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EUROPEAN FUND*MARKET* INSIGHT REPORT: Q2 2016

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EXECUTIVE SUMMARY

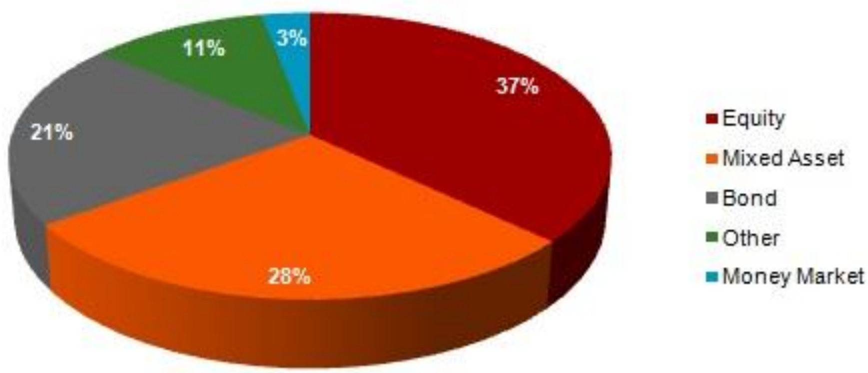
LAUNCHES, LIQUIDATIONS, AND MERGERS IN THE EUROPEAN MUTUAL FUND INDUSTRY, Q2 2016

- At the end of June 2016 there were 31,815 mutual funds registered for sale in Europe.
- Equity funds had the highest market share (37%) by number of products in the European market.
- Luxembourg continued to dominate the fund market in Europe, hosting 9,109 funds, followed by France, where 4,452 funds were domiciled.
- For Q2 2016 a total of 689 funds (437 liquidations and 252 mergers) were withdrawn from the market, while only 463 new products were launched.

View of the Mutual Fund Market in Europe

The chart below breaks down the European fund market by asset class as of the end of Q2 2016. Equity funds dominated the scene with a market share of 37% of the funds available for sale in Europe, followed by mixed-asset funds (28%), bond funds (21%), and money market funds (3%). The remaining 11% of “other” funds were real estate funds, commodity funds, guaranteed funds, and funds of hedge funds.

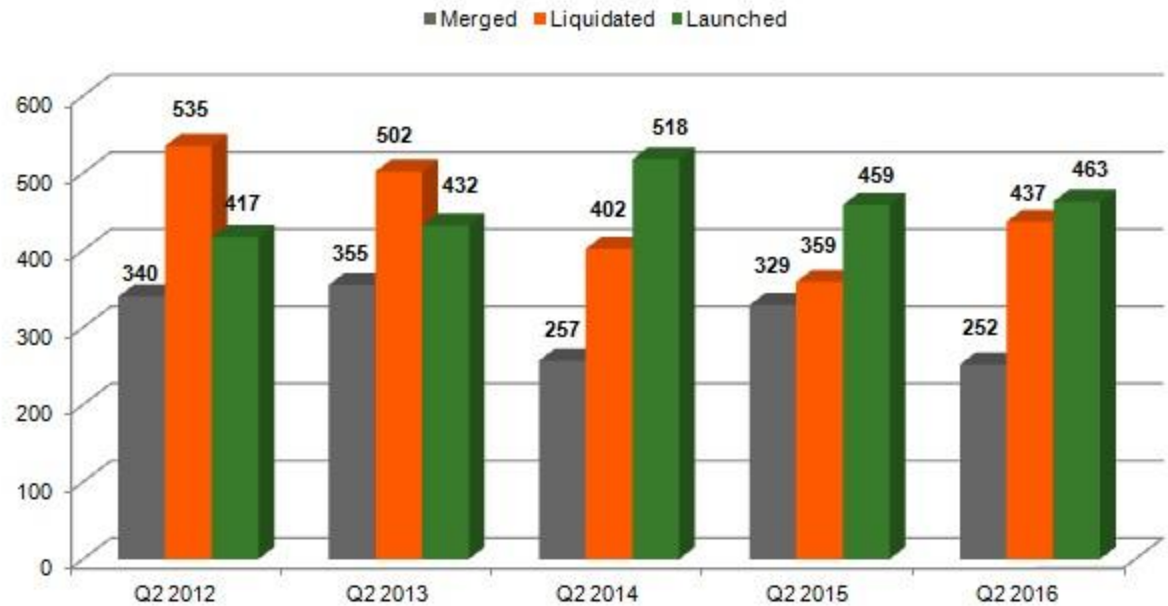
Figure 1 Market Share of Mutual Funds Registered for Sale in Europe by Asset Type as of the End of June 2016



Source: Thomson Reuters Lipper

With regard to the overall number of products, it was not surprising that equity funds (€3.09 tr) held the majority of the assets, while bond funds (€2.28 tr) and mixed-asset funds (€1.32 tr) changed their ranking compared to the other products. Meanwhile, the positioning of money market products (€1.15 tr) and “other” funds (€0.92 tr) was again in line with the number of products available to European investors.

Figure 2 Overview of New Fund Launches, Mergers, and Closures of Investment Funds, Q2 2012–Q2 2016



Source: Thomson Reuters Lipper

With 463 newly launched products, Q2 2016 saw a similar number of new products as Q2 2015. The number of liquidations went up significantly (+22%), and the number of mergers declined substantially (-23%).

A comparison over the last five years shows that fund launches have stabilized at a high level, while the increased number of fund liquidations is not near the numbers for Q2 2012. Liquidations obviously have been impacted by the aftermath of the euro crisis. The number of fund mergers was the lowest number over the second quarters of the last five years.

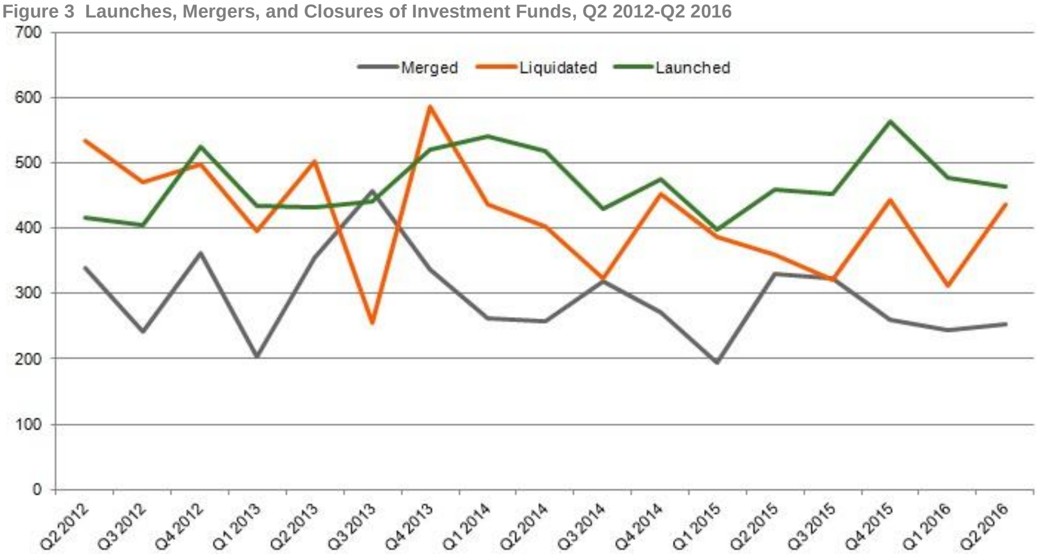
Launches, Mergers, and Liquidations over the Past Five Years

With 463 newly launched products for Q2 2016, we noticed a slightly higher number of newly issued products than for Q2 2015 (459).

The number of liquidations went up 22% compared with Q2 2015; comparing the recent quarter closures with Q1 2016, the increase was even more significant (40%) but not out of line with previous quarters.

The number of mergers went down 23%, comparing Q2 2016 with Q2 2015. Comparing this number with Q1 2016, the difference was much smaller, since there were only 4% more mergers for Q2 2016 than for Q1 2016.

Figure 3 Launches, Mergers, and Closures of Investment Funds, Q2 2012-Q2 2016



Source: Thomson Reuters Lipper

The net size of the European fund universe has decreased since Q2 2012. The net decrease of 226 products for Q2 2016 is similar to that for Q2 2015 (-229). That said, this number is a drawback from the long-term trend shown in Figure 4.

Figure 4 Net Change in Number of Funds Registered for Sale in Europe, Q2 2012-Q2 2016

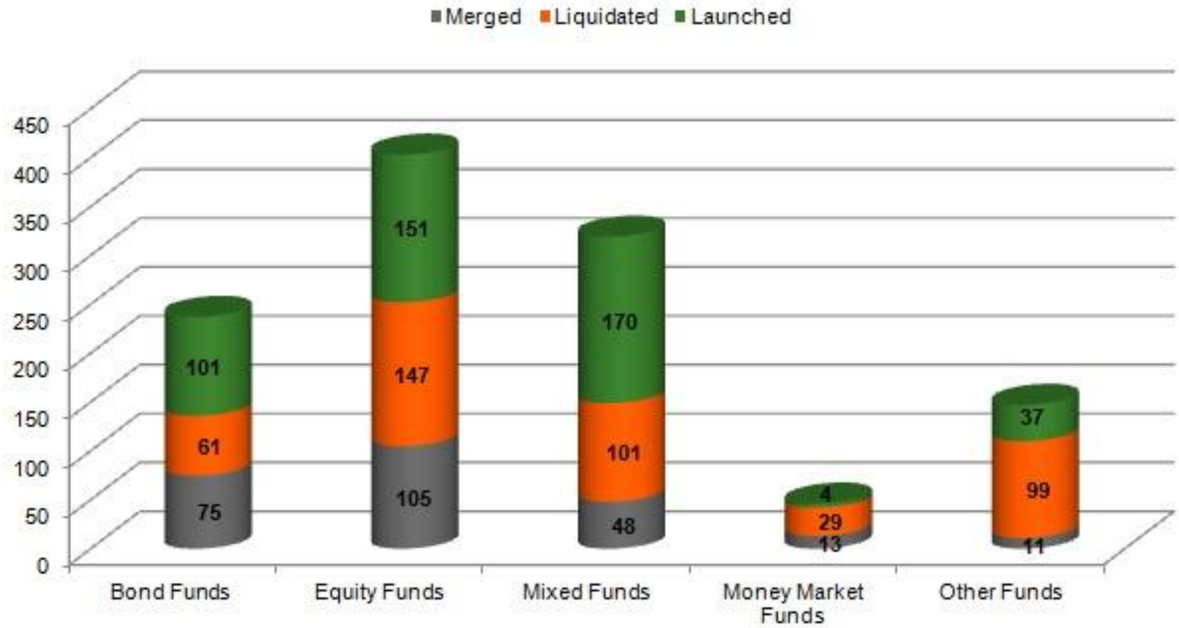
Source: Thomson Reuters Lipper

Changes in European Fund Universe Asset Classes, Q2 2016

Q2 2016 witnessed the launch of 463 funds: 151 equity funds, 101 bond funds, 170 mixed-asset funds, 37 “other” funds, and 4 money market funds. During the same period 437 funds were liquidated: 147 equity funds, 61 bond funds, 101 mixed-asset funds, 99 “other” funds, and 29 money market funds.

For Q2 2016, 252 funds were merged: 105 equity funds, 75 bond funds, 48 mixed-asset funds, 11 “other” funds, and 13 money market funds.

Figure 5 Overview of New Fund Launches, Mergers, and Closures, April 1, 2016-June 30, 2016



Source: Thomson Reuters Lipper

The net changes for Q2 2016 showed negative totals for all asset classes in this study: equity funds (net -101 products), money market products (net -38 products), “other” funds (net -73 products), and bond funds (net -35 products). Only mixed-asset products showed a positive total (net +21 products).

The high activity in the mixed-asset sector might not be surprising, since this sector also contains multi-asset products, which have been in the favor of investors over the last two years. Fund promoters appear to want to participate in this trend by launching new products. On the other hand, there are still a lot of mixed-asset funds around that are structured in the old-fashioned way, i.e., the funds are limited to long-only investments in bonds and equities. Since these products may look a bit out of fashion, fund promoters may liquidate them and launch new products with a wider investment strategy. In addition, the fund flows in multi-asset funds have come down, so some promoters may use this as a reason to clean up their product ranges.

Outlook

After the “Brexit” vote and its possible implications for fund distribution in Europe, we are expecting the number of products to rise over the course of the next two years. Investment managers based in the United Kingdom will ensure their access to the continental European market with the launch of products that are domiciled in the EU, while EU-based asset managers may start to launch funds that are domiciled in the U.K. The first scenario is expected to lead to an even higher dominance of Luxembourg and Ireland as international fund hubs in Europe, while the latter may drive up the number of products domiciled in the U.K. Additionally, market and fund-flow trends will impact the activity of the European fund promoters in one or another direction, since these trends normally lead to the launch of new products or, contrarily, to the closure of existing products that have fallen out of favor with investors. With the increasing pressure on profitability, at least for bank- or insurance-owned asset managers, fund promoters will also further clean up their product ranges to become more efficient in an environment of increasing costs from the permanently increasing regulatory demands.

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