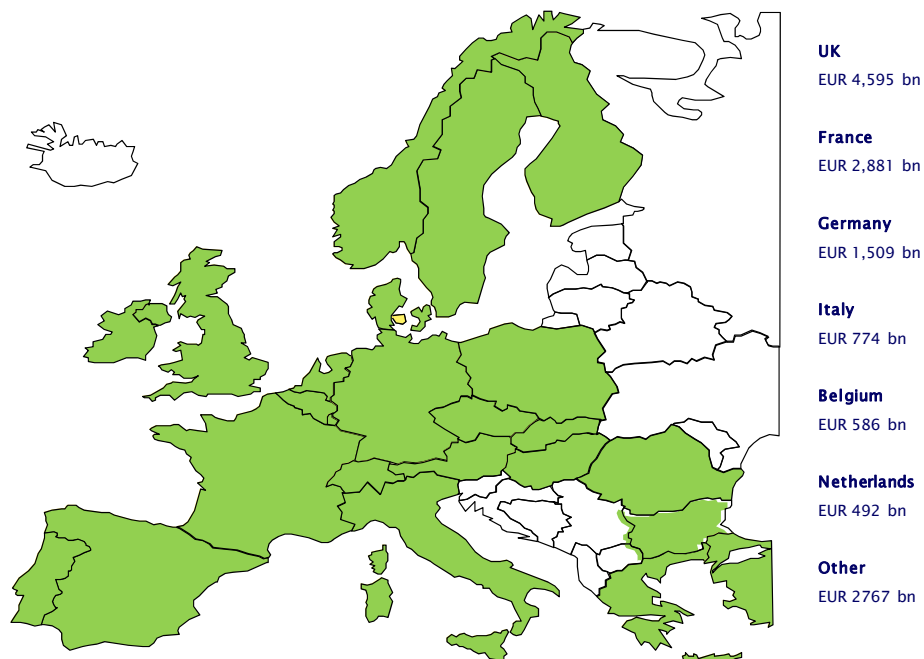
The report is primarily based on responses to a questionnaire sent to EFAMA member associations covering data at end 2007.¹ The questionnaire covered data on assets under management (AuM) split by products, clients and assets types. Ten associations provided us with data on the value of the assets managed in their countries. According to our estimation, these countries account for more than 80% of the AuM in Europe. To compensate for those associations unable to answer the questionnaire, additional internal and external data were used to estimate the value of total AuM in Europe presented in the next section.²

The purpose of the following sections 2.2 - 2.4 is to provide an overview of the European asset management industry in terms of its size and importance in the European economy, its functions and its industrial organization. Thereafter, Section 3 discusses European asset management in terms of products offered and management solutions. In Section 4, the report continues by providing an overview of the industry's clients, while Section 5 focuses on the asset allocation of European asset managers. Finally, Section 6 presents a first estimation of the impact of the financial crisis on the AuM in Europe in 2008.

3.2 The European Asset Management Industry: AuM and Employment

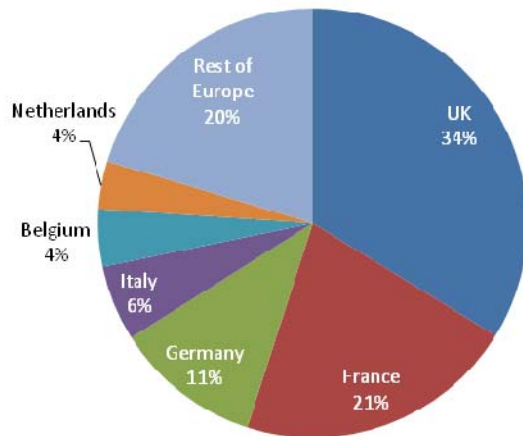
The assets managed by the European asset management industry at end 2007 amounted to EUR 13.6 trillion, compared to an estimated EUR 13.4 trillion at end 2006.³ This makes Europe the second largest market for asset management in the world – managing more than a third of the EUR 40 trillion global AuM at end 2007.⁴ In relation to aggregate European GDP, total AuM in Europe amounted to 102%.⁵ Exhibit 1 highlights the importance of the major centers of asset management in Europe at end 2007. The combined AuM in the UK, France, Germany and Italy amount to EUR 9,432 billion. Exhibit 1 also shows that Belgium and the Netherlands also host important asset management activities.

Exhibit 1 European asset management industry - AuM by country (end 2007)



Turning to the European market shares of individual countries (see Exhibit 2), the UK represents the largest European market with a share of 34% of AuM, followed by France with 21%, and Germany with an 11% market share.

Exhibit 2 Market shares – European AuM (end 2007)



Naturally, the market shares of individual countries mirror their population and GDP, the importance of funded pensions in the country's pension systems as well as its status as an international financial center. In order to gain better understanding of the relative importance of the industry in various countries, AuM in relation to GDP may serve as a useful estimate. Exhibit 3 below provides additional detail on European market shares, and relates

individual countries' AuM to their GDP.

Exhibit 3 AuM in relation to GDP (EUR billion and percent)

Countries	AuM	AuM/GDP
UK	4,595	224%
France	2,881	152%
Germany	1,509	62%
Italy	774	50%
Belgium	586	175%
Netherlands	492	87%

Countries	AuM	AuM/GDP
Austria ^(*)	103	38%
Portugal	84	52%
Greece	27	12%
Hungary	26	26%
Rest of Europe	2,527	77%
TOTAL	13,604	102%

(*) Investment fund assets only.

It is striking that although the ratio of AuM to GDP is rather low in many countries, the total European AuM to GDP still amounts to 102%. This is due to the large concentration of asset management in certain countries, which in turn points the fact that certain countries have turned into European or even global centers of asset management. The UK and France stand out in this respect with ratios of 224% and 152% in terms of AuM to GDP. It is also noteworthy that Belgian asset managers, albeit relatively modest in terms of market share, manage assets amounting to 175% in relation to Belgian GDP.

Another indicator of the importance of the asset management industry to the overall economy is the number of employees of the industry. Total direct employment in asset management companies in the UK, France and Germany alone is some 47,000. Given these countries account

for 65% of total AuM in Europe, it can be estimated that the asset management companies directly employ around 70,000 individuals in Europe. Taking related services into account, such as accounting, auditing, custodianship, marketing, research, order processing, as well as distribution, the overall level of direct and indirect employment linked to asset management companies would increase to a significantly higher figure. By way of illustration, a recent study by AFG has estimated that the asset management industry provides employment for around 70,000 persons in France.⁶

In estimating total employment generated by the asset management industry in Europe, one also needs to include the jobs in Luxembourg and Ireland, the two leading cross-border centers for fund administration and distribution inside and outside Europe. According to available information, 13,500 people were directly employed in the investment fund industry in Luxembourg in 2007, whereas employment in fund accounting and administration, transfer agents, custodians, trustees, client relationship management and related fund services was approximately 9,500.⁷

3.3 The European Asset Management Industry: Functions

When discussing the asset management industry, it is important to bear in mind the diversification and specialization of the industry along various functions.

Asset managers have developed a wide range of products, which are separated in this report in two main categories: investment funds and discretionary mandates. Those products are offered to households and a wide range of institutional clients, including insurance companies, pension funds and private banks. As explained above, sections 3 and 4 focus on the breakdown of assets under management by types of products and clients.

In a majority of services they provide, asset managers act in an “agency” capacity to perform specific duties at the request of the “principal”, i.e. the client, in accordance with the terms of the agency agreement. The property of the assets remains with the client, i.e. they are not on the balance sheet of the asset managers. The asset managers are, however, in charge of the assets managed and accountable to the clients for those assets.

The asset management industry provides a variety of services beyond managing investments in securities. The value chain ranges from ongoing management of assets (production/manufacturing), mediating between manufacturers and clients (promotion and distribution), to managing client accounts and ensuring compliance with laws, regulations and information requirements (administration). Naturally, other market participants also play a key role in the value chain, such as depositories and custodians for the safekeeping of the assets of the asset managers' clients.

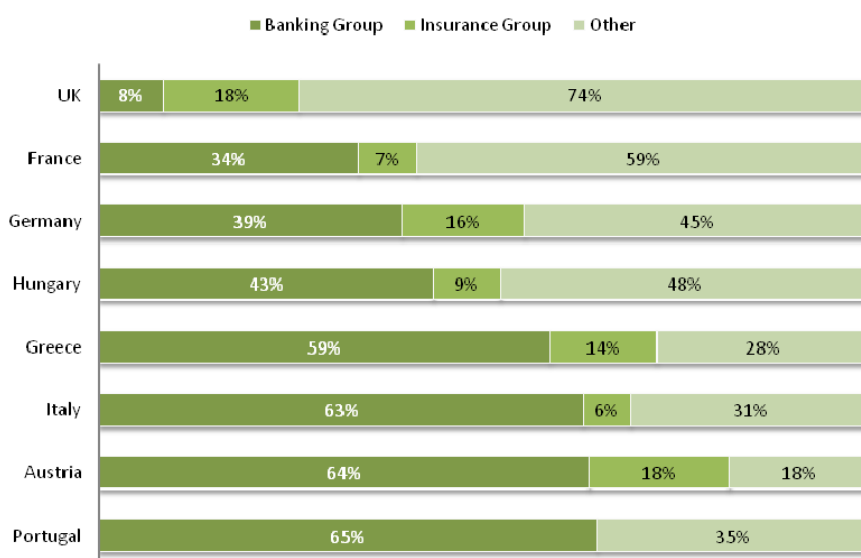
Asset managers are also playing a vital role in the financing of the European economy. They broaden access to financial markets by offering a diverse menu of investment styles and asset allocations to investors. They reduce the overall risks faced by investors through trading, pooling and diversifying. By providing equity capital in both primary (IPOs and private placements) and secondary markets, as well as offering credit capital - directly via corporate bonds or indirectly via money markets - asset managers are also fuelling the real economy. Moreover, asset managers stimulate overall economic development by continuously monitoring developments in industries, countries and regions; by identifying companies with the best prospects of successfully implementing novel innovations, processes and strategies; and by allocating financial resources to those most promising. This important role has led to a rapid expansion of the global asset management industry during the last decades.

3.4 European Asset Management: Industrial Organization

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

As an indication of the dominant industrial organization across countries and an overview of the nature and importance of financial services groups, Exhibit 4 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 4 relates to the number of firms, and not their AuM.⁸

Exhibit 4 **Number of asset management companies by parent group categories**



In most European countries, banking groups represent the dominant parent category, controlling half or more of all asset management companies in Greece, Italy, Austria and Portugal. The main exceptions to the

bank dominated model are primarily France and the UK, as well as Hungary and Germany. In France, banks control only a third of asset managers as the majority of firms consist primarily of “entrepreneurial boutiques” i.e. smaller independent asset managers. In the UK, a mere 8% of asset managers are owned by banking groups, and insurance groups control more than twice as many asset managers as banks. However, the vast majority of firms represent independent asset managers and asset managers controlled by investment banks and pension funds. In Hungary and Germany, a wide diversity of companies including industrial companies and housing corporations control asset managers. Insurance group is also a frequent parent company category in many European countries. Apart from their importance in the UK, insurance

companies own 4 out of 18 Austrian asset managers, 6 out of 38 in Germany and 4 out of 29 asset managers in Greece.

The presence of different types of business groups also influence the dominant client categories the asset managers serve and thereby their product offerings. In general, in countries where the share of asset management companies controlled by banking groups is high, retail clients tend to represent the largest client category. This relationship is further explained in Section 4.1.

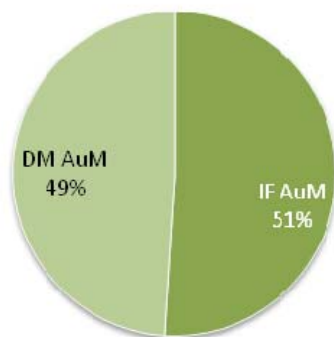
The remainder of this report seeks to outline general patterns of European asset management and explain differences between the asset management industries across countries in terms of products offered and their management (Section 3), clients served (Section 4) and differences in asset allocation (Section 5).

4. The European Asset Management Industry: Products and Management

As previously mentioned, one may generally contrast between investment funds and discretionary mandates. Investment funds are pools of assets with specified risk levels and asset allocations in which one may purchase or 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. By contrast, discretionary mandates give asset managers the authority to manage the assets on behalf of a client in compliance with a pre-defined set of rules and principles, on a segregated basis separate from other client assets. For example, an asset manager may be given a discretionary mandate from a pension fund to facilitate that the future pension liabilities will be adequately covered.

In Europe, the split between the investment funds and discretionary mandates is relatively even. The share of investment funds is slightly higher, representing EUR 6,939 billion or 51% of AuM, whereas discretionary mandates account for the remaining EUR 6,666 billion (see Exhibit 5).

Exhibit 5 Investment funds vs discretionary mandates (EUR 13.6 bn at end 2007)

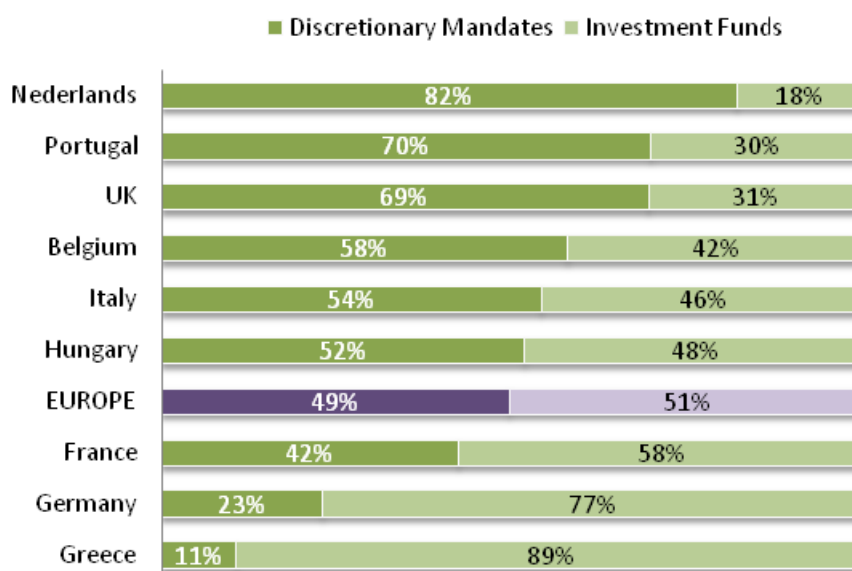


Quite a number of countries cluster around the European average (see Exhibit 6). One may however contrast between the two extremes of the spectrum; whereas in the UK and Portugal, discretionary mandates represents around 70% and in the Netherlands even 82%, the corresponding figures for Greece and Germany are 27% and 17% respectively. This demonstrates that there are also important differences in terms

of the dominant product solutions that are offered in different European countries. For instance, the vast dominance of discretionary mandates over investment funds in the Netherlands reflects the important role played by defined-benefit pension scheme in the Dutch occupational pension system, whereas in Portugal, the insurance sector is particularly important and the retail segment is particularly prone to invest in discretionary mandates.

While considering these figures, it is important to bear in mind that the border between different product types is blurred. Apart from the frequent allocation of discretionary mandates to investment funds, certain investment funds display similar characteristics as discretionary mandates. Vice versa, discretionary mandates may also be retail oriented and mimic the investment strategies and structures of investment funds. Thus, product types with similar properties may be categorized differently, although differing primarily in terms of the wrapper used for their distribution. For example, German investment fund assets include special funds reserved for institutional investors. If these funds are treated as discretionary mandates, the share of investment fund assets in total AuM would fall to 31% for Germany. 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.

Exhibit 6 Discretionary mandates vs investment funds by country



4.1 Investment Funds

The market for European investment funds is highly internationalized. In essence, it is organized around domestic markets, served predominantly by domestic players, and cross-border activities, where funds can be domiciled in one country, managed in a second and sold in a third, either

within Europe or overseas. The statistics reported in this report on investment funds refer to UCITS and non-UCITS.

UCITS are products offered in accordance with the UCITS Directive, and thereby regulated in terms of supervision, asset allocation and separation of management and safekeeping of assets to ensure the highest level of investor protection.⁹ The UCITS label has become a globally recognized brand, and has attracted considerable inflows from both European and non-European investors. The Global Brand Status was confirmed in the results of a survey that was published by EFAMA in July 2008. This survey showed that 90% of the net sales of cross-border UCITS originated from Asia in 2007.¹⁰

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

The top three investment fund domiciles in terms of assets are Luxembourg, France and Germany, followed by the UK, Ireland, Italy and Spain. Exhibit 7 illustrates the domiciliation of investment funds across Europe at end 2007.

Exhibit 7 Domiciliation of European investment funds (assets in EUR billion)

Countries	Assets	Mkt Share	AuM/GDP
Luxembourg	2,059	26.0%	5,676%
France	1,508	19.1%	80%
Germany	1,042	13.2%	43%
Ireland	806	10.2%	423%
UK	751	9.5%	37%
Italy	358	4.5%	23%
Spain	279	3.5%	27%
Switzerland	169	2.1%	54%
Austria	166	2.1%	61%
Sweden	139	1.8%	42%
Denmark	131	1.7%	58%
Belgium	127	1.6%	38%
Netherlands	91	1.2%	16%

Countries	Assets	Mkt Share	AuM/GDP
Finland	66	0.8%	37%
Norway	50	0.6%	18%
Poland	38	0.5%	12%
Portugal	36	0.5%	22%
Greece	23	0.3%	10%
Liechtenstein	20	0.3%	611%
Turkey	18	0.2%	4%
Hungary	13	0.2%	13%
Cz. Republic	7	0.1%	6%
Slovakia	4	0.1%	7%
Slovenia	4	0.1%	12%
Romania	4	0.1%	3%
TOTAL	7,909	100.0%	62%

The strong market shares of France, Germany, the UK, Italy and Spain primarily reflect the size of the domestic savings market in these countries. By contrast, the position held by Luxembourg and Ireland is attributable to the importance of these countries in the distribution and administration of cross-border UCITS in Europe and other parts of the world.

Based on the information received, the value of investment fund assets managed in Europe amounted to EUR 6,939 billion at end 2007. The difference with the fund assets domiciled in Europe mostly reflects two factors: first, the fact that the investment fund assets shown in Exhibit 7 include funds of funds, and second, the outsourcing of some investment funds asset management outside Europe.

When comparing the European countries' market shares in terms of investment fund domiciliation with their market shares in terms of investment fund asset management, significant differences are observable. Whereas investment funds domiciled in the UK, France and Germany account for 42% of the European investment fund market, asset managers in these countries manage 61% of investment fund assets in Europe (see Exhibit 8). The discrepancy between market shares in domiciliation and management of fund assets demonstrates further the degree of specialization of certain European countries in specific parts of the asset management value chain. Additional light on this can be shed by relating AuM of particular countries to their GDP. It is striking that in France, Belgium and the UK, AuM in relation to the size of their overall economies surpasses the European average considerably. Taken together, these figures indicate the importance of the asset management industry in general in these countries as well as the ability of asset managers in attracting assets domiciled abroad. The relatively high ratio of AuM to GDP for the rest of Europe is largely attributable to other countries with large fund management industries in relation to their population, such as Switzerland and Nordic countries.

Exhibit 8 Asset management of European investment funds (assets in EUR billion)

Countries	AuM	Mkt Share	AuM/GDP		Countries	AuM	Mkt Share	AuM/GDP
France	1,664	24.0%	88%		Netherlands	91	1.3%	16%
UK	1,415	20.4%	69%		Portugal	26	0.4%	16%
Germany	1,164	16.8%	48%		Greece	23	0.3%	10%
Italy	357	5.1%	23%		Hungary	13	0.2%	13%
Belgium	248	3.6%	74%		Rest of Europe	1,835	26.4%	56%
Austria	103	1.5%	38%		TOTAL	6,939	100.0%	52%

In order to portray a more comprehensive picture of the extent to which countries manage investment fund asset domiciled abroad, Exhibit 9 illustrates the relative degree to which AuM in a particular European country is originating from funds domiciled abroad.

Exhibit 9 **Share of foreign domiciled investment funds in total investment fund AuM by country**

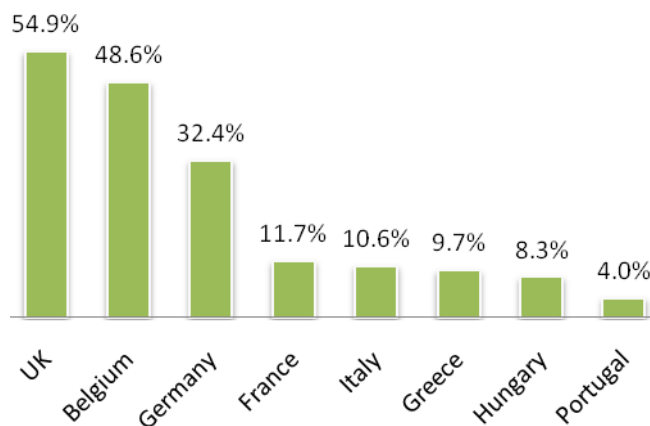
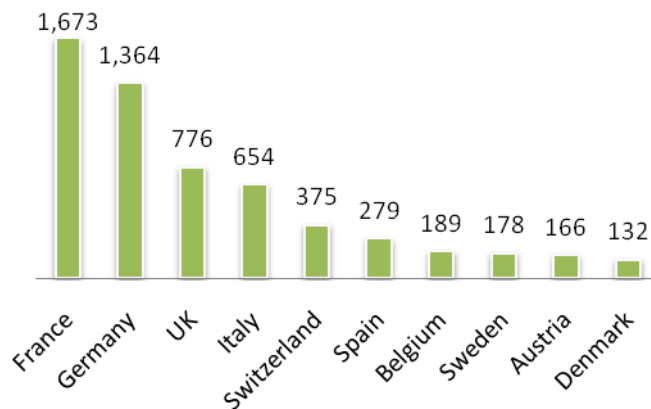


Exhibit 9 shows that a significant share of the investment fund assets managed in the UK, Belgium and Germany (55%, 49% and 32% respectively) relates to foreign domiciled funds. By contrast, around 90% or more of investment fund assets in the remaining countries are both domiciled and managed in these countries. Thus,

Exhibit 9 confirms the notion that there is a spectrum across Europe in terms of whether investment funds are primarily domiciled in the country where they are managed, or whether domiciliation abroad is common. Exhibit 9 also illustrates the high degree of internationalization that characterizes the European investment fund industry. The newly adopted UCITS IV Directive recognized the degree of specialization of the industry around investment fund domiciliation and fund asset management.¹¹

Finally, it is worth keeping in mind that the data on investment fund domiciliation (Exhibit 7) and asset management (Exhibit 8) cannot be used as such to measure the size of the investment fund market in each country. To get an estimate of the demand for investment funds at national level, it is necessary to take into account the funds domiciles abroad and promoted by national providers in their own country ("round-trip" funds), the foreign domiciled funds promoted by foreign providers in each country and the home-domiciled funds sold abroad by national promoters. Adding up estimates for round-trip and home-domiciled fund assets allows getting a good idea of the relative size of national fund markets. The top 10 countries in terms of market share are presented in Exhibit 10.¹² France, Germany, the UK, Italy and Switzerland held the biggest market shares at end 2007.

Exhibit 10**Top domestic markets for investment funds (assets in EUR billion)**

4.2 Discretionary Mandates

The second product category covered in this report – discretionary mandates – amounted to EUR 6,666 billion at end 2007, or 49% of the AuM of the European asset management industry. It is noteworthy that the three largest countries in terms of discretionary mandate assets (UK, France and Italy), managed 72% of total European discretionary mandates (see Exhibit 11).

Exhibit 11**Market share of discretionary mandates by country**

Countries	AuM	Mkt Share	AuM/GDP	Countries	AuM	Mkt Share	AuM/GDP
UK	3,180	47.7%	155%	Belgium	338	5.1%	101%
France	1,217	18.3%	64%	Portugal	59	0.9%	36%
Italy	418	6.3%	27%	Hungary	13	0.2%	13%
Netherlands	401	6.0%	71%	Greece	3	0.1%	2%
Germany	344	5.2%	14%	Rest of Europe	692	10.4%	21%

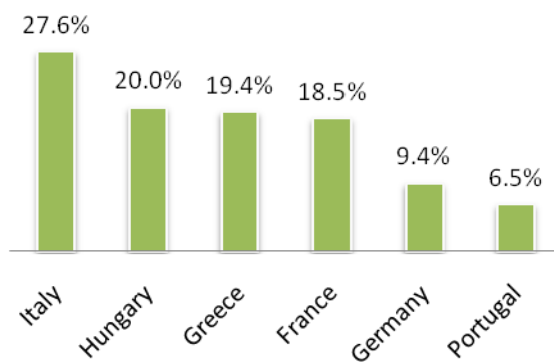
The degree of geographical concentration is higher than in the investment fund industry. This reflects a less complex value chain, primarily involving professionals (asset managers on one side and institutional investors on the other). Investment funds are different in nature as they are primarily targeted at retail investors and their distribution requires stricter administration and notification procedures. For this reason, at least until recently, investment fund assets have tended to be managed closer to their country of distribution.

Exhibit 11 also shows that the UK stands out in this respect with a 48% market share of European discretionary mandates, corresponding to 155% of UK's GDP. This is a reflection of a much larger

institutional client base for investment services compared to other European countries. Part of this is down to London's status as an international financial center. Another part is due to the very large base of pension fund assets managed there for both UK and overseas pension fund funds. Finally, it should also be noticed that the discretionary mandate figure for the UK includes a share of pooled vehicles that in many respects corresponds closely to investment funds. The position of Belgium is also noteworthy, whose discretionary assets managed correspond to 101% of GDP, reflecting a strong position in management of discretionary assets in relation to the size of the economy.

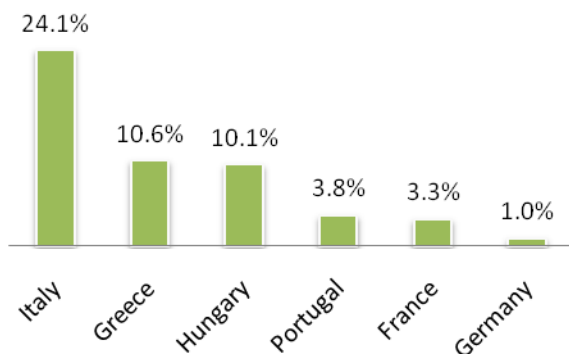
It is important to take note of the fact that discretionary mandates are often investing in investment funds, thereby taking advantage of the benefits they offer in terms of diversification and cost efficiency (see Exhibit 12).¹³ In Italy, the share of investment funds of total discretionary assets managed amount to 28%, whereas in France and Germany investment funds account for 19% and 9% respectively.

Exhibit 12 Share of total discretionary mandate assets invested in investment funds



By comparing Exhibit 12 with Exhibit 13 below, one gains insight into the extent to which discretionary mandates are invested in investment funds managed by the asset managers themselves or by other asset managers.

Exhibit 13 Discretionary mandate assets invested in investment funds managed by other companies



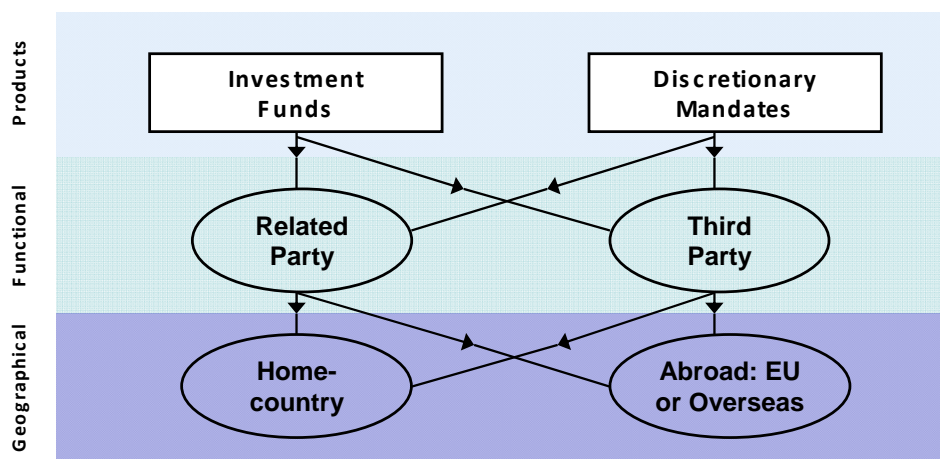
It can be observed that particularly in Italy, and to a lesser extent in Hungary and Greece, discretionary mandates frequently invest in investment funds managed by other asset managers. In Italy, they account for over 87% of

all investment fund assets in discretionary mandates, whereas in Hungary and Greece, such allocation represents around half of all investment fund assets in discretionary mandates. Conversely, in France and Germany, where the corresponding figures range between 18% and 10%, indicate the presence of large financial services groups.

4.3 Management of investment funds and discretionary mandates by outsourcing

There are differences in the management of investment funds compared to that of discretionary mandates. Moreover, these differences may vary substantially across countries. For instance, asset managers may outsource various functions to other asset managers to various degrees, such as the day-to-day management of the investment components in investment-linked financial products. Apart from allocation of discretionary mandates in investment funds discussed in the previous section, discretionary mandates may also be delegated to other asset managers. Given the high level of European integration in the asset management industry, such outsourcing often occurs on a cross-border basis, either to other European countries or overseas. Moreover, in certain countries, asset managers frequently outsource management to other entities belonging to the same financial services groups as themselves, while in others, outsourcing to third-party service providers is more common.

Exhibit 14 Dimensions of outsourcing in the asset management industry

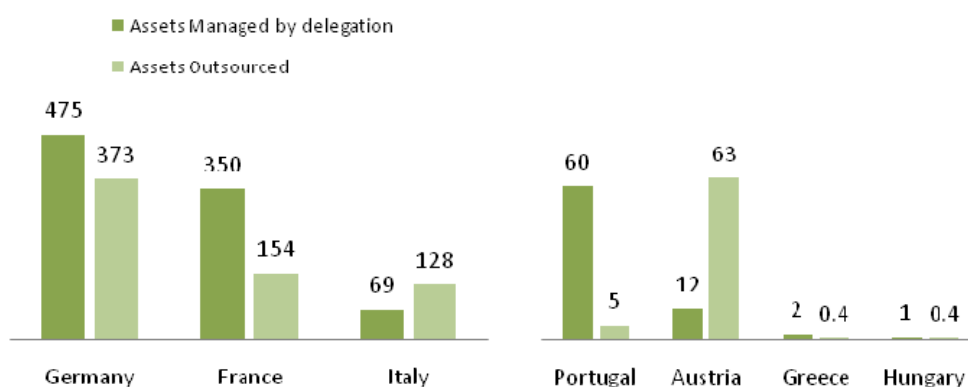


Asset managers not only outsource day-to-day management, they also receive significant amounts to manage from other asset managers by delegation. Such delegation may stem from the degree to which a particular country attracts asset management business from other countries. However, it may also result from cross-country differences in terms of the structure of national financial services industries, such as the importance of large financial service groups. For instance, in France, outsourcing largely occur within financial service groups, whereas outsourcing in Germany is used as a way to delegate the management of investment fund assets to third-party asset managers (see Exhibit 17a).

It is important to remark that the outsourced assets shown in this section are excluded from the total AuM reported on the country level (see Exhibit 3). Insofar the assets are outsourced to other European asset managers, they will be reflected in the total AuM for these countries. In case non-European asset managers receive such mandates, the outsourced assets are excluded from both AuM by country and the European aggregate.

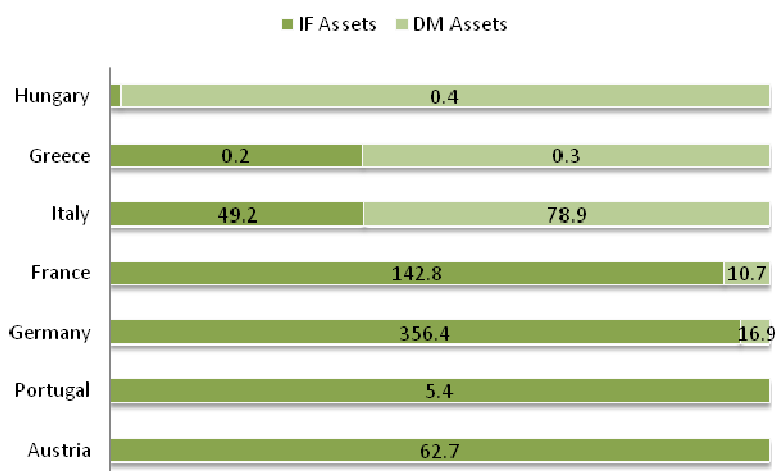
In the seven countries for which data on outsourcing is available, the total amount of outsourced assets amounted to EUR 724 bn at end 2007 (see Exhibit 15). It is noteworthy that Germany, France and Italy together accounted for more than 90% of outsourced assets covered by the data. Exhibit 15 also shows that in all countries but Italy and Austria, the amount of assets managed by delegation surpasses the amount of assets outsourced. This implies that asset managers in these countries receive mandates from investment funds and discretionary mandates domiciled abroad, once again pointing to the high degree of European integration in the asset management industry.¹⁴

Exhibit 15 Assets outsourced (EUR Billion)



As shown in Exhibit 16 below, outsourcing is primarily confined to the investment fund segment in France and Germany. By contrast, in Italy, Greece and Hungary, discretionary mandates account for the bulk of outsourced assets.¹⁵

Exhibit 16 Assets outsourced: breakdown by product (EUR billion)



Focusing on Germany, France and Italy, Exhibits 17a and 17b below show that outsourcing to third party providers is more common in the investment funds segment than in the discretionary mandate segment.

Exhibit 17a Share of investment fund assets outsourced third/related party

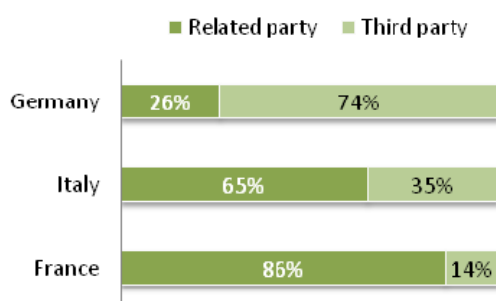
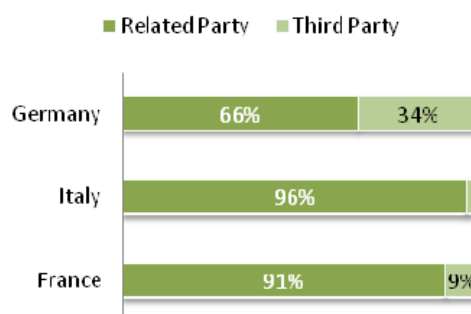


Exhibit 17b Share of discretionary mandate assets outsourced to third/related party



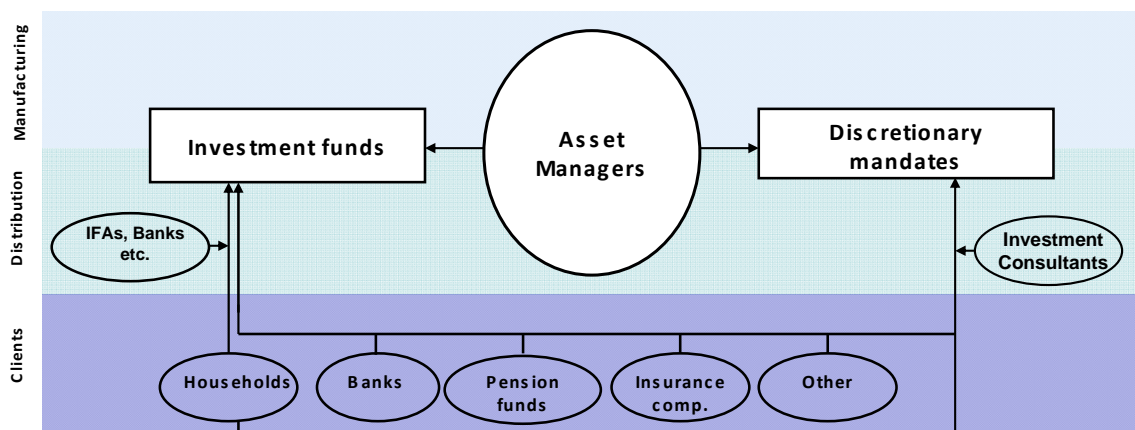
Turning to the degree to which assets are outsourced to asset managers in the same country, or abroad, in France, more than one third of all outsourced investment fund assets are managed

abroad, whereas the corresponding figure for Germany is notably higher at around 80%. In the discretionary mandates segment, the degree of outsourcing to abroad-based asset managers surpasses 70% in both countries. This high degree of cross-border outsourcing is probably stemming from a particular aptitude for European integration in the industry and the existence of financial services groups operating on a cross-country basis.

5 Clients of the European Asset Management Industry

Apart from providing intermediation solutions to households (the retail segment), asset managers provide services to a wide range of institutional clients. Such institutional clients represent the dominant segment of the European asset management industry, representing around two thirds of AuM. Two key institutional client categories include insurance companies and pension funds. Although these investors continue to manage assets in-house, many of them rely on asset management services for the management of assets covering technical provisions. In addition, asset managers serve other institutional clients by managing financial reserves held by non-financial companies, banks, government, local authorities, endowments and others. Many of these clients invest through a combination of investment funds and discretionary mandates. In providing these solutions, asset managers have become a key part of financial services clusters (together with international capital markets and the investment bank industry). Exhibit 18 below illustrates the principal clients and product solutions of the asset management industry as well as their dominant distribution channels. It is important to note that many of the institutional clients of the industry provide intermediary services for households. For example, apart from direct investments by households in asset management products, households also account for a significant share of the institutional client segments through their ownership of unit-linked products offered by insurance companies, or defined contribution schemes offered by pension funds and others. Moreover, as will be discussed further in this section, the nature of the industrial organization of the asset management industry in different countries influences the distribution of investment funds and discretionary mandates.

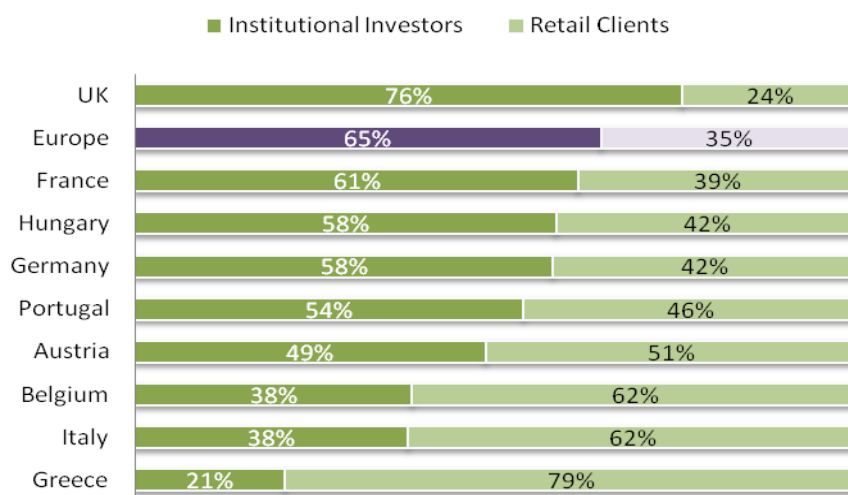
Exhibit 18 Main clients and distribution of asset manager services



5.1 Institutional vs Retail Clients

Institutional investors represent the largest client category of the European asset management industry. As noted above, institutional investors often act as financial intermediaries and channel the investments of retail clients to asset managers. On aggregate, institutional investors account for 65% of the total European AuM compared to 35% for retail clients. There is however significant variation in the importance of institutional investors across countries. They dominate the asset management landscape in the UK, France and Germany, reflecting the role of these countries as financial centers in Europe and their ability to attract large institutional mandates from both domestic and foreign investors (see Exhibit 19).

Exhibit 19 AuM by client type



As noted in Section 2.4, and highlighted in Exhibits 20 and 21 below, the dominant nature of parent groups in a country affects the clients structure of asset managers' clients. In Greece, Italy, Belgium,

Austria and Portugal, asset managers tend to form part of financial services groups controlled by banking groups.¹⁶ In these countries, one also observes the highest share of retail investors of total asset management clients. Conversely, in the UK and France, where the number of asset management companies belonging to a banking group is far smaller, the share of retail clients is relatively low (24% and 35% respectively). In the UK, this is attributable to a wholesale dominated asset management industry, particularly oriented towards pension funds and insurance companies. In France, the large degree of institutional clients is partly due to the popularity of unit-linked and other wrapper products containing asset management solutions, offered to retail clients via intermediaries. Clearly, these observations point to the importance of

distribution channels and how integration in financial services groups affects the dominant client structure of the asset management industry in individual countries.

Exhibit 20 **Share of asset management firms owned by banking groups**

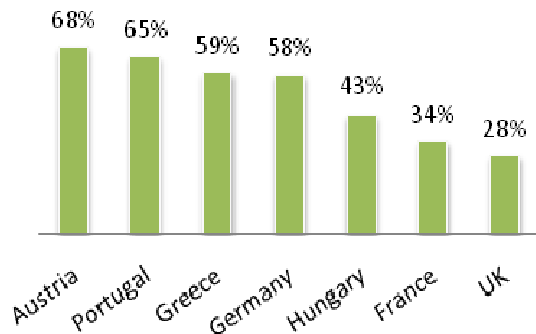
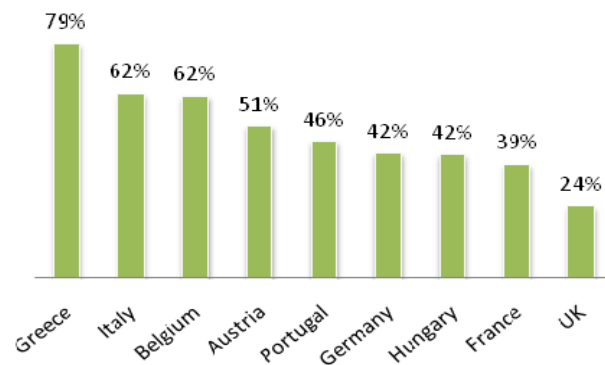


Exhibit 21 **Retail segment's share of AuM**



Turning to the importance of different client types across investment funds and discretionary mandates, Exhibit 22 demonstrates that institutional investors dominate the discretionary mandate segment of the market in all European countries. Such specialization is attributable to an increased propensity of institutional investors to seek specific solutions to their particular needs, such as asset-liability management, liability driven investments, separation of alpha and beta, etc. In Hungary, France, Greece and Germany, they account for more than 80% of discretionary mandate assets. In all other countries, institutional investors make up for more than 60% of the asset managed in discretionary accounts. The distribution between institutional and retail clients' shares of AuM in investment funds displays a more heterogeneous picture across the European landscape (see Exhibit 23). Particularly in France, but also to a lesser extent in Germany, Austria and Belgium, institutional investors account for a significant share of ownership of investment funds. This indicates that a large share of these funds is offered primarily to large investors, such as insurance companies and pension funds for their provisioning of investment-linked savings products. The situation is markedly different in Greece, Hungary, Portugal and Italy, where funds appear predominantly targeted at retail clients. This said, the low amount invested by institutional investors in funds also reflects the difficulty of distinguishing the share of assets held by institutional and retail clients in funds that can be bought by both types of clients.

Exhibit 22 Discretionary mandates assets institutional investors

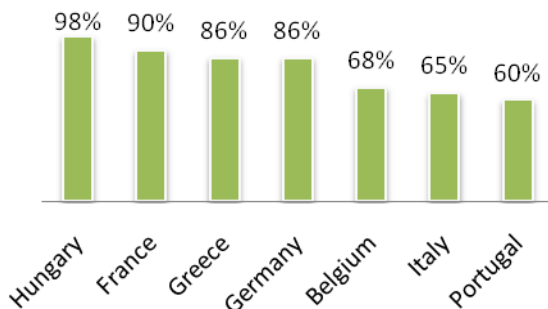
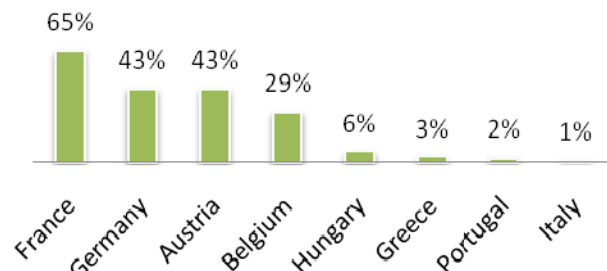


Exhibit 23 Investment fund assets managed for managed for institutional investors



5.2 Assets Managed for Institutional Investors

Turning the focus to the different kinds of institutional clients represented in Section 4.1, insurance companies and pension funds account for 72% of total AuM for institutional clients in Europe. Insurance companies hold the top position with 42% of the AuM, followed by pension funds with 30%.

As mentioned, other institutional investors represent a diverse range of clients. The aggregate share of this type of investors amounts to 24%, whereas banks account for the remaining 4% (see Exhibit 24).

Exhibit 24 Composition of the institutional investor category

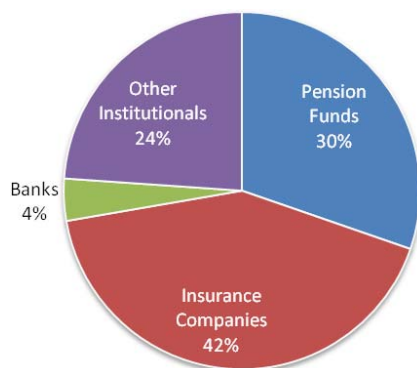
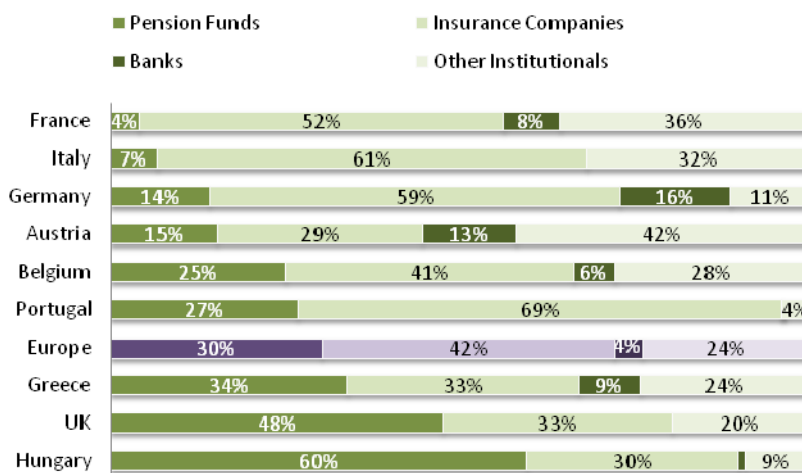


Exhibit 25 below illustrates the breakdown of the institutional client category into insurance companies, pension funds, banks and others on a country basis. Exhibit 25 shows that there is large variation in the relative importance of each type of institutional clients across countries. There are several important determinants of the institutional client structure of any

particular country, such as linkages between the pension system and the asset management industry, relative importance of banks in the overall economy etc.

Exhibit 25 Composition of the institutional investor category by country



Another influential factor is the degree to which asset managers in a particular country attracts capital from certain categories of foreign investors.

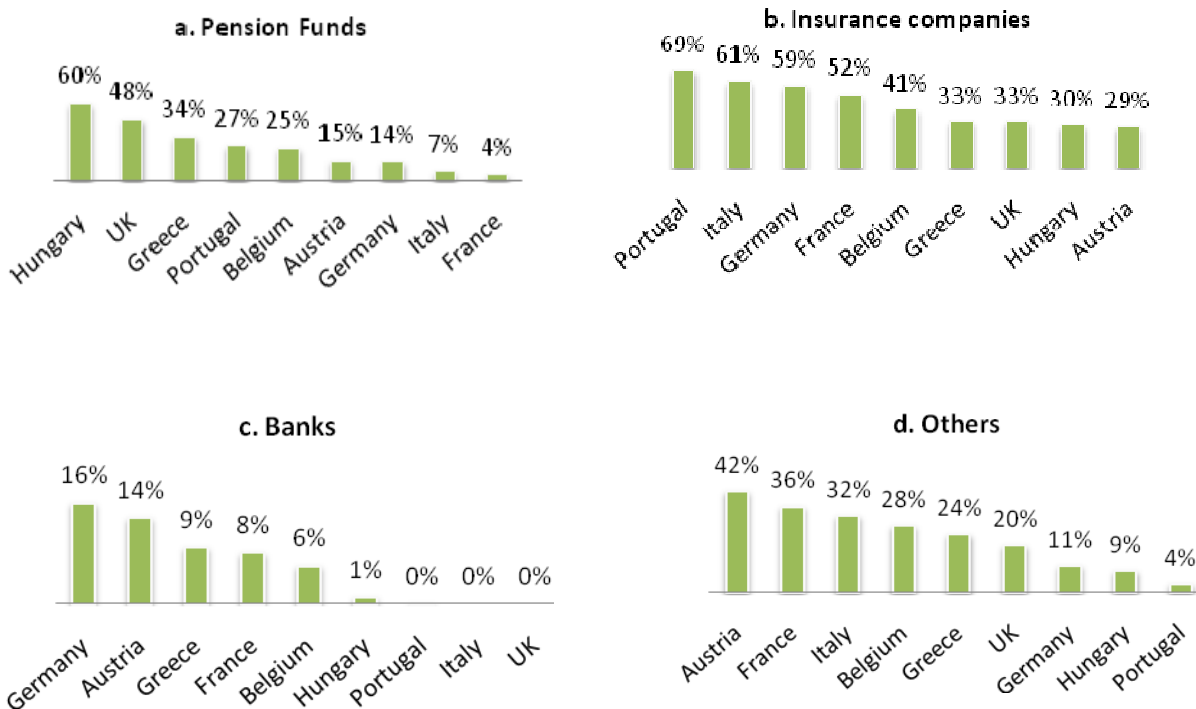
Pension fund mandates displays large variety across countries (see Exhibit 26a). Whereas pension funds in Italy and France only account for 7% and 4% of total institutional AuM, they represent the largest type of institutional mandates in the UK and Hungary. These differences are largely determined by the nature of the pension systems. In countries with tradition of relying on funded pensions, assets in pension vehicles have accumulated over time to form a substantial source of institutional money. In the UK and Hungary, the ratio of pension fund assets to GDP is several times higher than the corresponding figures for Austria, Belgium, Germany, France, Greece and Italy.¹⁷

By contrast, one common feature among most European countries is that insurance companies represent a very large source of institutional AuM. Insurance companies account for 20% of institutional clients in Austria, ranging around 30% in Hungary, Belgium and Greece, and amount to more than half of institutional clients in France, Germany, Italy and Portugal (see Exhibit 26b). This reflects the sheer volume of assets controlled by insurance companies and managed by asset managers. As demonstrated in Exhibit 4, these asset managers may often belong to the same financial service groups as the insurance company client.

In most countries, banks represent a relatively modest part of the total institutional AuM, except in Germany and Austria where the share of banks represents 16% and 9% respectively (see Exhibit 26c).

Finally, it can be seen that the share of Other institutional clients is rather significant in a number of countries (see Exhibit 26d). This is attributable to a number of different factors. In Austria, such Other clients account for over 40% all institutional clients, consisting primarily of large corporations or foundations. Moreover, in France, money market funds are widely held by corporate treasurers.

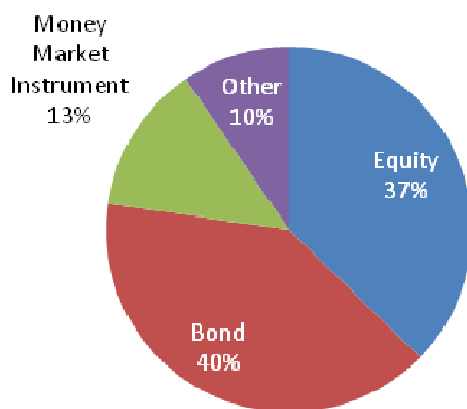
Exhibit 26a-d Institutional investors by country and type (percentage of the institutional investor category)



6 Asset Allocation

Depending on the type of clients, and their respective preferences in terms of risk level, time horizon and outcome target, the asset management industry provides a vast spectrum of solutions to meet the expectations of its diverse range of client. As different client preferences necessitate different investment strategies, and since dominant client types varies across Europe, there are certain patterns in the way asset managers choose to allocate their AuM across asset classes. On aggregate, the dominant asset classes are bond and equity, with 40% and 37% of total AuM respectively (see Exhibit 27).¹⁸

Exhibit 27 **Asset allocation**

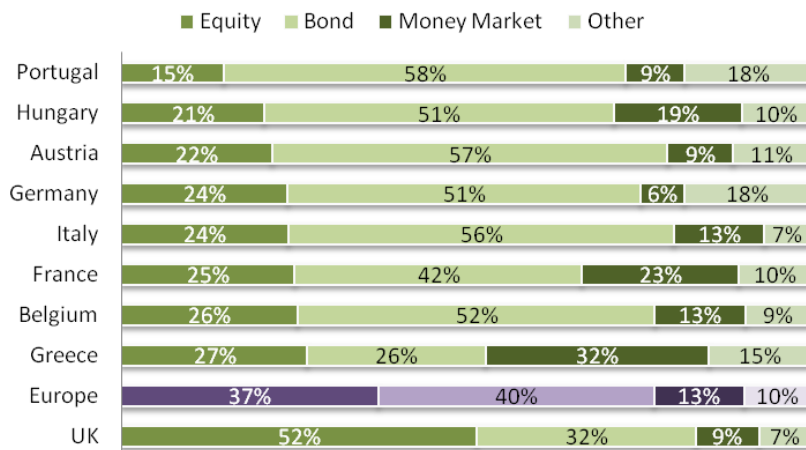


6.1 Asset Allocation by Country

Exhibit 28 below displays the differences between countries in terms of how asset managers allocate investments across different asset classes. It is important to bear in mind that given the large degree of cross-border delegation of asset management, the national differences in asset allocation is not completely attributable to differences in terms of the preferences of home-domiciled clients. It also reflects the preferences of overseas investors. With respect to the UK, the 52% share of equity also reflects the strong equity bias within the UK market, which stands in

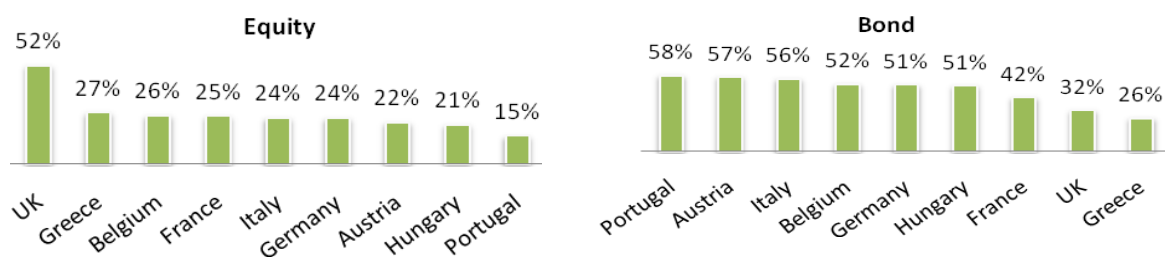
contrast to the traditional Continental approach (see Exhibit 29a). By way of illustration, UK pension funds held 57% of their assets in equities at end 2006, and equities accounted for 74% of total investment funds under management in the UK. Excluding the UK, the European average share of equity would merely amount to 25%, whereas the share of bonds would rise to 47%.¹⁹

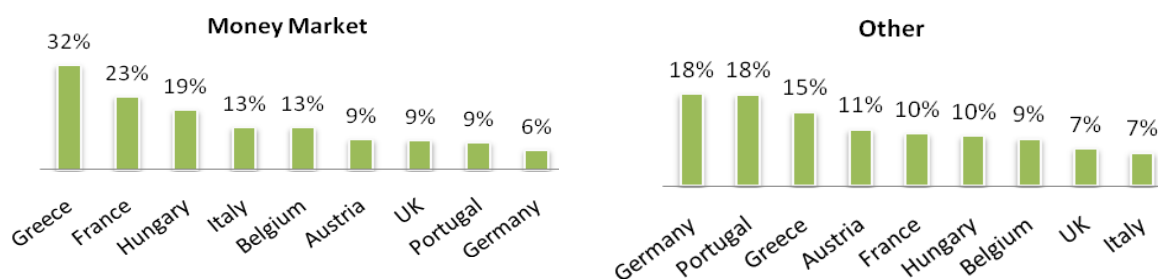
Exhibit 28 Asset allocation by country



In most other countries, equity represents around a quarter or less of total AuM, and bond constitutes the dominant asset class (see Exhibit 29b). The strong position of France in money market assets is also noteworthy (see Exhibit 29c). While small in many countries, Other financial assets are nevertheless not negligible. This reflects portfolio diversification towards a vast array of different assets, such as regulated hedge funds and structured products in France and property in Germany (see Exhibit 29d).

Exhibit 29-d Asset allocation by country





6.2 Asset Allocation in Investment Funds and Discretionary Mandates

There are also differences between how the assets in investment funds and discretionary mandates are allocated. Investment funds hold on average 35% in equity and 30% in bonds. Discretionary mandates are generally more conservatively managed, with an average of 48% invested in bonds and 35% in equity (see Exhibits 30 and 31). The previously discussed general decline in equity exposure in 2007 was observable for both discretionary mandates and investment funds, whose exposures decreased by 3 and 2 percentage-units respectively.

Exhibit 30 Asset allocation in investment funds

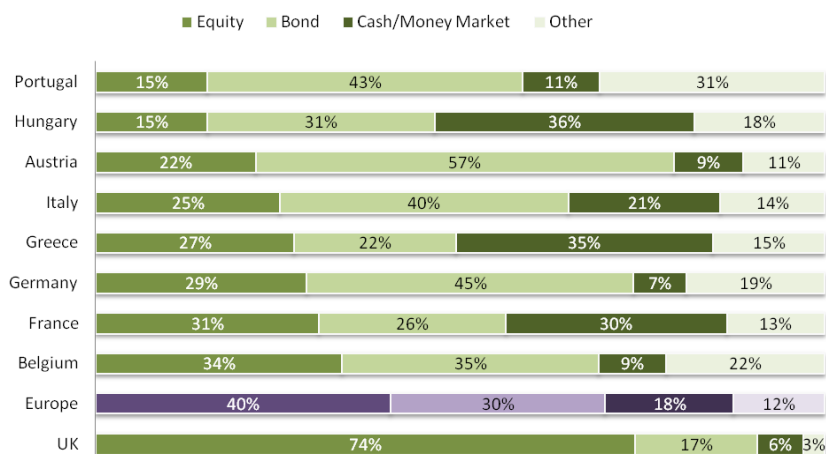
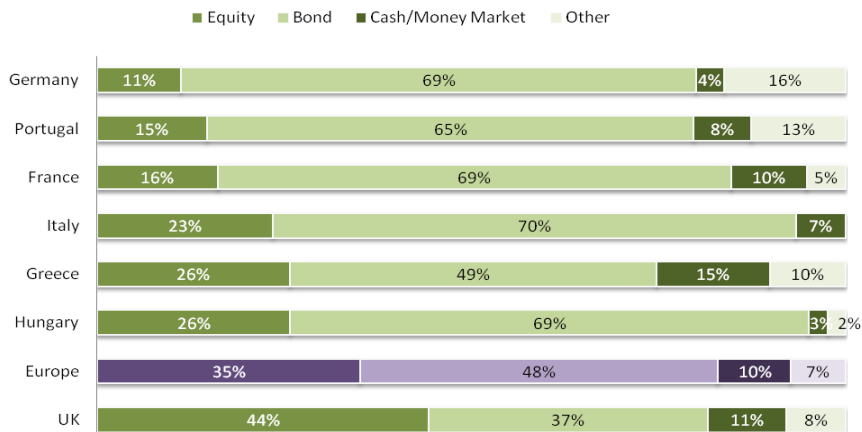


Exhibit 31 Asset Allocation in discretionary mandates



Unsurprisingly, Exhibits 30 and 31 above show that there are large differences across countries in terms of how investment funds and discretionary mandates are allocated. While equity represents around 30% of investment fund assets in many countries, equity accounts for a share of merely 15% in Portugal and Hungary. Again, the UK demonstrates a particular preference for equity in both segments of the market. Given the size of the UK industry, its appetite for equity investment strongly influences the European average.

Another important observation is the large share of other assets in certain countries. As mentioned, in Germany, a large share of these assets is represented by investments in property, whereas in France, regulated hedge funds account for a significant share of other assets. It is also important to note that such exposure is generally much higher for investment funds than for discretionary mandates.

Although the above figures give some indication on the dominant risk preferences in various countries, it is important to recall that the European asset management industry is highly internationalized. This means that mandates are given and investment funds are sold on a cross-border basis. For instance, investors in a country with dominant low equity exposure product solutions may choose to appoint asset managers in, for example, the UK to manage their equity funds.

Despite this impact from cross-border selection of asset managers, certain patterns can be distilled from the data on asset allocation. In particular, asset allocation is affected by the type of

clients that dominate the investment fund or discretionary mandate segments in the surveyed countries. In countries where retail clients account for majority of investment fund holdings (Hungary, Italy, Portugal and Greece) equity exposure in such funds are relatively low. Conversely, when institutional investors represent a relatively large part of investment fund ownership (Belgium, Germany and France), equity exposure tends to be higher. It is also worth noting the relatively high share of money market instruments in the asset allocation of French investment funds; this reflects the importance of money market funds in the liquidity management of corporations in France.

Likewise, asset allocation in discretionary mandates varies with the dominant client categories in the various countries. In Greece, the UK and Hungary, discretionary mandates are dominated by pension funds, whose long term investment horizon allow for particularly high exposure to equity. Corresponding to the case of investment funds, when retail clients account for more than a third of discretionary mandates (Portugal and Italy), equity exposure tends to be lower.

7 AuM at 2008: First Estimation of the Impact of the Financial Crisis

2008 has been a very difficult year for European investors and investment managers. The global financial crisis, which started in the United States in the summer of 2007 to become one of the most serious financial market crises in history, had a severe impact on AuM in Europe and elsewhere in the world. Although the standing of the European asset management industry at end of 2008 will be analyzed in full details in next year's EFAMA Asset Management Report, it is possible to give some indication of the impact of the financial crisis on total AuM, starting with the investment fund sector.

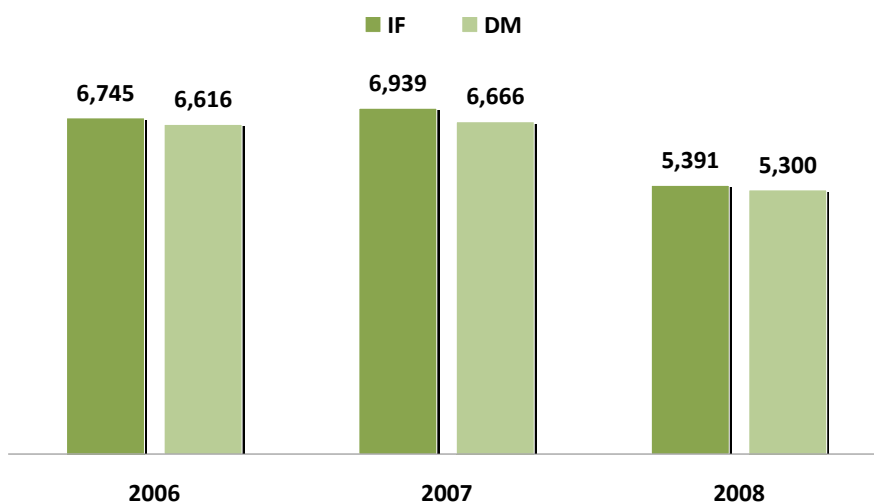
According to EFAMA's statistics, the assets of investment funds domiciled in Europe declined by 22.3% in 2008.²⁰ This decline was driven by the developments in the UCITS market, which represents about 75% of the investment fund market in Europe.²¹ Market losses were responsible for 77% of the decline in UCITS assets, whereas outflows added the remaining 23%. Three main set of factors can explain the outflows: the massive losses recorded in stock market across the globe that led many investors to pull out savings from equity funds; the liquidity crisis and the fear of credit and counterparty losses following the bankruptcy of Lehman Brothers that accelerated outflows from bond funds; and the competition from structured products and the war for deposits that escalated when European governments decided to provide guarantees for all bank deposits. Applying the 22.3% figure to the investment fund assets managed in Europe, those assets can be estimated to have declined to EUR 5,391 billion in 2008.

To estimate the evolution of the AuM in discretionary mandates in 2008, we took into account the following factors. First, we extrapolated the observed market developments on to the asset class portfolio composition of discretionary mandates. Second, we assumed that discretionary mandates continued to attract new money in 2008, in the order of 5% of AuM. This assumption is supported by the fact that the bulk of discretionary mandates are managed for institutional investors, in particular insurance companies and pension funds, which continued to draw net contributions from occupational pension plans and life-insurance contracts.²² Also, it is worth noting that the so-called special funds, which are reserved to institutional investors, managed to attract EUR 51 billion in new money in 2008, or 5.3% of AuM at end 2007. Finally, in view of the

market share of the UK in the asset management of discretionary mandates (48%), we took into consideration the depreciation of the British Pound vis-à-vis the euro in 2008, which was rather significant (23%). Taken all together, discretionary mandate assets may have decline by around a fifth in 2008.

According to our calculations, European AuM fell by some 21% in 2008 to EUR 10.7 trillion. Exhibit 32 shows the estimated evolution of AuM in discretionary mandates and investment funds between end 2006 and end 2007.

Exhibit 32 AuM of the European asset management industry (EUR billion)



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- ¹ See Appendix for an overview of data gathering and methodology.
- ² Two main sources of information were used: the EFAMA 2008 Fact Book and the McKinsey&Company report: “Will the goose keep laying golden eggs – Towards the resurgence of global asset management” (October 2008).
- ³ As we are still in the process of improving our methodology for estimating the value of the assets managed in the European countries that do not participate in the survey, this report will not discuss the evolution of the European asset management industry in 2007 compared to end 2006. We hope to provide such historical perspectives on the developments in the industry in next year’s edition of the Report.
- ⁴ See the Boston Consulting Group report: “Winning Strategies in Uncertain Times: Global Asset Management 2008” (November 2008).
- ⁵ Aggregate Gross Domestic Product of the European countries included in the report was EUR 13,304 billion in 2007 (Source: Eurostat).
- ⁶ This figure includes 13,000 jobs in asset management companies, 13,000 jobs outsourced by those firms or provided by related services providers, and 44,000 jobs in distribution of investment products, most importantly investment funds. See “La gestion pour compte de tiers génère 70000 emplois », published by AFG (Association française de la gestion financière), September 2008. The study can be downloaded from: www.afg.asso.fr/upload/3/Fichier933.pdf.
- ⁷ See “Etude d’impact de l’industrie financière sur l’économie luxembourgeoise”, Version chiffres de 2007, Deloitte, October 2008. This study is available on the website www.cssf.lu. The figure concerning Ireland is made available by the Irish Funds Industry Association, which is conducting an annual survey of employment trends in the Irish funds industry.
- ⁸ It is also important to note that for most countries, the breakdown by parent group categories relates to the firms that were included in the data collected by EFAMA’s member associations at national level.
- ⁹ 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.
- ¹⁰ See EFAMA’s Press Release dated 4 July 2008 on www.efama.org.
- ¹¹ On 13 Jan 2009, the European Parliament approved the so-called UCITS IV Directive. For further information, see http://www.europarl.europa.eu/news/expert/infopress_page/042-45972-012-01-03-907-20090112IPR45971-12-01-2009-2009-false/default_en.htm

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- ¹² For an overview and further detail on round-trip funds, see EFAMA 2008, Fact Book: Trends in European Investment Funds, available at www.efama.org.
- 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, amounting to around 3%.
- ¹⁴ For Austria, data on outsourcing covers investment funds only.
- ¹⁵ Data on assets outsourced from Austria and Portugal covers only investment funds.
- ¹⁶ Even though data is not available, it is widely recognized that the majority of Belgian asset management companies belong to a banking group.
- ¹⁷ OECD 2007. *Pension Markets in Focus*, November 2007, Issue 4
- ¹⁸ The asset allocation is based on a sample of firms representing slightly less than EUR 10 trillion.
- ¹⁹ The asset allocation for the UK is based on an estimate for the retail part of the UK managed funds.
- ²⁰ See "Trends in the European Investment Fund Industry in the Fourth Quarter of 2008 and Results for the Full Year 2008", EFAMA's Quarterly Statistical Release N°36, February 2008, available on www.efama.org.
- ²¹ More information on UCITS and investments funds is provided in Section 3.
- ²² By way of illustration, AFG has estimated that the discretionary mandates assets in France declined by 6% in 2008. For more information, please visit www.afg.asso.fr.