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EUROPEAN FUND INDUSTRY REVIEW Q1-2018

Please attribute the content to Detlef Glow, Head of EMEA Research at Thomson Reuters Lipper and the author of this report.



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EXECUTIVE SUMMARY

Are European fund investors in “risk-on” mode?

- The assets under management in the European fund industry increased from €10.4 tr to €10.5 tr over first quarter 2018.
- Equity funds (+€46.8 bn) were the best selling asset type overall.
- Within the segment of long-term mutual funds all asset types, with the exception of “other” products (-€3.8 bn) did well over the course of first quarter 2018.
- **BlackRock** (€753.6 bn) was by far the largest fund promoter in Europe, followed by **Amundi** (€422.1 bn) and **JP Morgan** (€305.1 bn).
- **BlackRock**, with net sales of €12.7 bn, was the best selling fund promoter for first quarter 2018 overall, well ahead of **Amundi** (+€9.2 bn) and **UBS** (+€8.0 bn).
- The European fund market increased by 26 funds over the course of first quarter 2018.
- Equity funds showed the highest number of mergers (92) and liquidations (89), while mixed-asset funds showed the highest number of fund launches (178).



EUROPEAN FUND INDUSTRY REVIEW, Q1-2018

Looking at the headline figures, first quarter 2018 could be considered a business-as-usual quarter for the European fund industry, since the assets under management (+€10.5 tr) hit a new all-time high at the end of March. After a year of record inflows the European fund industry enjoyed further net inflows of €81.5 bn over the course of first quarter 2018.

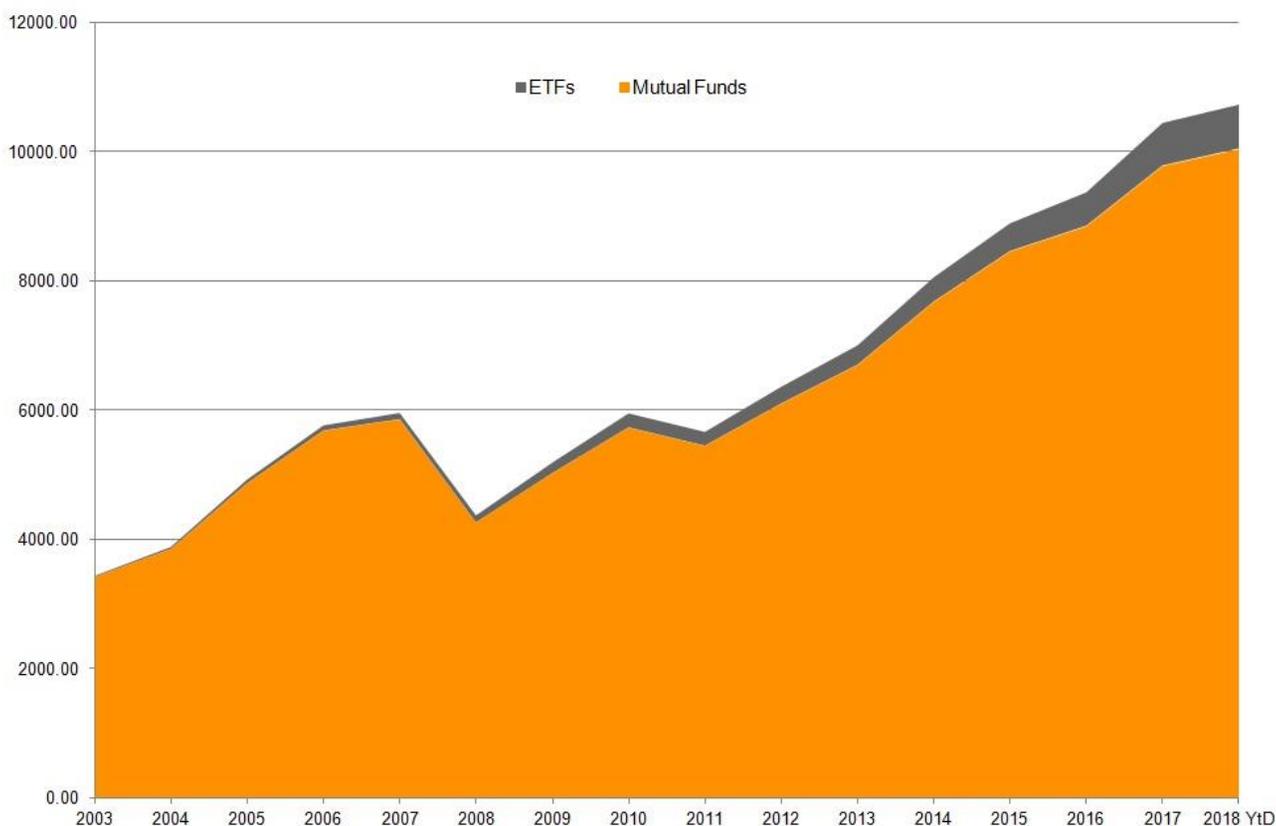
Assets Under Management in the European Fund Industry

The assets under management in the European fund industry increased from €10.4 tr to €10.5 tr over first quarter 2018. This increase was mainly driven by net new sales (+€81.5 bn), while the market performance contributed €21.3 bn net.

Since 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. That said, we include the numbers for ETFs in the overall numbers for the European fund industry.

The European ETF industry enjoyed increasing popularity with all kinds of investors over first quarter 2018. This popularity was seen in the increase in the assets under management. Assets held by the European ETF industry, increasing €19.8 bn, marked a new all-time high at €676.5 bn at the end of March 2018, up from €656.8 bn at the end of 2017. In line with their actively managed peers, the growth in the European ETF segment was mainly driven by net sales (+€26.8 bn), while the performance of the underlying markets contributed a net-negative €7.0 bn.

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



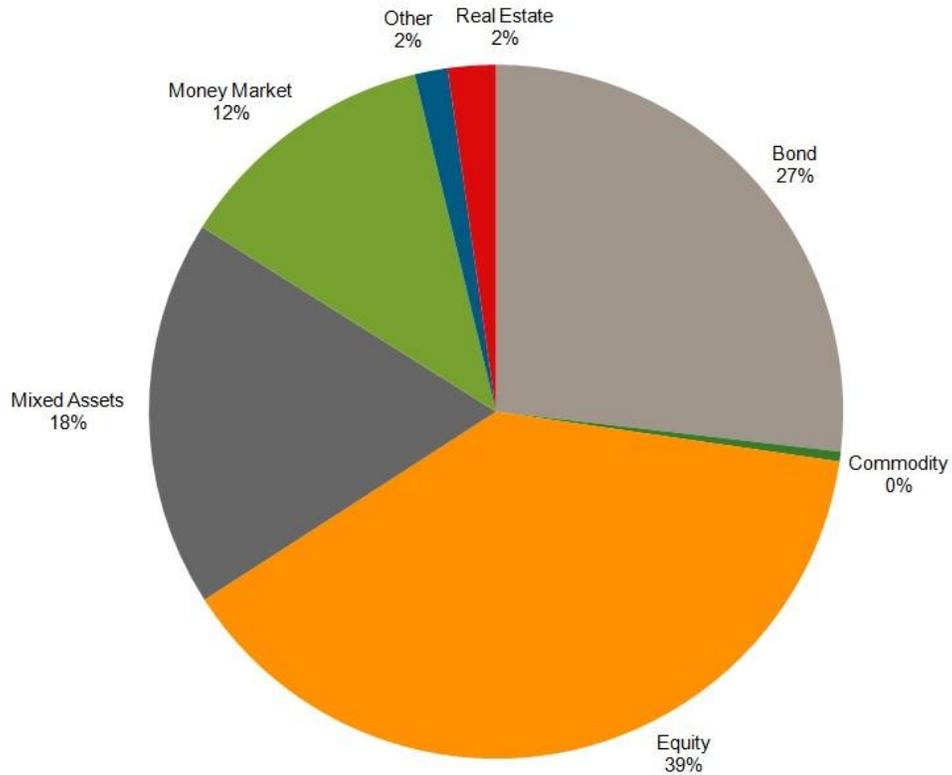
Source: Thomson Reuters Lipper



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With regard to the overall number of funds registered for sales in Europe, it was not surprising that equity funds (€3.8 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 (€0.7 tr), real estate funds (€0.2 tr), and “other” products (€0.2 tr) as well as commodity funds (€0.04 tr).

Graph 2: Market Share by Asset Type (March 31, 2018)



Source: Thomson Reuters Lipper

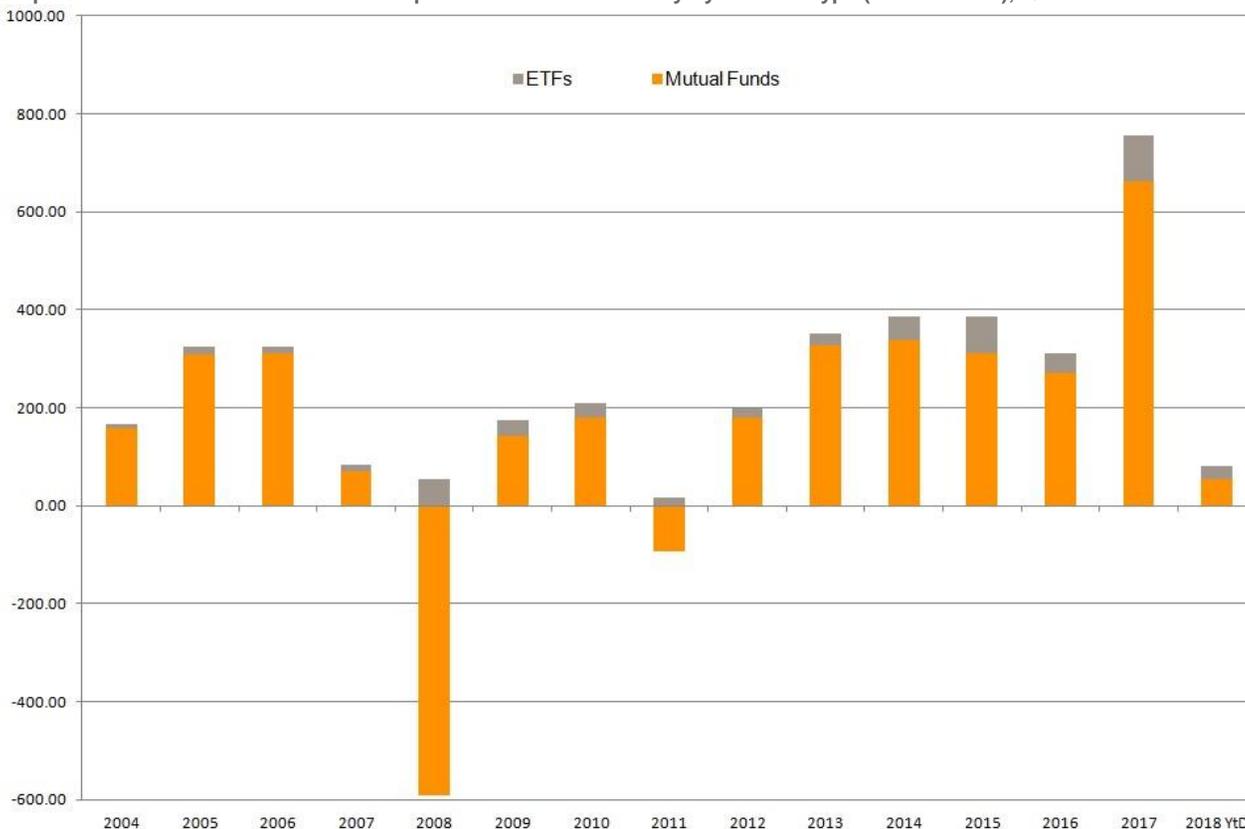


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European Fund Flow Trends, Q1-2018

Generally speaking, first quarter 2018 seemed to be a good quarter for the European fund industry; fund promoters enjoyed healthy net inflows into mutual funds (+€81.5 bn) despite increased market volatility. Pulling out money market funds from this number shows that the flows into long-term mutual funds (+€91.1 bn) were in line with the flows into long-term mutual funds during other strong quarters. With regard to these numbers it was not surprising that first quarter 2018 was also a good period for the promoters of ETFs; ETFs (ex money market products) contributed €26.6 bn (equalling 29.2% of the overall net inflows) to these flows numbers.

Graph 3: Estimated Net Flows in the European Mutual Fund Industry by Product Type (Euro Billions), Q1-2018



Source: Thomson Reuters Lipper

Fund Flows Into Long-Term Mutual Funds

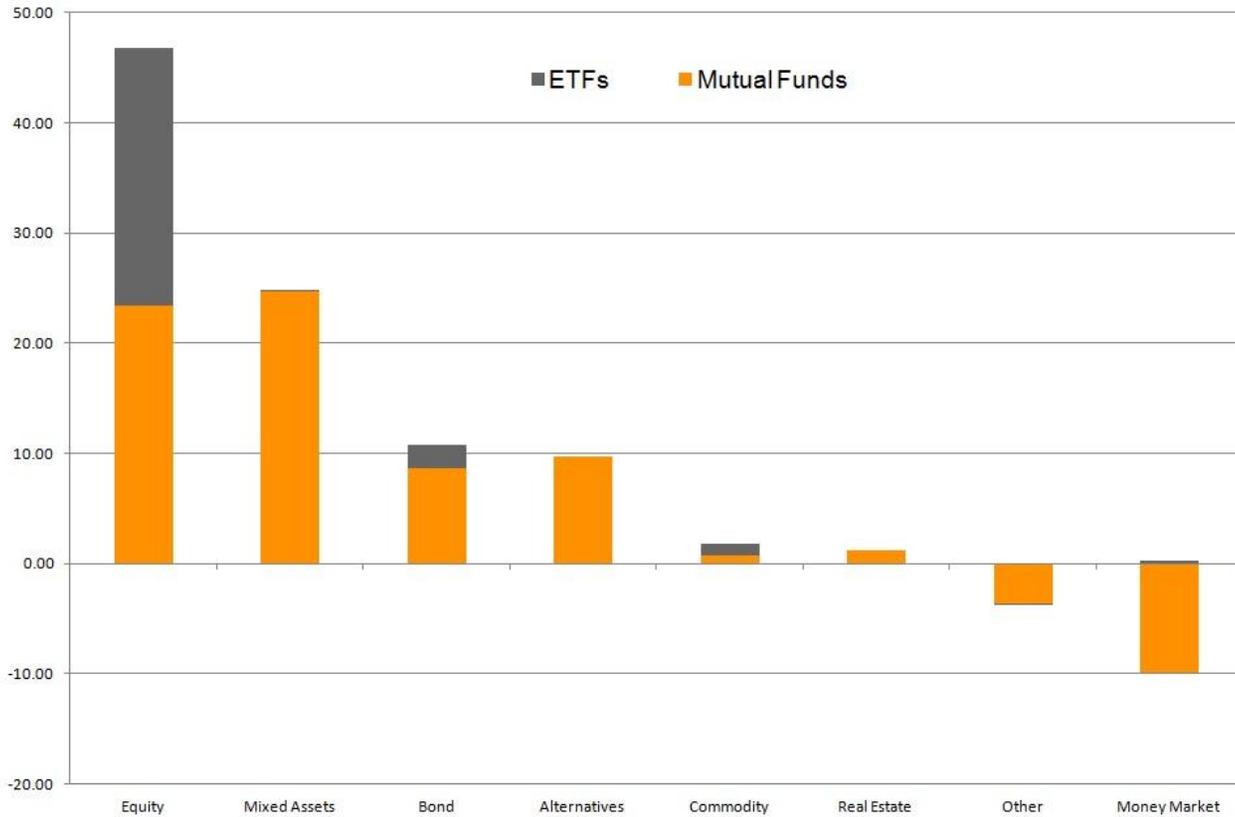
A more detailed view by asset type unveils that all asset types, with the exception of “other” products (-€3.8 bn) did well over the course of first quarter 2018. Given that the global stock markets showed increasing volatility over first quarter 2018, it was surprising that equity funds (+€46.8 bn) were the best selling asset type overall in Europe, followed by mixed-asset funds (+€24.7 bn) and bond funds (+€10.8 bn) as well as alternative UCITS products (+€9.7 bn), commodity funds (+€1.8 bn), and real estate funds (+€1.2 bn). These fund flows added up to overall net inflows of €91.1 bn into long-term investment funds for first quarter 2018. These flows may indicate that European investors were back in a “risk-on” mode, especially if one takes the sector flows into account.



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With regard to ETFs, equity ETFs were the best selling asset type in this market segment (+€23.4 bn), followed by bond ETFs (+€2.2 bn) and commodity products (+€1.1 bn) as well as mixed-asset ETFs (+€0.04 bn), while “other” ETFs (-€0.1 bn) and alternative UCITS ETFs (-€0.07 bn) faced net outflows.

Graph 4: Estimated Net Sales by Asset and Product Type, Q1-2018 (Euro Billions)



Source: Thomson Reuters Lipper

Fund Flows Into Money Market Products

Money market products (-€9.7 bn) were the asset type with the highest overall net outflows for first quarter 2018. Mutual funds investing in money market instruments faced net outflows of €9.9 bn, while their passive peers (ETFs) had net inflows of €0.3 bn.

This flow pattern led the overall fund flows to mutual funds in Europe to net inflows of €81.5 bn for first quarter 2018.

Money Market Products by Sector

Money Market EUR (+€6.4 bn) was the best selling money market sector for first quarter 2018, followed by Money Market PLN (+€1.1 bn) and Money Market Global (+€0.8 bn). At the other end of the spectrum Money Market GBP (-€8.4 bn) suffered the highest overall net outflows, bettered by Money Market USD (-€7.2 bn) and Money Market EUR Leveraged (-€2.0 bn).

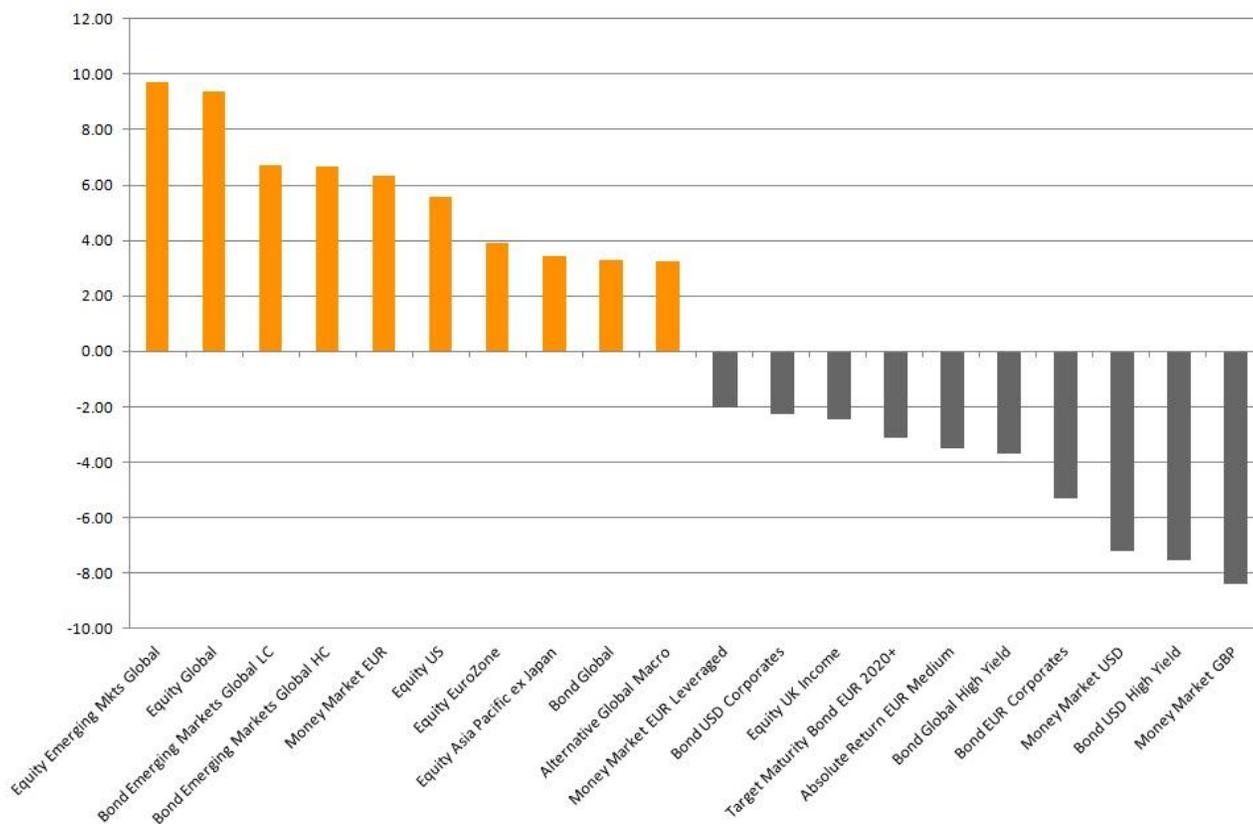


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Fund Flows Into Long-Term Mutual Funds by Sectors

Within the segment of long-term mutual funds Equity Emerging Markets Global (+€9.7 bn) was the best selling sector, followed by Equity Global (+€9.4 bn), Bond Emerging Markets in Local Currencies (+€6.7 bn), and Bond Emerging Markets in Hard Currencies (+€6.7 bn) as well as Equity US (+€5.6 bn).

Graph 5: The Ten Best and Worst Selling Sectors for Q1-2018 (Euro Billions)



Source: Thomson Reuters Lipper

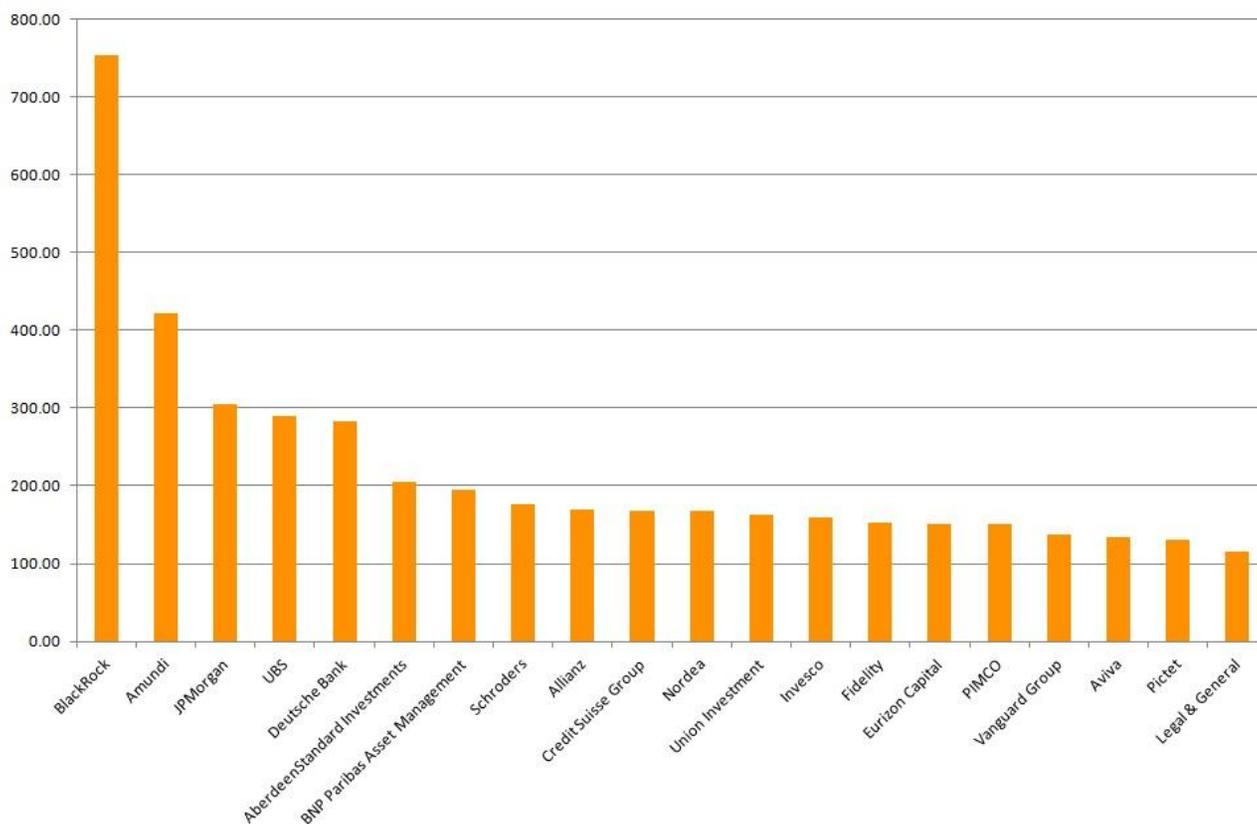
At the other end of the spectrum Bond USD High Yield (-€7.5 bn) suffered the highest net outflows from long-term mutual funds, bettered by Bond EUR Corporates (-€5.3 bn) and Bond Global High Yield (-€3.6 bn) as well as Absolute Return EUR Medium (-€3.5 bn) and Target Maturity Bond EUR 2020+ (-€3.1 bn).



Assets Under Management by Promoters

A closer look at the assets under management in the European mutual fund industry shows that **BlackRock** (€753.6 bn) was by far the largest fund promoter in Europe, followed by **Amundi** (€422.1 bn) and **JP Morgan** (€305.1 bn) as well as **UBS** (€288.9 bn) and **Deutsche Bank** (€282.4 bn). Looking at these numbers, one needs to take into account that Amundi increased its assets under management with the acquisition in 2017 of Pioneer Investments.

Graph 6: The 20 Largest Promoters by Assets Under Management in Europe, March 31, 2018 (Euro Billions)



Source: Thomson Reuters Lipper

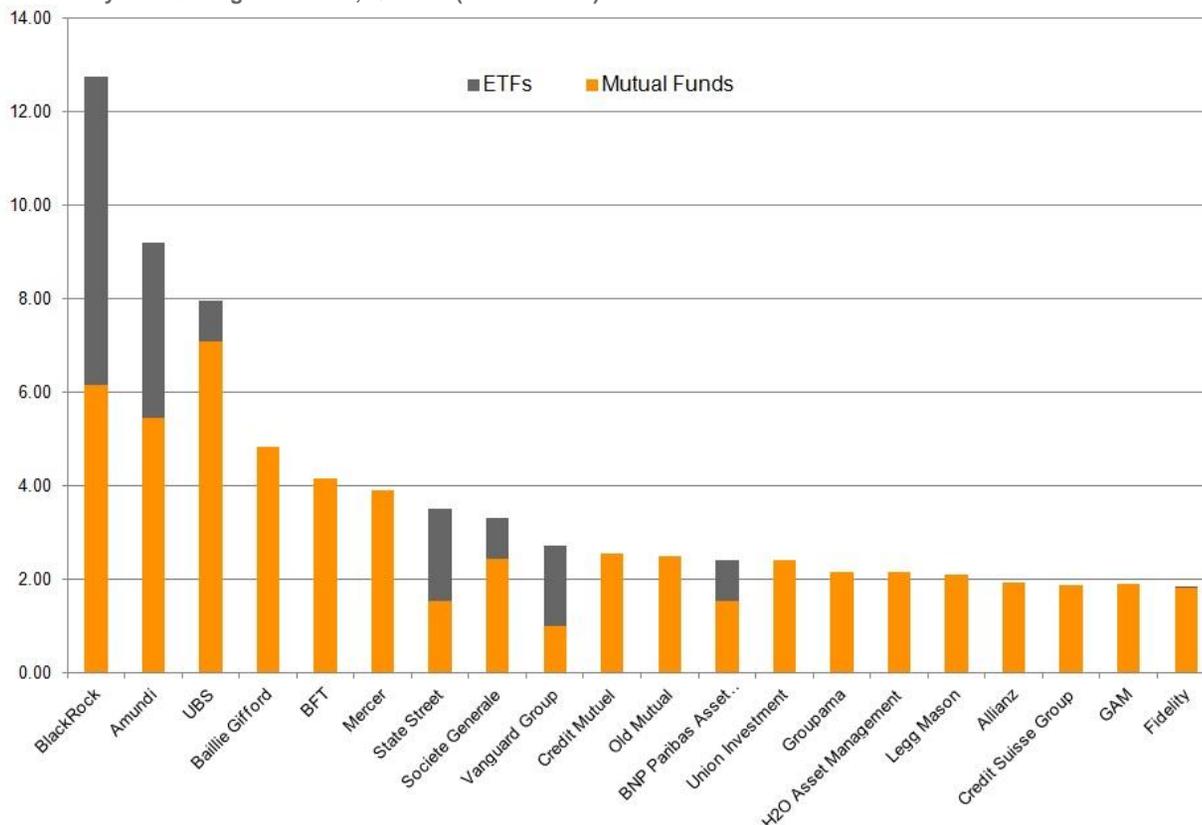


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Fund Flows by Promoters

BlackRock, with net sales of €12.7 bn, was the best selling fund promoter for first quarter 2018 overall, well ahead of **Amundi** (+€9.2 bn) and **UBS** (+€8.0 bn). Taking into account that the flows into **BlackRock** contained €6.6 bn from its ETF branch **iShares** meant that the traditional mutual fund branch of the business witnessed the smaller part of the net inflows (+€6.2 bn); i.e., the ETF business contributed—in terms of net flows—more than the actively managed funds to the overall flows into products sold by **BlackRock**. If one looks only at traditional mutual funds, **BlackRock** would have finished the quarter as the second best selling fund promoter, behind **UBS**.

Graph 7: Twenty Best Selling Promoters, Q1-2018 (Euro Billions)



Source: Thomson Reuters Lipper

Considering the single-asset bases, **UBS** (+€3.7 bn) was the best selling promoter of bond funds for first quarter 2018, followed by **BlackRock** (+€3.0 bn), **Deutsche Bank** (+€1.5 bn), and **Ashmore** (+€1.3 bn) as well as **Credit Suisse Group** (+€1.3 bn).

Within the equity space **BlackRock** (+€8.7 bn) stood at the head of the table, followed by **Baillie Gifford** (+€4.7 bn), **Amundi** (+€3.2 bn), and **Morgan Stanley** (+€3.1 bn) as well as **UBS** (+€3.0 bn).

Eurizon Capital (+€4.0 bn) was the leading promoter of mixed-asset funds in Europe for first quarter 2018, followed by **Mercer** (+€3.1 bn), **JP Morgan** (+€3.0 bn), and **Amundi** (+€2.8 bn) as well as **Union Investment** (+€2.1 bn).

H2O Asset Management (+€2.0 bn) was the leading promoter of alternatives funds for first quarter 2018, followed by **Legg Mason** (+€1.6 bn), **Old Mutual** (+€1.4 bn), and **GAM** (+€1.4 bn) as well as **BlueBay** (+€0.7 bn).

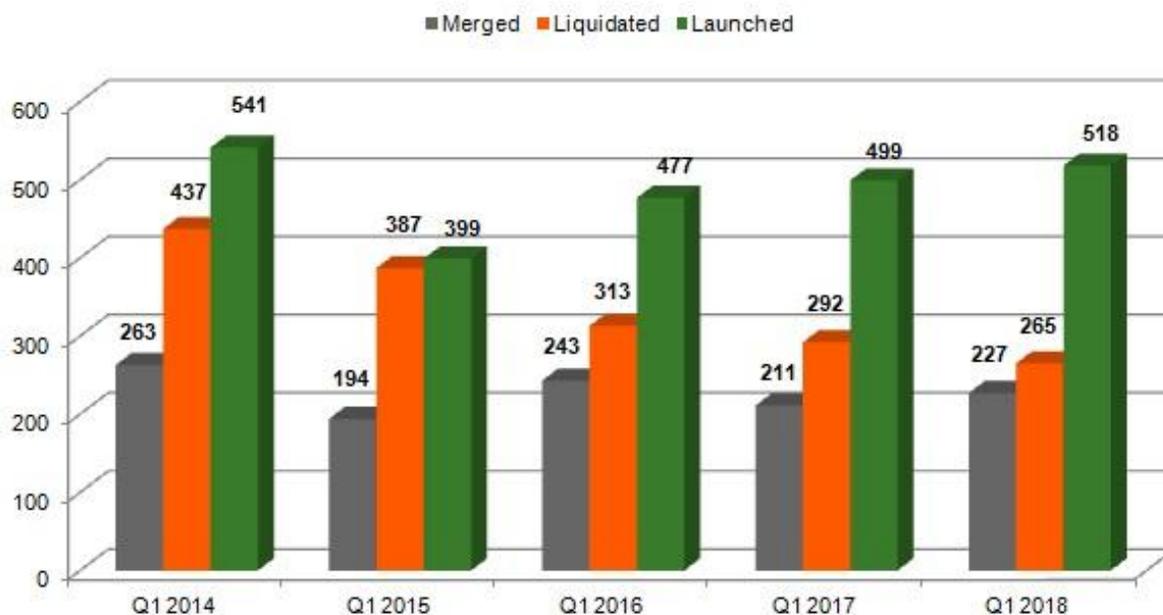


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Promoter Activity—Fund Launches, Liquidations, and Mergers

After several strong years with net inflows for the European fund industry, promoter activity with regard to fund launches, liquidations, and mergers may have started to change in pattern from consolidation to an increase in the number of products. The number of funds available to investors in Europe increased by 26 for first quarter 2018. The underlying numbers may indicate a new trend in Europe: the numbers of mergers and liquidations went down in a quarter-by-quarter comparison, while the number of newly launched funds increased. That said, the main reason for the mergers and liquidations at the fund level did not change. Fund promoters further restructured their general product offerings; i.e., some fund promoters merged funds with a similar investment objective to strengthen their product ranges. Lower profitability because of the lack of assets under management could have been another reason fund promoters merged or liquidated some funds.

Graph 8: Fund Launches, Liquidations, and Mergers in Q1-2018



Source: Thomson Reuters Lipper

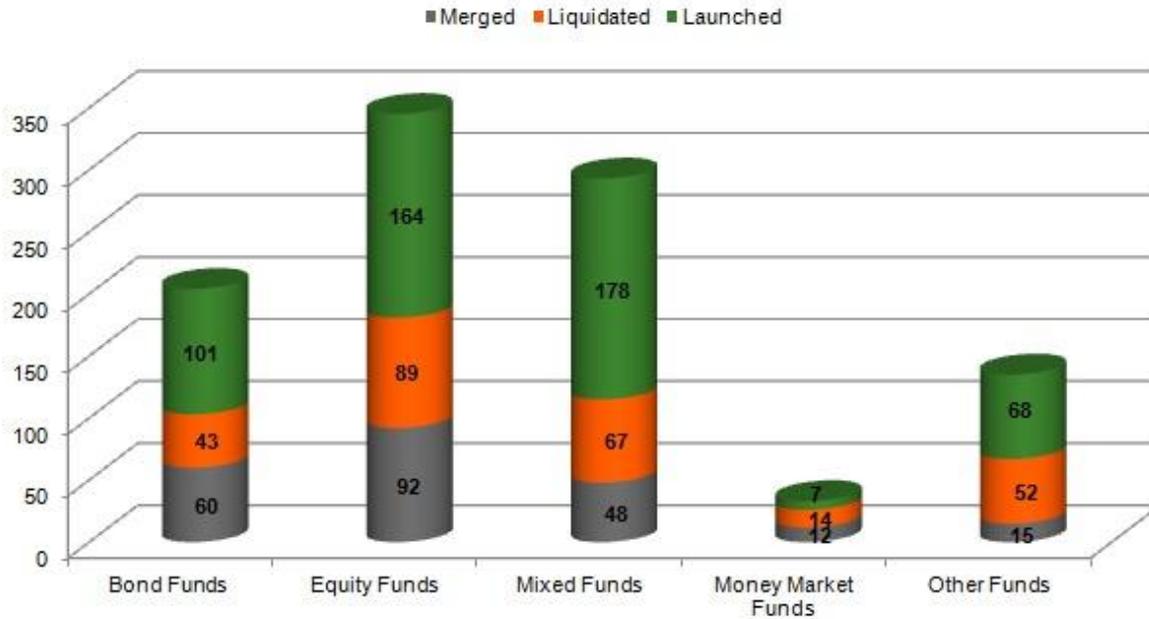
European fund promoters liquidated 265 funds over the course of first quarter 2018, while 227 funds were merged into other funds. In contrast, European fund promoters launched 518 funds. This meant the European fund market grew by 26 funds over the course of first quarter 2018.



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A more detailed view shows that equity funds had the highest number of mergers (92) and liquidations (89), while mixed-asset funds had the highest number of fund launches (178). With regard to fund flows in Europe, it was not surprising that mixed-asset funds showed the highest number of fund launches, since this asset type was in the favor of European investors, and fund promoters were trying to grab their market share by launching so-called multi-asset funds. The rather low number of fund mergers in this segment may have signalled that fund promoters have cleaned up their product ranges with regard to “old-fashioned” mixed-asset funds; they had been merging the old funds with new multi-asset products to increase the assets under management of the new products in order to make them more attractive to investors.

Graph 9: Fund Launches, Liquidations, and Mergers in Q1-2018 by Asset Type



Source: Thomson Reuters Lipper

For more information, please contact our Thomson Reuters Lipper Research Team:

Detlef Glow

Head of Lipper EMEA Research
Phone: +49(69) 75651318
detlef.glow@thomsonreuters.com

Robert Jenkins

Global Head of Research, Lipper
Phone: +1 (617) 856-1209
robert.jenkins@thomsonreuters.com

Xav Feng

Head of Lipper Asia Pacific Research
Phone: +886 935577847
xav.feng@thomsonreuters.com

Otto Christian Kober

Global Head of Methodology, Lipper
Phone: +41 (0)58 306 7594
otto.kober@thomsonreuters.com

Jake Moeller

Head of Lipper United Kingdom & Ireland
Research
Phone: +44(20) 75423218
jake.moeller@thomsonreuters.com

Tom Roseen

Head of Research Services
Phone: +1 (303) 357-0556
tom.roseen@thomsonreuters.com

Media enquiries:

Eddie Dunthorne
eddie.dunthorne@thomsonreuters.com

Lipper U.S. Client Services

+1 877 955 4773
customers.reuters.com/crmcontactus/support.asp

Lipper Europe Client Services

(UK) 0845 600 6777
(Europe) +44207 542 8033
customers.reuters.com/crmcontactus/support.asp

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