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LAUNCHES, LIQUIDATIONS, AND MERGERS IN THE EUROPEAN MUTUAL FUND INDUSTRY, Q2 2015

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Executive Summary

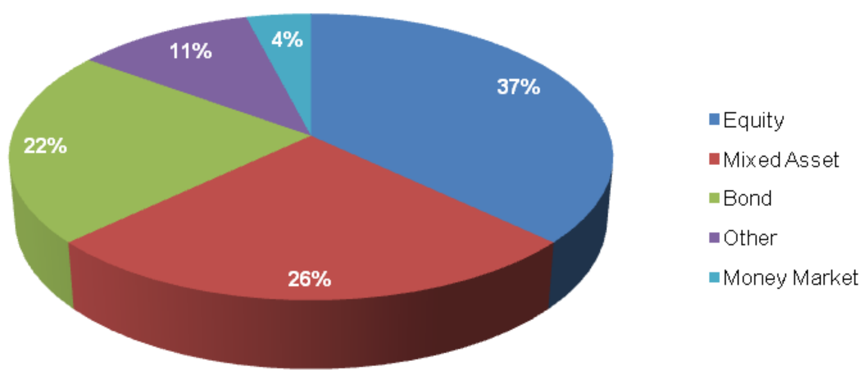
As of the end of June 2015 there were 32,044 mutual funds registered for sale in Europe. Luxembourg continued to dominate the European market by number of domiciled funds; the Grand Duchy hosted 9,061 funds at the end of Q2 2015, followed by France, where 4,670 funds were domiciled.

Even though the European fund industry enjoyed overall estimated net inflows of €67.2 billion during the first half of 2015, the fund promoters seemed to be consolidating their product ranges further; 688 funds (359 liquidations and 329 mergers) were withdrawn from the market, while only 459 new products were launched.

View on the Mutual Fund Market in Europe

The chart below breaks down the European fund market by asset class as of the end of Q2 2015. Equity funds dominated the scene with 37% of the funds available for sale, followed by mixed-asset funds (26%), bond funds (22%), and money market funds represented 4% of the market. The remaining 11% of "other" funds were real estate funds, commodity funds, guaranteed funds, and funds of hedge funds.

Figure 1 Distribution of Mutual Funds Registered for Sale in Europe by Asset Type as of the End of June 2015



Source: Lipper, a Thomson Reuters company

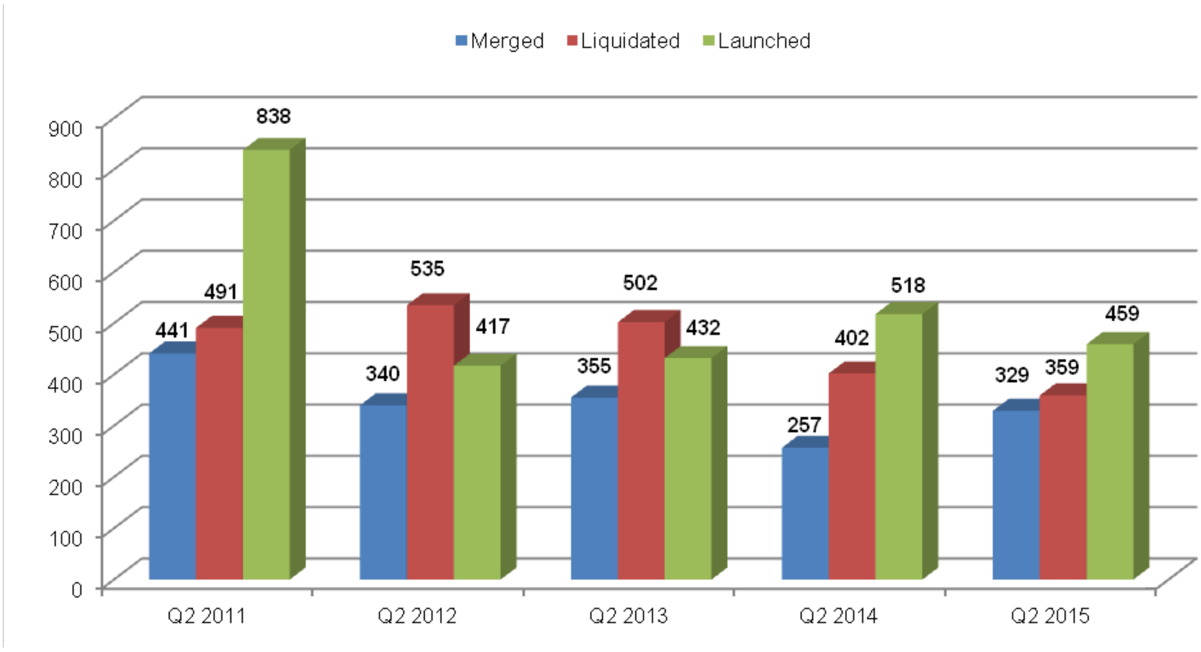
Quarterly Comparison

During Q2 2015, 459 funds were launched in Europe. The quantity of newly launched products was 11% behind the number of launches during second quarter 2014, but it was in line with the average of the last four measured second quarters (the number of launches for Q2 2011 needs to be considered as exceptional).

The number of liquidations went down approximately 11%, comparing Q2 2015 with Q2 2014—to 359 from 402, for the lowest number of liquidations in the five-year observation period.

The number of fund mergers went up approximately 28%, from 257 for Q2 2014 to 329 for Q2 2015, but–similar to launches–fund mergers were in line with the average of the last four measured second quarters.

Figure 2 Overview of New Fund Launches, Mergers, and Closures of Investment Funds Q2/ 2011 – Q2/2015



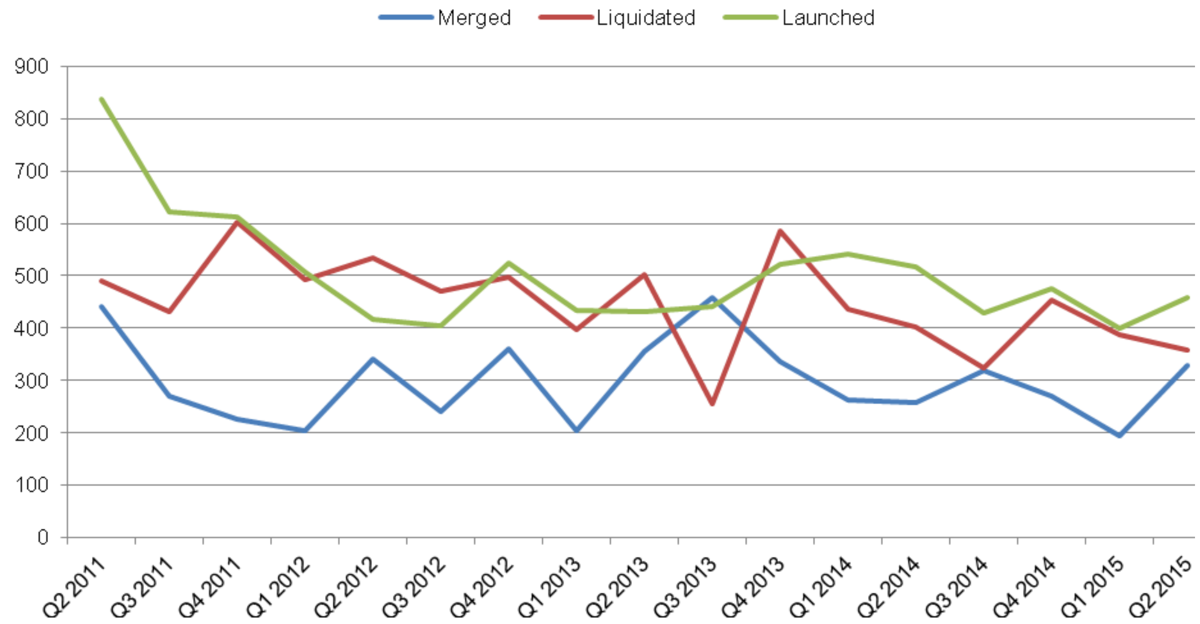
Source: Lipper, a Thomson Reuters company

The overall positive trend in the industry cannot be underpinned to significant efforts at issuing new products; it seems that existing and established products were the winners of this trend.

Launches, Mergers, and Liquidations Over the Past Five Years

With 459 newly launched products for Q2 2015, we noticed an increase of 15% compared with Q1 2015 but a decrease of 11% compared with Q2 2014. The number of mergers showed an increase after the two prior quarters of shrinking numbers. Liquidations continued the downward trend we saw since Q4 2014.

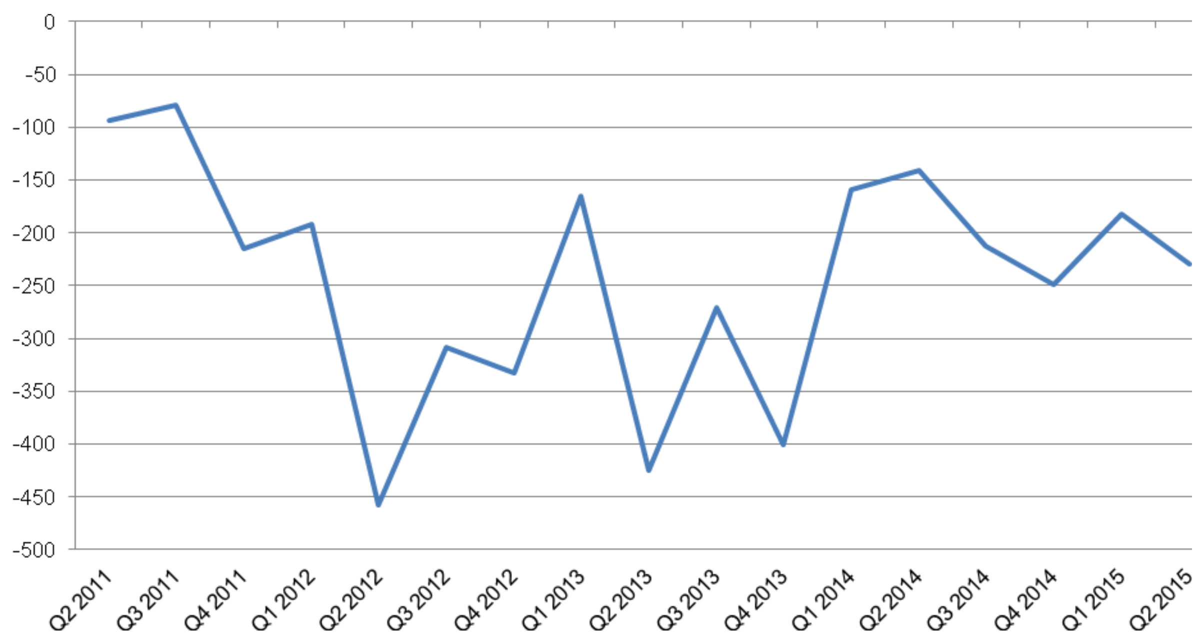
Figure 3 Launches, Mergers, and Closures of Investment Funds



Source: Lipper, a Thomson Reuters company

The net size of the European fund universe decreased for the whole five-year observation period. Q2 2015 showed a net decrease of 229 products.

Figure 4 Net Change in Number of Funds Registered for Sale in Europe



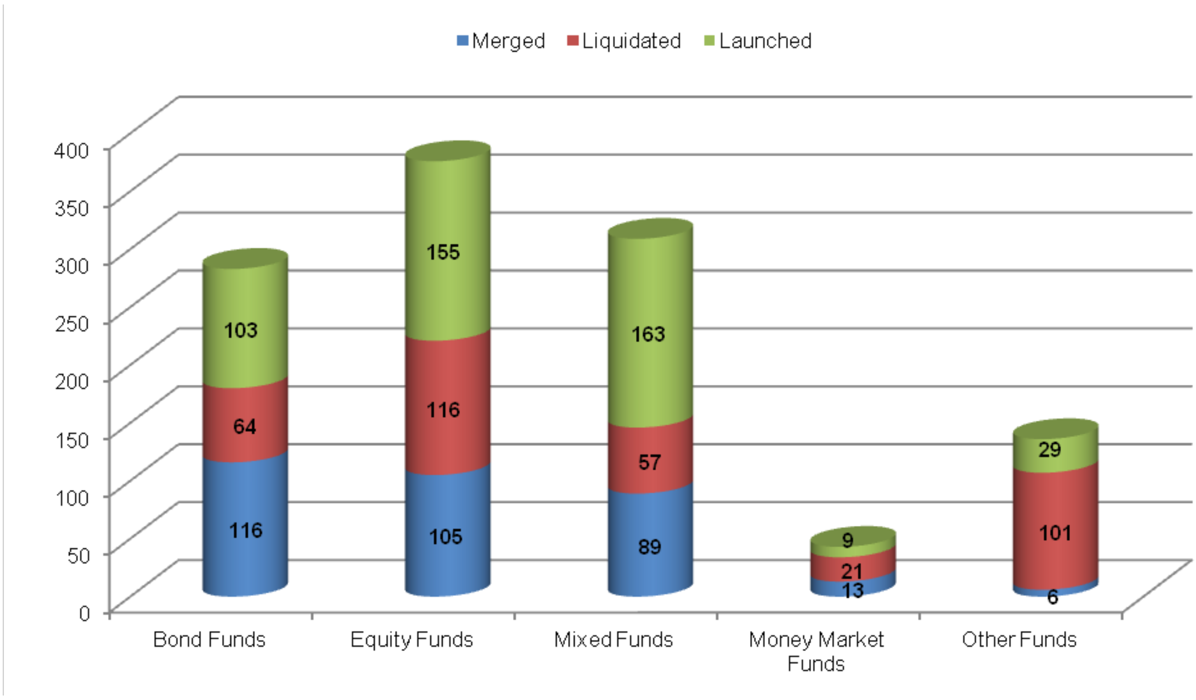
Source: Lipper, a Thomson Reuters company

Changes in European Fund Universe by Asset Classes, Q2 2015

Q2 2015 witnessed the launch of 459 funds: 155 equity funds, 103 bond funds, 163 mixed-asset funds, 29 “other” funds, and 9 money market funds. During the same period 359 funds were liquidated: 116 equity funds, 64 bond funds, 57 mixed-asset funds, 101 “other” funds, and 21 money market funds.

For Q2 2015, 329 funds were merged: 105 equity funds, 116 bond funds, 89 mixed-asset funds, 6 “other” funds, and 13 money market funds.

Figure 5 Overview of New Fund Launches, Mergers, and Closures, March 31, 2014 - June 30, 2015



Source: Lipper, a Thomson Reuters company

The net change for Q2 2015 showed negative totals for all measured asset classes other than mixed-asset funds, which counter-steered this trend. Noticeable were the changes in asset class “Other,” where we saw a net decrease of 78 products in total, showing the highest absolute net decrease of all asset classes. Keep in mind that asset class “Other” comprises only 11% of the products available in the European asset universe.

Magnifier on Changes by Asset Class, Q2 2015

Fund Launches

A total of 155 equity funds was launched within 39 different peer groups during Q2 2015. The bulk of these funds were launched in Luxembourg (67), France (22), and the United Kingdom (19). The peer group in the Lipper Global Classification scheme with the highest fund launch activity was Equity Global, with 40 new funds. In addition, there were four new funds launched in Equity Global Income and one new fund in the Equity Global ex-US classification, which broadened the overall number of new global equity funds to 45. The peer group with the second highest number of new products was Equity Emerging Markets Global, with 16 new funds. In addition, there was also one new fund launched in Equity Emerging Markets Asia, as well as one each in Equity Emerging Markets Latin America and in Equity Emerging Markets Small- & Mid-Caps. These additional launches brought the number of new products in the equities emerging markets segment up to 19. Equity

Europe (15) was the peer group with the third highest number of new fund launches. In addition, there were three new funds in the peer group Equity EuroZone and two each in the peer groups Equity Europe Income, Equity Europe ex-UK, and Equity Europe Small- & Mid-Caps, bringing the number of new funds investing in European equities up to 24.

Q2 2015 also showed 103 new bond funds launched in 34 different peer groups. Luxembourg (40) was the domicile with the highest number of newly launched funds, followed by Ireland (13) and Italy (12). Bond Global (29) was the peer group with the highest number of newly launched products. Q2 2015 also showed the launch of nine new funds in the high-yield segment. Five of these funds were launched in Bond Global High Yield, while two were launched in Bond USD High Yield and one each in Bond Europe High Yield and Bond EUR High Yield. We also witnessed the launch of seven emerging-markets products (five Bond Emerging Markets Hard Currency, one Bond Emerging Markets Local Currency, and one Bond Emerging Markets Corporates), as well as six corporate bond funds (three Bond EUR Corporates, two Bond USD Corporates, and one Bond EUR Corporates Short-Term).

With regard to the size of the underlying market, it is notable that there were also six convertible funds (five Bond Convertibles Global, one Bond Convertibles Europe) launched in Q2 2015.

The 163 new mixed-asset funds were launched in 33 different peer groups. Seventy-three of these funds were launched in Luxembourg, while 14 were launched in France and 13 in Italy. Since the mixed-asset peer groups within the Lipper Global Classification scheme are very gracefully built to allow real apple-with-apple comparisons, we focus here on the three main categories for European investors: Mixed-Asset EUR Global, Mixed-Asset CHF, and Mixed-Asset GBP. Within the Mixed-Asset EUR Global category we witnessed 47 new products in Mixed-Asset EUR Flexible Global, while 13 new funds were launched in Mixed-Asset EUR Balanced Global. Mixed-Asset EUR Conservative Global saw nine new funds, and there were six in Mixed-Asset EUR Aggressive Global.

The mixed-asset CHF segment showed five new funds during Q2 2015, with two new launches each in Mixed-Asset CHF Flexible and Mixed-Asset CHF Conservative and one new fund in Mixed-Asset CHF Balanced.

Nineteen new funds were launched in the mixed-asset GBP segment. Eight of these funds were in the Mixed-Asset GBP Balanced peer group, while six were launched in Mixed-Asset GBP Conservative. In addition, there were three new products in Mixed-Asset GBP Flexible and two in Mixed-Asset GBP Aggressive.

Fund Mergers

Overall, there were 105 equity funds from 44 different peer groups merged into other funds during Q2 2015; 33 of these funds were domiciled in Luxembourg, while 28 were from France and 13 from the United Kingdom. With regard to the single peer groups, Equity Global saw the merger of 18 funds. In addition, there was one fund from Equity Global Income and one fund from Equity Global ex-US merged into another fund, which brought the overall number for global equity fund mergers up to 20. European equities faced 18 mergers overall. The bulk of these mergers were in the Equity Europe (9) peer group, while Equity EuroZone faced 4 mergers and Equity Europe Small- & Mid-Cap 3. In addition, Equity Europe Income and Equity Europe ex-UK saw one merger each. The equities emerging markets segment faced ten fund mergers overall. Six of these mergers were in the peer group Equity Emerging Markets Global, two mergers in Equities Emerging Markets Europe, and one merger each in the peer groups Equity Emerging Markets Asia and Equity Emerging Markets Latin America.

Within the bond segment 116 funds from 20 different peer groups were merged during Q2 2015. The majority of these funds were domiciled in Spain (83), while an additional 16 funds were domiciled in Luxembourg. The majority of the mergers (69) were in the guaranteed peer group, and all the merged funds were domiciled in Spain. Target maturity funds showed a similar picture, with 13 funds merged in this segment; 12 of these funds were domiciled in Spain and 1 in Italy. In addition, there were nine funds merged in Bond Global.

Despite the high inflows into mixed-asset products over first half 2015, this segment witnessed the merger of 89 funds from 22 peer groups. Twenty-five of these funds were domiciled in Luxembourg, while 14 were from France and 10 from Sweden. Twenty-one of the merged funds were from the peer group Mixed-Asset EUR Flexible Global, while ten funds came from the peer group Mixed-Asset Other Flexible. The absolute return segment faced the merger of 21 mixed-asset products (ten Absolute Return EUR low, nine Absolute Return EUR med, one Absolute Return CHF, and one Absolute Return USD low).

Fund Closures

Overall there were 116 equity funds from 29 different peer groups liquidated during Q2 2015; 27 of these funds were domiciled in Luxembourg, 21 were from Belgium, and another 21 were from France. With regard to the single peer groups, Equity Global saw the closure of 22 funds. In addition, there was one fund from Equity Global Small- & Mid-Caps liquidated, bringing the overall number of liquidated funds investing globally in equities up to 23. Equity Europe faced the closure of eight funds. In addition, there were two funds from the Equity Europe Income peer group liquidated, bringing the number of closed funds investing in European equities up to ten. Guaranteed equity funds witnessed the closure of eight funds.

On a special note, there were 24 protected equity funds liquidated in Q2 2015. This high number of fund closures in a relatively small segment in the equity space was caused by BNP Paribas’ closing a number of funds from the former Fortis product range and KBC. Since both were Belgian banks/asset managers, this also explained the high number of equity fund closures in Belgium.

Within the bond segment 64 funds from 30 different peer groups were liquidated during Q2 2015. Luxembourg (27) faced the highest number of bond fund liquidations, bettered by France (8) and Ireland (5). With regard to single classifications, the highest number of fund closures was seen in Bond Global (11), bettered somewhat by guaranteed funds (10) and target maturity products (7).

Despite the high inflows into mixed-asset products over first half 2015, this segment witnessed the liquidation of 57 funds from 24 peer groups. Twenty of these funds were domiciled in Luxembourg, while 11 were from France and 5 from Germany. Seventeen of the liquidated funds were from the peer group Mixed-Asset EUR Flexible Global, while seven funds were guaranteed products and three each were from the peer groups Mixed-Asset Other Flexible and Mixed-Asset USD Balanced Global.

Summary

As mentioned in the last report, it seems European fund promoters are in a standby mode, even though the activity regarding fund closures, mergers, and launches went up in Q2 2015 compared to Q1 2015. One reason for this can be seen in the still-exceptional high net inflows witnessed by the European fund industry during Q2 2015; higher assets under management (AUM) lead to a higher income stream and therefore to lower pressure with regard to the profitability of single funds within the product ranges. In addition, we have already seen a lot of activity with regard to the cleanup of product ranges, meaning European fund promoters have done a lot to realize economies of scale within their product offerings. This might have eased pressure on profits. That said, the activity in the equity segment during Q2 2015 showed there is still a lot for promoters to do on this front.

It is remarkable that the industry has not started to launch a massive number of new products to profit from the ongoing trend toward asset allocation/multi-asset and income products as has been seen in the past. Nevertheless, the European fund industry still has a lot of room for consolidation, since the AUM in Europe is still far behind the average AUM in the United States.

Since there is still a lot of activity regarding mergers and acquisitions in the European asset management industry, the alignment of product ranges and the resulting mergers and closures of funds will be one driver of future consolidation in the industry. This is the easiest way to increase the potential profits from an acquisition.

That said, we see no lack of innovation in the European fund industry, and therefore we still expect the European asset management industry to show net growth in terms of new funds at some point in the near future. That will depend on general market conditions staying in the favor of investors, i.e., that no negative trend hits the stock or bond markets. The growth pattern of the industry is heavily dependent on market conditions and investor confidence.

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