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EUROPEAN FUND INDUSTRY REVIEW - 2019

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

EXECUTIVE SUMMARY

Review 2019-Passive Funds Outdraw Their Active Counterparts

- The European fund industry faced estimated net inflows in 2019 after a rough 2018, with net outflows of €129.2 bn.

- The overall fund flows for mutual funds in Europe amounted to estimated net inflows of €303.9 bn for 2019.

- Bond funds (+€257.0 bn) were the best-selling individual asset type overall for 2019.

- Equity Global (+€26.5 bn) was the best-selling sector among long-term funds for 2019.

- **BlackRock**, with net sales of €79.4 bn, was the best-selling fund promoter for the year 2019 overall, well ahead of **PIMCO** (+€39.6 bn) and **Vanguard Group** (+€28.9 bn).

- The European fund market increased by 142 funds over the course of 2019.

EUROPEAN FUND INDUSTRY REVIEW 2019

The European fund industry enjoyed estimated net inflows of €303.9 bn in 2019 after a rough 2018, when funds had estimated net outflows of €129.2 bn. The flows were mainly driven by discussions about a possible positive outcome in the trade war between the U.S. and China, Brexit developments, the ongoing low interest rate environment, and U.S. rate cuts. Taking this all into account, it was not surprising that 2019 was another positive year for the European fund industry. That said, the flows within equity funds were surprising (Please see the special section on this topic below). Even as the general environment was positive, some fund promoters witnessed heavy outflows, with investors getting more selective. It was also not surprising the European fund industry experienced further mergers and acquisitions on the asset manager side and in the service provider segment.

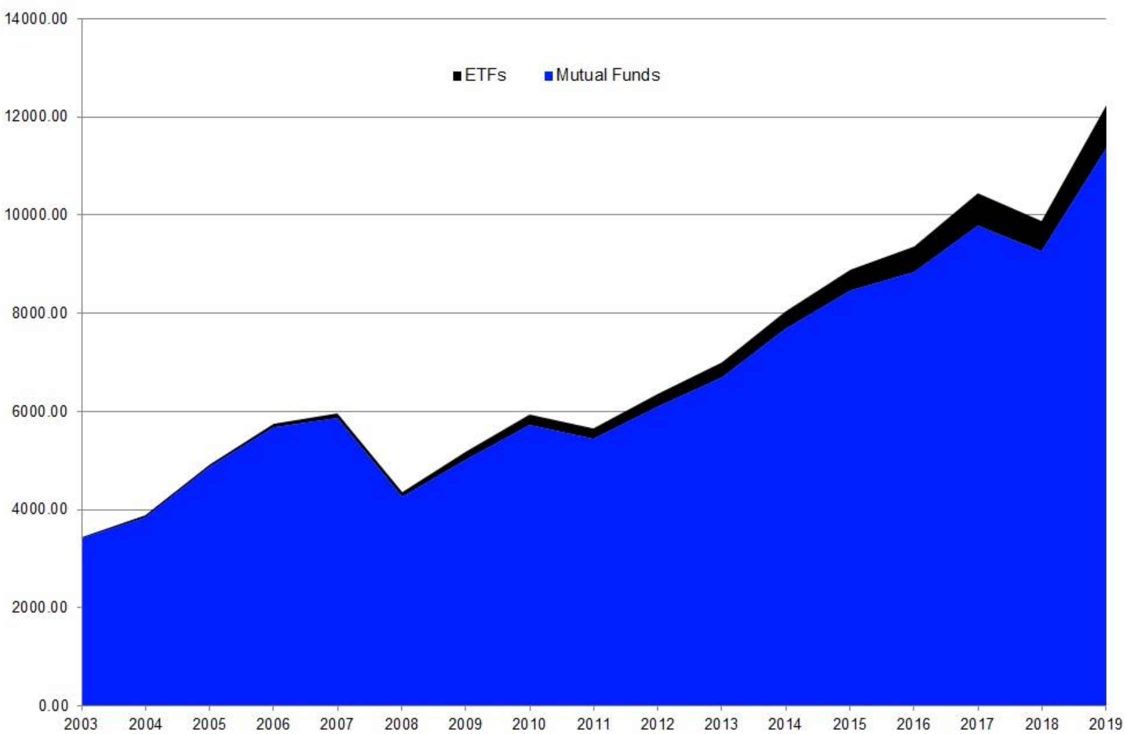
Assets Under Management in the European Fund Industry

The assets under management in the European fund industry increased from €9.9 tr to €12.3 tr over the course of the year. This increase was mainly driven by the performance of the underlying markets (+€2.1 tr), while net sales contributed inflows of €303.9 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 of the European fund industry.

The European ETF industry enjoyed a further increase in popularity with all kinds of investors last year. This popularity was seen in the form of net sales on a new record level (+€106.7 bn), while assets under management increased from €633.1 bn at the end of December 2017 to €870.0 bn at the end of 2019 due to the additional positive impact from the underlying markets (+€130.2 bn).

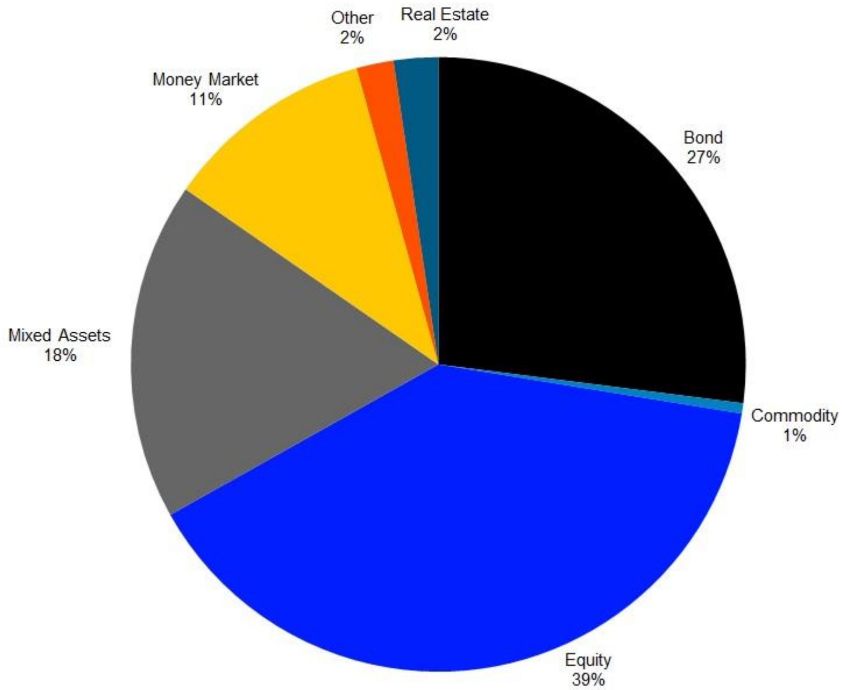
Graph 1: Assets Under Management in the European Fund Industry by Product Type (Euro Billions)



Source: Refinitiv Lipper

For funds overall, it was not surprising that equity funds (€4.6 tr) were the asset type with the highest assets under management, followed by bond funds (€3.2 tr), mixed-asset products (€2.1 tr), money market funds (€1.3 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 (December 31, 2019)

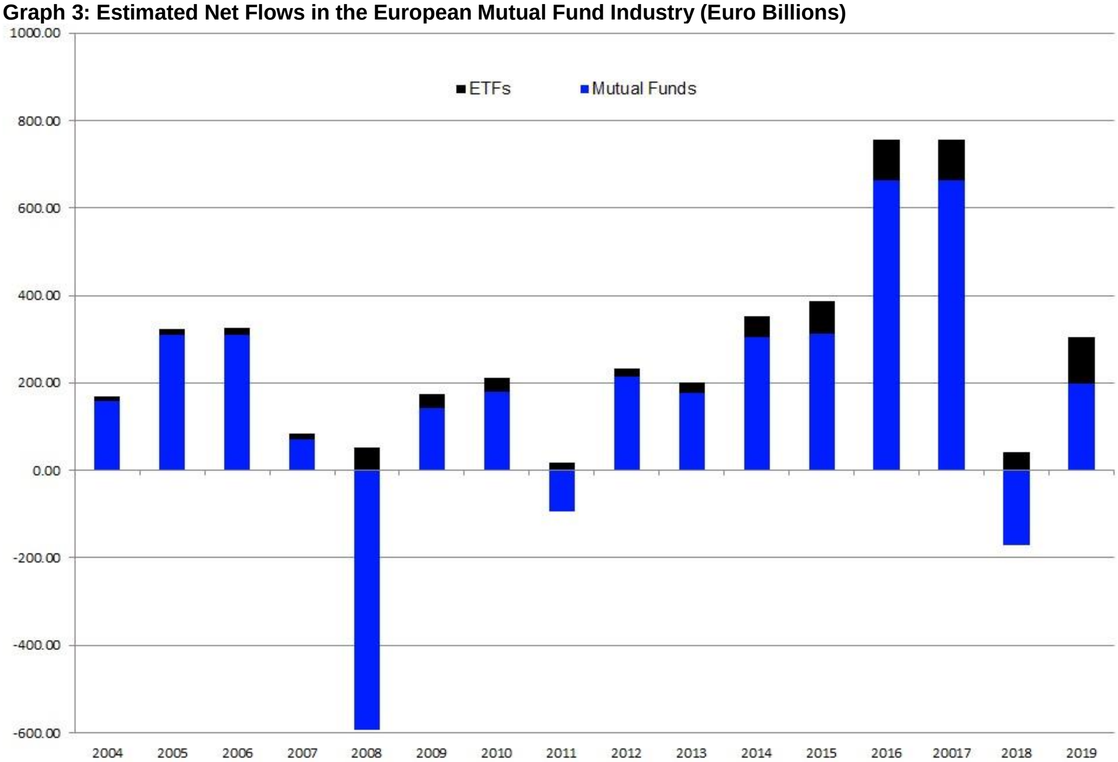


Source: Refinitiv Lipper

European Fund Flow Trends 2019

Generally speaking, 2019 was a good year for the European fund management industry since the inflows in mutual funds (+€303.9 bn) were back to normal.

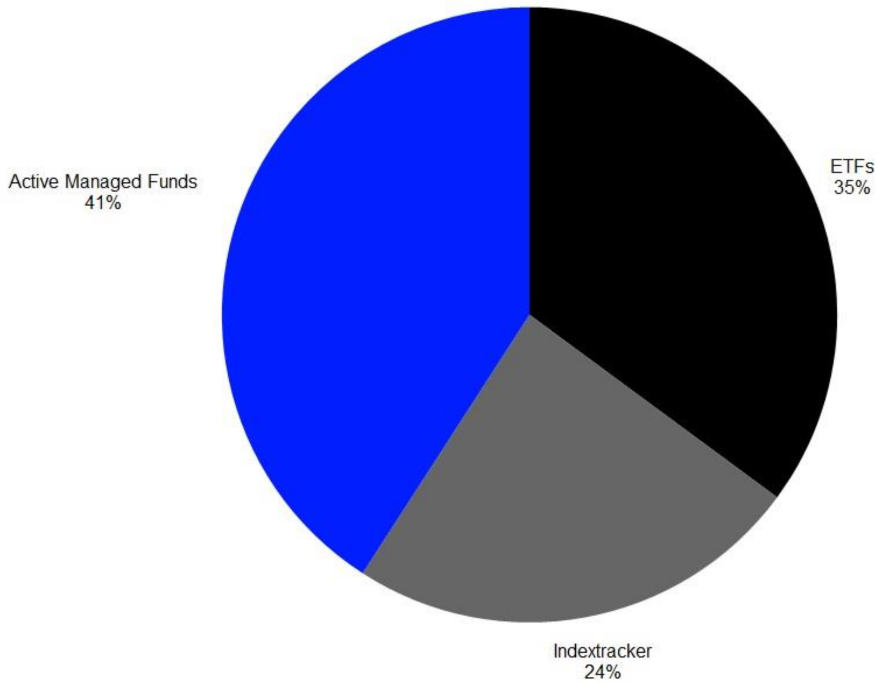
Graph 3: Estimated Net Flows in the European Mutual Fund Industry (Euro Billions)



Source: Refinitiv Lipper

That said, it was surprising that the majority of flows in 2019 were invested in passive products since ETFs enjoyed inflows of €106.7 bn over the course of 2019, while index-tracking mutual funds enjoyed inflows of €73.0 bn within this market environment.

Graph 4: Market Share of Estimated Net Flows by Product Type



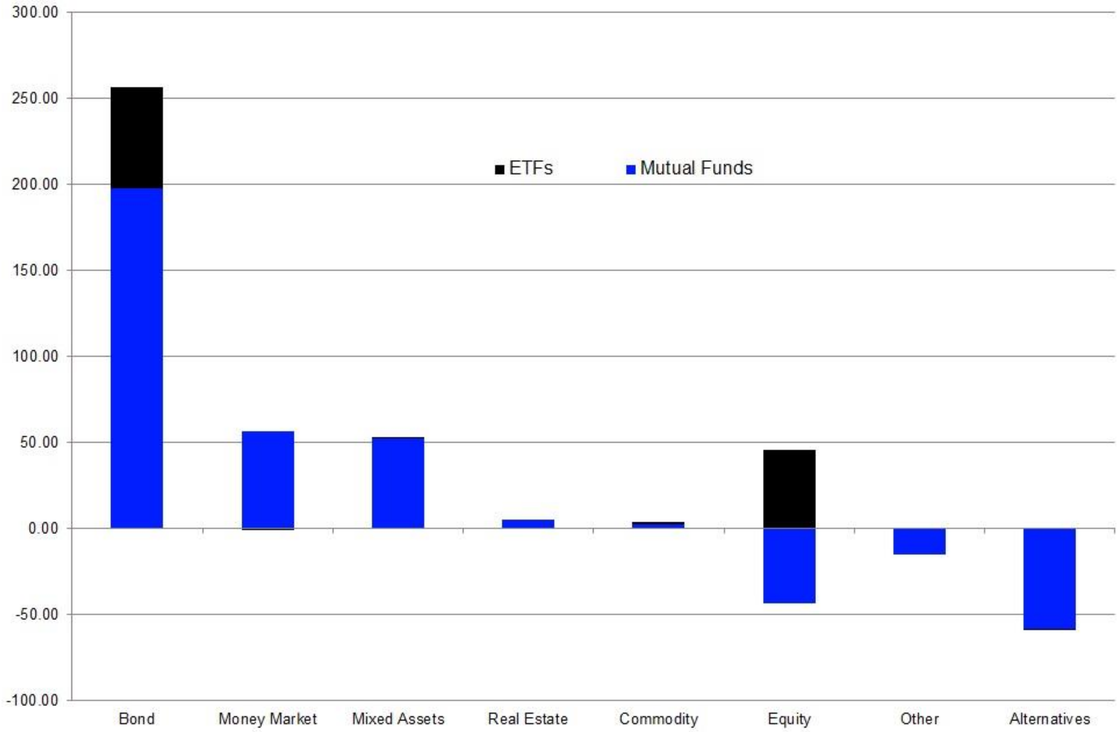
Source: Refinitiv Lipper

Fund Flows into Long-Term Mutual Funds

A more detailed view by asset type reveals that not all of them had inflows in 2019. Bond funds (+€257.0 bn) was the best-selling asset type, followed by mixed-assets funds (+€53.2 bn), real estate funds (+€5.1 bn), commodity funds (+€3.7 bn), and equity funds (+€2.6 bn). With regard to the market environment and investor sentiment, it was not surprising that alternative UCITS funds (-€58.4 bn) was the asset type with the highest outflows, bettered by "other" products (-€15.0 bn). These fund flows added up to overall net inflows of €248.2 bn into long-term investment funds for the year. These flows may indicate that European investors returned to risk-on mode over the course of the year.

The European ETF segment showed somewhat the same dynamics with regard to net inflows, since bond ETFs posted the highest net inflows (+€59.2 bn) for 2019, followed by equity ETFs (+€45.9 bn), commodity ETFs (+€1.1 bn), mixed-assets ETFs (+€0.9 bn), and "other" ETFs (+€0.2 bn). Meanwhile, alternative UCITS ETFs (-€0.04 bn) faced outflows. These flows may indicate that European investors have a preference for the product features of ETFs (transparency and liquidity), especially when they want to invest in equities.

Graph 5: Estimated Net Sales by Asset Type, 2019 (Euro Billions)



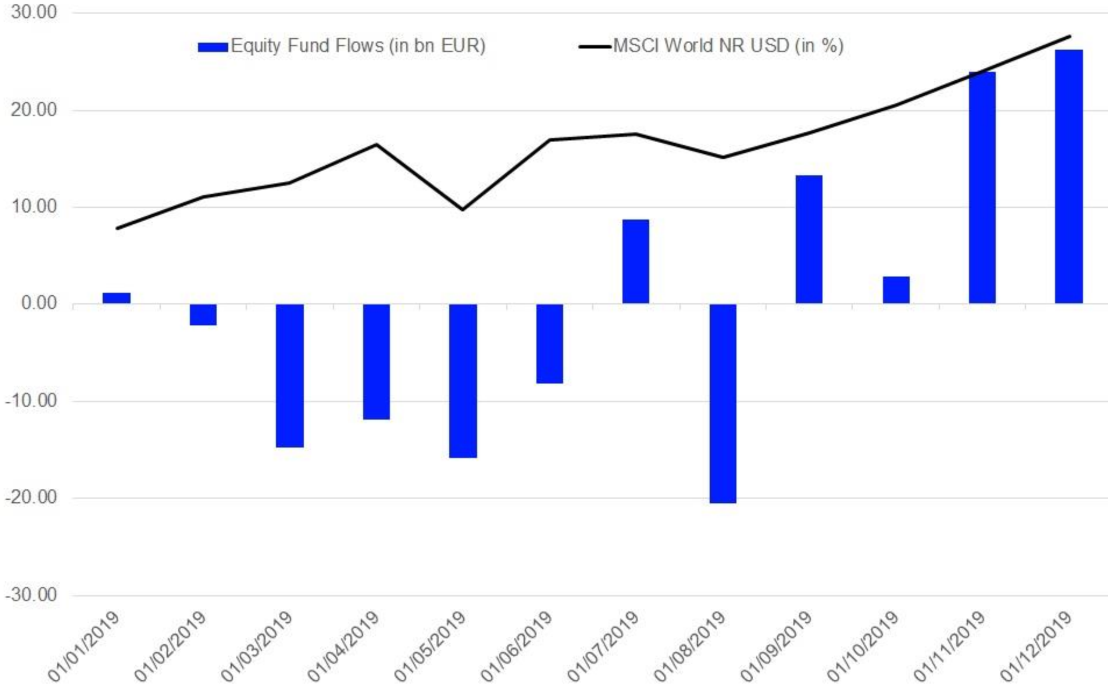
Source: Refinitiv Lipper

Why Investors Sold Equities During a Market Rally

The year 2019 will be remembered as a good year for equity investors, with the equity markets around the world running up returns in double digit numbers. By looking at these numbers, one would expect that equity funds would have been the drivers for these flows, as stock market gains tend to drive inflows into equity funds. A view on the fund flow numbers in Europe shows that this expectation couldn't be further away from reality since equity funds witnessed flows opposite to market trends, with investors pulling €23.5 bn out of equity funds over the course of the first 11 months of 2019. Meanwhile, the strong inflows in equity funds in December (+€26.3 bn) brought the overall flows for equity funds back to positive territory.

This may raise the question: "Why did European investors sell equities despite increasing markets?" From my point of view, a number of investors were still shocked by the massive downturn in equity markets in the fourth quarter of 2018, so those investors who wanted to benefit from a rally at the beginning of the year started to sell their positions after the markets went up in January. The outflows accelerated while the markets returned to their old high marks in March/April 2019. Another dip in the equity markets in May led investors to sell more equities, as they might expected a new downward trend driven by the trade war between the U.S. and China. As markets bounced back in June, investors returned to equities in July—just in time for the next downturn in equities—which might have eaten up the risk budgets of risk-cautious investors and, therefore, caused a peak in outflows from equity funds in August. As the rally in the equity markets continued in September, October, November, and December, European investors found the confidence to buy equities to participate in these gains.

Graph 6: Fund Flows in Equity Funds (in bn EUR) vs. Performance of the MSCI World NR USD (in %)



Source: Refinitiv Lipper

By looking at these fund flows and market trends, I consider 2019 as the year where a volatile equity rally ate up the risk budget of risk-cautious investors and may have caused losses in their portfolios despite the fact that the equity markets had an exceptionally good year. It is easy to say that one simply should have stayed invested in the market, but after the experience from 2018, this is easier said than done—especially when a portfolio is tied to a maximum drawdown or any other kind of risk budget. With regard to this, the year 2019 witnessed once again that only those investors who can stand the volatility will profit in full from equity markets.

Fund Flows into Money Market Products

As European investors bought long-term mutual funds, selling money market funds has been a logical step since these products are considered so-called safe haven products. That said, it was somewhat surprising to witness net inflows into money market products (+€55.7 bn) in 2019. These flows included outflows from money market ETFs (-€0.7 bn).

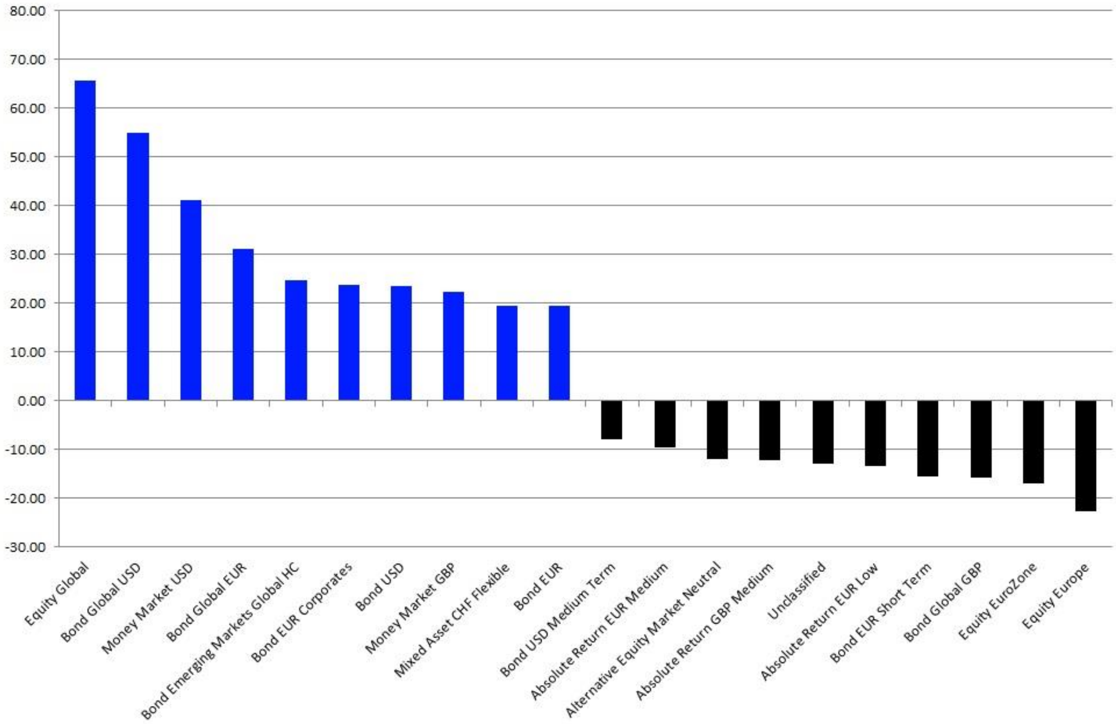
This flow pattern led the overall fund flows into mutual funds in Europe to estimated net inflows of €303.9 bn for the year.

Money Market Products by Sector

Money Market USD (+€54.9 bn), followed by Money Market GBP (+€22.4 bn) and Money Market SEK (+€1.4 bn) were the three best-selling money market sectors for 2019. At the other end of the spectrum, Money Market EUR Leveraged (-€4.1 bn) suffered the highest net outflows in the money market segment, bettered somewhat by Money Market EUR (-€3.3 bn) and Money Market PLN (-€1.4 bn).

Fund Flows by Sectors
Equity Global (+€65.7 bn) was once again the best-selling sector within the segment of long-term mutual funds, followed by Bond Global USD (+€54.9 bn), Bond Global EUR (+€31.0 bn), Bond Emerging Markets Global in Hard Currencies (+€24.6 bn), and Bond EUR Corporates (+€23.8 bn).

Graph 7: The 10 Best and Worst Selling Sectors for 2019 (Euro Billions)

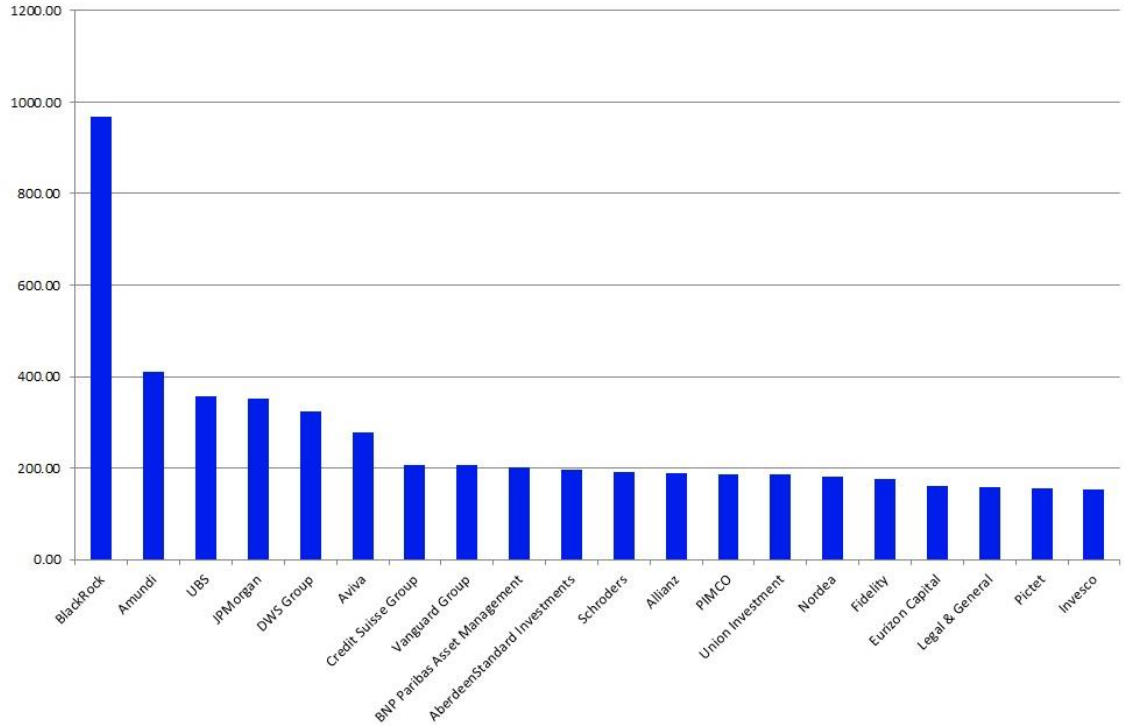


Source: Refinitiv Lipper

At the other end of the spectrum, Equity Europe (-€22.6 bn) suffered the highest net outflows from long-term mutual funds, bettered by Equity Eurozone (-€16.9 bn), Bond Global GBP (-€15.7 bn), Bond EUR Short Term (-€15.5 bn), and Absolute Return EUR Low (-€13.3 bn).

Assets Under Management by Promoters
A closer look at the assets under management in the European mutual fund industry shows that **BlackRock** (€967.6 bn) was by far the largest fund promoter in Europe, followed by **Amundi** (€410.0 bn), **UBS** (€356.2 bn), **JP Morgan** (€352.3 bn), and **DWS Group** (€323.4 bn).

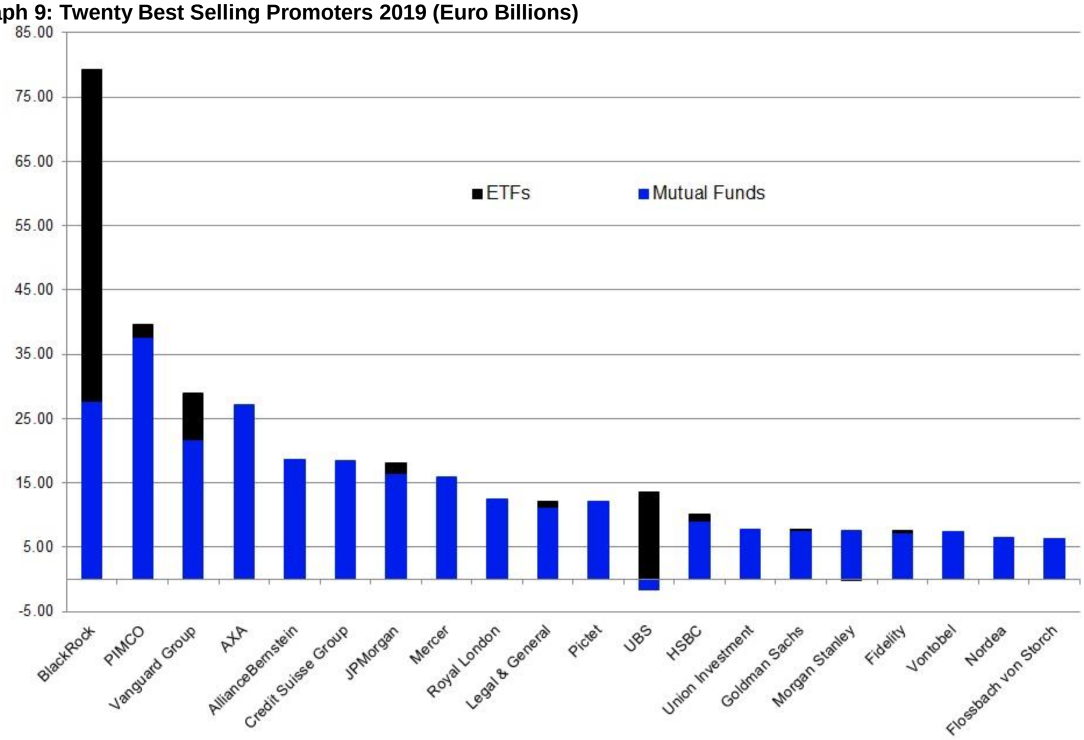
Graph 8: The 20 Largest Promoters by Assets Under Management in Europe 2019 (Euro Billions)



Source: Refinitiv Lipper

Fund Flows by Promoters
BlackRock, with net sales of €79.4 bn, was the best-selling fund promoter for 2019 overall, well ahead of **PIMCO** (+€39.6 bn) and **Vanguard Group** (+€28.9 bn). If one takes into account that the flows from **BlackRock** contain €51.7 bn from its ETF branch **iShares**, the traditional mutual funds branch of the business saw net inflows of €27.7 bn, which would make BlackRock fall into second place after PIMCO, which generated inflows of €2.0 bn from its ETF business and €37.6 bn from its mutual funds business. It was even though surprising to see that UBS generated all inflows from ETFs (+€13.7 bn), while their mutual funds faced outflows (-€1.7 bn).

Graph 9: Twenty Best Selling Promoters 2019 (Euro Billions)



Source: Refinitiv Lipper

Considering the single-asset bases, **BlackRock** (+€43.9 bn) was the best-selling promoter of bond funds for 2019, followed by **PIMCO** (+€39.8 bn), **AB** (+€17.6 bn), **Vanguard Group** (+€11.9 bn), and **Credit Suisse Group** (+€7.8 bn).

Within the equity space, **UBS** (+€10.8 bn) stood at the head of the table, followed by **Vanguard Group** (+€10.7 bn), **BlackRock** (+€10.5 bn), **Mercer** (+€8.3 bn), and **Pictet** (+€7.0 bn).

AXA (+€19.0 bn) was the leading promoter of mixed-assets funds in Europe for 2019, followed by **Vanguard Group** (+€6.3 bn), **Mercer** (+€6.0 bn), **Flossbach von Storch** (+€5.2 bn), and **Eurizon Capital** (+€4.9 bn).

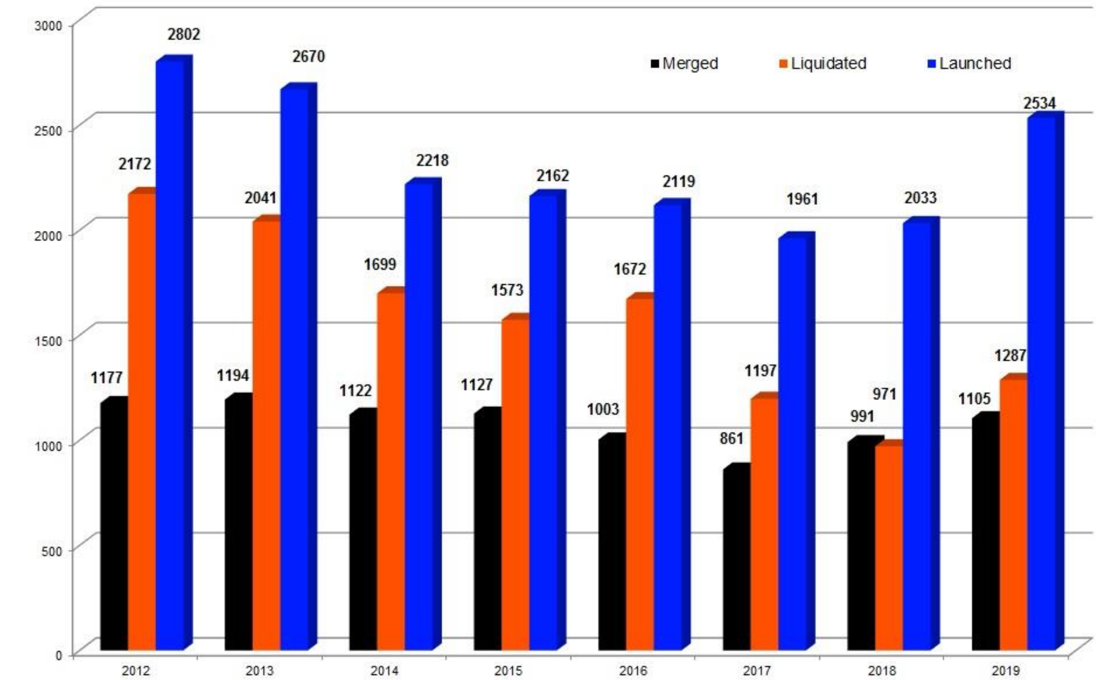
Credit Suisse Group (+€4.6 bn) was the leading promoter of alternatives funds for the year, followed by **DWS Group** (+€3.6 bn), **Schroders** (+€2.1 bn), **Legal & General** (+€1.7 bn), and **Societe Generale** (+€1.7 bn).

Promoter Activity–Fund Launches, Liquidations, and Mergers

Despite the fact that 2019 was a good year with regard to net flows into mutual funds and overall assets under management in the European fund industry, the promoter activity with regard to fund launches, liquidations, and mergers indicated the industry is in a moderate growth mode. We witnessed only a slight increase in the number of funds in Europe. This increase marks the second year of growth in the number of funds since Lipper began to study these developments in 2012. More generally, the increasing number of funds was continuing a trend in Europe since the rate of decline slowed down for seven consecutive years.

The net growth of the number of funds was witnessed despite the fact that the number of fund mergers and liquidations has gone up in 2019, but not at the same pace as the number of fund launches. 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 a similar investment objective to strengthen their product ranges. Lower profitability because of a lack of assets under management might have been another reason fund promoters merged or liquidated some funds. At the top-line level, the activity of fund promoters with regard to fund launches and liquidations seemed to be in line with the activity over the other years covered in this report. Since the implementation of new regulations, currently MiFID II, does increase the cost for maintaining a fund, we expect that the trend of consolidation of small funds will continue in 2020.

Graph 10: Fund Launches, Liquidations and Mergers



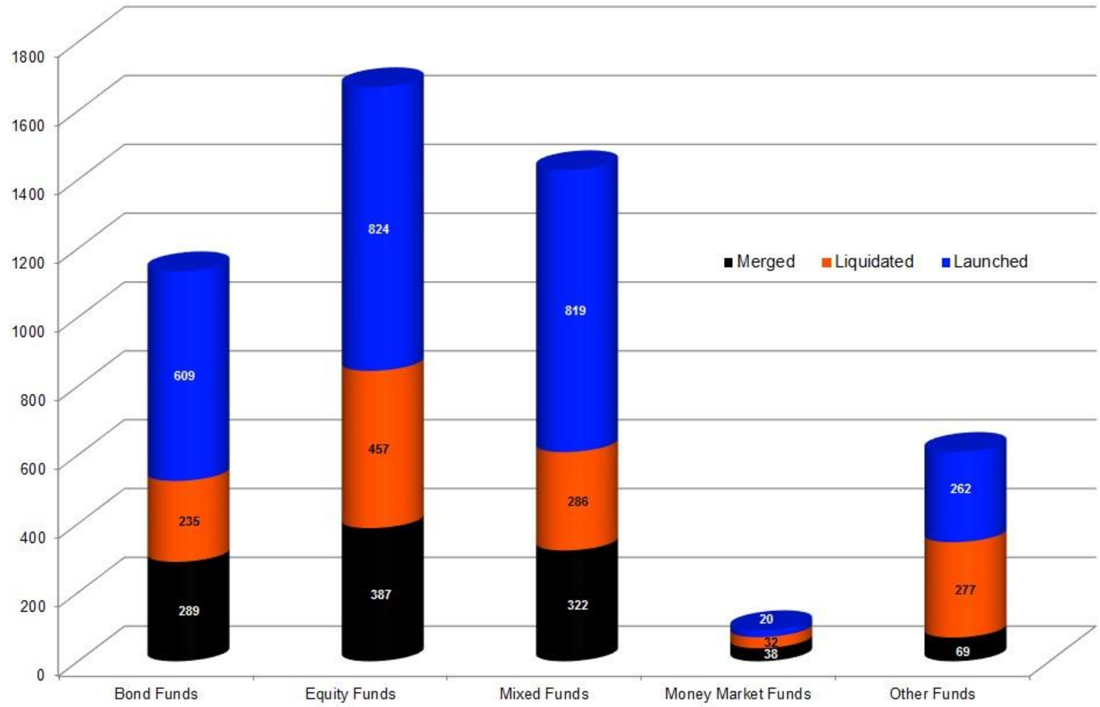
Source: Refinitiv Lipper

The European fund promoters liquidated 1,287 funds over the course of 2019, while 1,105 funds were merged into other funds. In contrast, European fund promoters launched 2,534 funds. This meant the European fund market increased by 142 funds over the course of 2019.

A more detailed view shows that equity funds showed the highest number of mergers (347), liquidations (3,351), and fund launches (786). With regard to the broader trends in the financial markets, it was surprising equity funds showed the highest number of fund mergers, liquidations, and launches in the current market environment.

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-assets 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 (270) or merged (214) these products into their new product offerings (290), the so-called multi-assets funds, since this helped to streamline the product ranges and generate assets under management for their successor funds.

Graph 11: Fund Launches, Liquidations and Mergers in 2019 by Asset Type



Source: Refinitiv Lipper

For more information, please contact our Lipper Research Team:

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

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

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

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

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

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

Media enquiries:
Eddie Dunthorne
Eddie.dunthorne@refinitiv.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

Lipper Asia Client Services
+886 2 2500 4806
customers.reuters.com/crmcontactus/support.asp

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