EFAMA

European Fund and Asset Management Association

# ASSET MANAGEMENT IN EUROPE

an overview of the asset management industry

**14TH EDITION**

FACTS & FIGURES

**December 2022**

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## Boxes

# Foreword by EFAMA President

I am delighted to write the foreword for this 14th edition of EFAMA's Asset Management Report.

While the report provides a detailed analysis of major developments in the European asset management industry over the past five/ten years, I will focus on the current situation and offer some perspectives on the evolution of the regulatory framework.

We are going through a period of exceptional risks and uncertainties. As we were just emerging from the Covid-19 pandemic, Russia's invasion of Ukraine plunged Europe into another crisis of dramatic consequences, first and foremost for the population in Ukraine but also, more recently, for so many families across Europe who suffer from financial hardship.

Financial markets have also reacted negatively to the war and its detrimental effects, in particular on inflation and interest rates. This has depressed not only global stock markets but also bond prices. This is very unusual, as usually bond funds have offered protection to investors during periods of market turmoil.

In this environment, markets seem to be on course this year to deliver one of their worst performances on record. This means that many investors will suffer a drop in the overall value of their investments. However, we should not lose sight of the fact that over the last ten years, including the fall in stock markets so far this year, the average annual return of UCITS equity funds net of fees reached 6.5% in real terms, whereas the value of bank deposits fell by 14% in real terms over the same period. So, the loss of value suffered by financial markets this year does not invalidate the rationale for further developing the Capital Markets Union (CMU) and encouraging European households to diversify their savings towards capital market instruments.

Let me also underline that the stress we have experienced in stock and bond markets has not created panic among investors and that asset managers have encountered no difficulties in dealing with redemptions thanks to effective liquidity management procedures and tools.

## Recent Legislative Achievements

Against this gloomy geopolitical and economic background, and given the huge challenges that Europe currently faces, we are pleased that substantial progress has been achieved in recent months in several areas. We welcome the provisional political agreement recently reached among the co-legislators on the ELTIF review. The revised framework offers a clear opportunity to finally make ELTIF a product of choice for both institutional and retail investors, thanks to revised investment eligibility criteria and the removal of the entry ticket.

Likewise, the progress made by the co-legislators on the targeted review of the AIFMD/UCITS Directive is encouraging. The existing rules have underpinned a decade of growth in the European market and proven resilient despite the unprecedented challenges we are facing. We hope therefore that any changes to the current rules will remain carefully calibrated to avoid impeding the further development of this important source of funding.

Sustainable finance is another area where the EU has clearly taken the lead on the global stage. This degree of political commitment deserves recognition, and our industry fully embraces the opportunity to play a pivotal role in the transition towards a greener, more sustainable economy. We have come a long way already: as highlighted in this report, asset managers are now offering a wide range of sustainable products and strategies for all types of clients, whose demand for ESG keeps increasing.

Nevertheless, as the focus is shifting from high-level targets to the truly tricky work of implementation, there are challenges to be solved. The most significant issue for our sector is the lack of consistent and reliable corporate ESG data, which is on its way but will not be accessible for some years. This being said, it is not because the implementation hurdles are hard to overcome that we will not remain committed to delivering on the ambitious goal set by the EU to contribute to the transition to a sustainable economy. Going forward, we need to ensure that new changes to the regime are brought in with plenty of time to allow the financial sector to adequately prepare.

Another important topic concerns the type of diligence rules that are set to compel EU companies to scrutinize their supply chains for human rights and environmental harm risks under the Commission's proposed Corporate Sustainability Due Diligence Directive (CSDDD). Asset managers should undoubtedly play their part – and already do so, notably through active engagement with issuers. It is essential, however, that the discussions take into consideration the special features of the investor-investee relationship, which differ from the business relationships that a company develops along its value chain. And the regulatory requirements under CSDDD should be compatible with the existing Sustainable Finance Framework and not create more legal uncertainties or confusing overlaps.

Finally, any assessment of progress towards a CMU would not be complete without considering the Consolidated Tape. Market participants, comprising a far larger group than just the fund management industry, have consistently called for a real-time consolidated tape for bonds and equities. This call is now louder and more urgent than before given the competitive pressures we face to both attract global fund flows and prevent EU capital from going abroad. We hope that the current MiFID/R review will deliver this much-needed piece of infrastructure to support liquid and efficient markets.

### Retail Investment Strategy

Another necessary condition for the success of the CMU is to increase retail participation in capital markets. We hope that the Retail Investment Strategy the European Commission is due to adopt early next year, will play a positive role in achieving this goal while preserving high standards of investor protection.

However, new initiatives will only be truly successful if they are built on the needs and preferences of EU citizens. It is key not to restrict investors' access to financial advice by preserving both the fee- and commission-based models and by enforcing the existing safeguards against biased advice.

Building on the good regulation that is already there, we advocate for removing complexity, capitalising on the digital age to provide meaningful, timely and decision-useful disclosures, ensuring access to qualified advice and protecting citizens against unregulated products and advice. All of this will pave the way for growing retail participation in capital markets.

### Conclusion

The asset management industry strongly supports the efforts of the European Commission towards building a truly effective and sustainable CMU that works for people and society.

Good progress has been made already but a lot remains to be done and asset managers stand ready in helping EU policymakers achieving that ambition.

In this process, it is essential to preserve the competitiveness of EU players on the global stage.

In the current market environment, asset managers are faced with strong pressure on costs and a sharp decrease in their revenues, not to mention the very significant burden of complying with new regulations. Policymakers should not overlook that reality if we want to have vibrant and diverse capital markets in Europe. The recent announcement by President Von der Leyen that the European Commission would introduce a standard competitiveness-check in EU regulation is much welcome in that respect. Together with a stricter application of “Better Regulation” and “Proportionality Principles” these are essential considerations to ensure that the European economy continues to strive in an ever more challenging world.

Naïm Abou-Jaoudé
EFAMA President

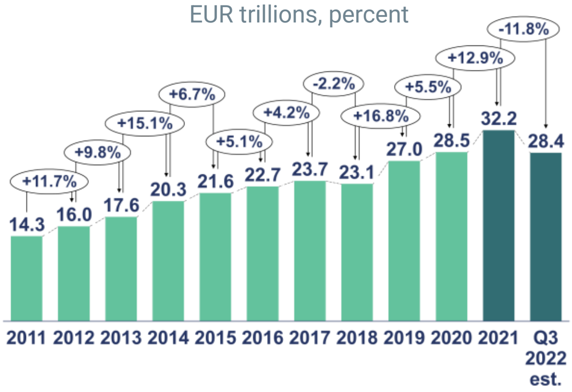
# Key Findings and Figures

## Asset under management in Europe

Total assets under management (AuM) in Europe grew to EUR 32.2 trillion at the end of 2021.

The outbreak of the war in Ukraine, the sharp rise in inflation and interest rates, and the resulting slowdown in economic growth led to a sharp fall in the bond and stock markets in 2022. According to our estimations, this resulted in a 11.8% decline in total AuM during the first nine months of 2022.

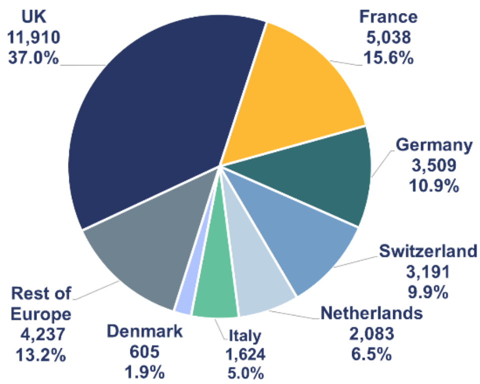
**European Assets under Management in Europe**
EUR trillions, percent




## AuM in European countries

Asset management in Europe is mainly concentrated in six countries, which are responsible for almost 85% of the asset management activity that takes place in Europe. The United Kingdom is the largest European asset management market, followed by France, Germany, Switzerland, the Netherlands and Italy. This concentration can be explained by the presence of large financial centres in those countries.

**AuM in European Countries at the End of 2021**
EUR billions, percent of total

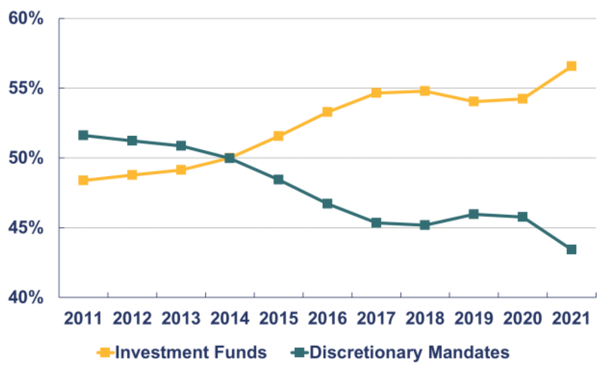



## Funds and discretionary mandates

Assets managed by asset managers can be divided into two broad categories: investment funds and discretionary mandates.

The share of investment funds in total AuM has risen steadily to reach a record of 56.6% at the end of 2021. The higher share of equity in the portfolio allocation of investment funds compared to discretionary mandates combined with the strong rises in stock markets is the main reason behind this evolution.

**Discretionary Mandates and Investment Funds**
share in total AuM



## Role of asset managers

In a nutshell, asset managers invest with the aim of obtaining a return commensurate with the level of risk undertaken.

They provide their clients with access to a wide range of investment products and solutions with different risk profiles and help asset owners achieve positive real returns over their savings over the long term. By providing a connection between the pools of savings and the investment opportunities, asset managers also link investors and companies and play a key role in the transition towards a more sustainable economy.

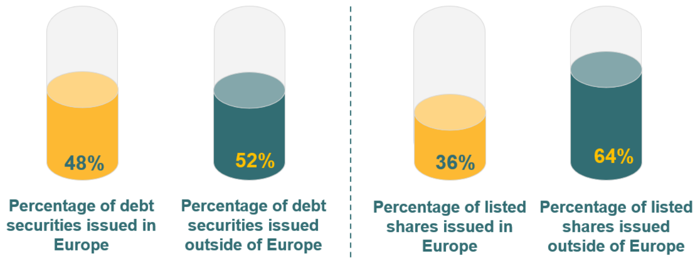
**A Stylised View of the Asset Managers in Society and the Economy**


## Financing the European economy

According to our calculations, the outstanding amount of debt securities and listed equity issued in Europe and held by European asset managers at the end of 2021 stood at EUR 6,989 billion and EUR 3,648 billion, respectively.

European asset managers not only fund the European economy but also activity in the rest of the world, as illustrated by the share of debt securities and listed shares issued outside Europe and held by investment funds.

**Debt Securities and Listed Shares Owned by European Investment Funds at the End of 2021**

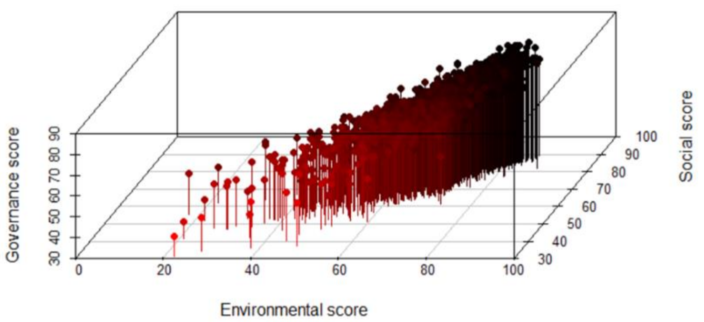



## Sustainable UCITS equity funds

Sustainable (ESG) UCITS equity funds invest in companies with high environmental, social and governance standards and sound financial performance. The net assets of sustainable UCITS equity funds amounted to an estimated EUR 1.1 trillion at the end of September 2022, covering 2,648 funds. They represented a share of 27% of the total equity UCITS.

Using Refinitiv ESG scores, it can be seen that sustainable equity funds with high environmental scores tend to be associated with high social and governance scores.

**ESG Scores for UCITS Sustainable Equity Funds**

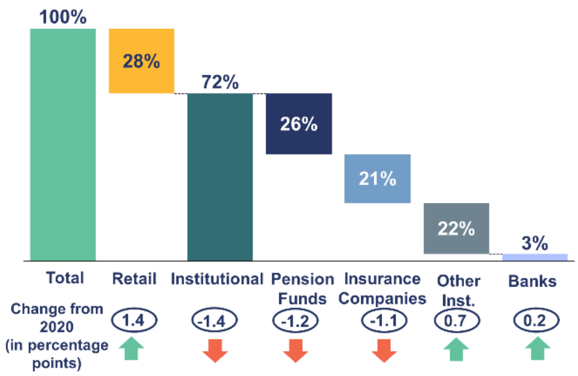


## Clients of the industry

The main clients of the asset management industry are institutional investors, which look to benefit from the economies of scale that can be achieved by asset managers.

While remaing much lower, the share of retail clients in total AuM increased in 2021 as European households regained an appetite for capital market instruments. Another recent trend is the steadily increasing share of other institutional clients, such as foundations, charities, holding companies or large corporations.

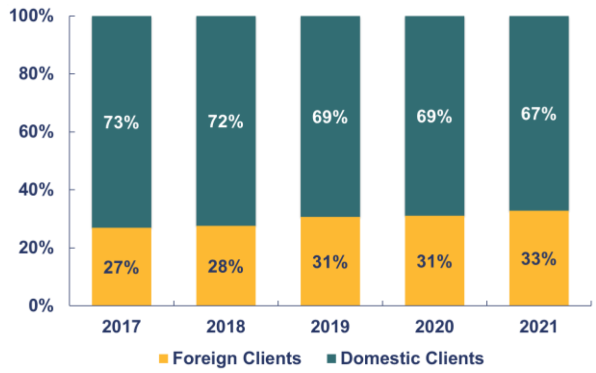
**Breakdown of Clients by AuM at the End of 2021**
percent of total and change in pp. from 2020




## Domestic and foreign clients

Domestic clients make up the largest part of the client base of the European asset management industry. Yet the share of clients based in a different country to that of the asset manager has been steadily rising in recent years, from 27% in 2017 to 33% at the end of 2021. This development is in line with one of the key goals of the EU's Capital Markets Union (CMU), namely the further integration of national capital markets into a genuine single market.

**Domestic and Foreign Clients**
share in total AuM

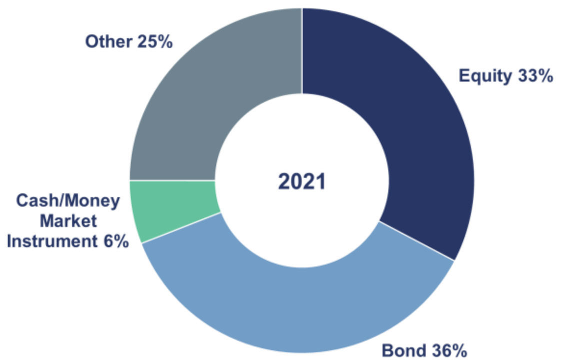



## Asset allocation in Europe

Bonds accounted for 36% of the assets managed by asset managers at the end of 2021. This high percentage reflects the importance of institutional clients, who consider bonds as safe instruments for preserving capital and generating income.

This said, the share of listed equity has increased from 28% in 2018 to 33% in 2021, in line with the strong performance of the stock markets. The share of other assets, such as infrastructure, hedge funds, structured products or private equity, which allow to achieve a more diversified asset allocation, remained broadly stable over the same period.

**Asset Allocation at the End of 2021**
share in total AuM



# Introduction

This EFAMA Asset Management Report provides a detailed analysis of the current state of the European asset management industry, focusing on the countries where assets are managed.

The report is primarily based on data provided by national associations from Austria, Belgium, Bulgaria, Croatia, Czech Republic, Denmark, France, Germany, Greece, Hungary, Italy, the Netherlands, Poland, Portugal, Slovenia, Switzerland, Spain, Turkey and the United Kingdom. Additional internal and external data have been used to estimate assets managed in other European countries at the end of 2021.

The Asset Management Report is divided into six main sections:

- Section 1 presents a general introduction to the current state of the European asset management industry and provides an estimation of the total assets under management (AuM) in Europe at the end of September 2022, with breakdown by country, investment fund and discretionary mandate at the end of 2021. This section is completed by an analysis by *Cerulli Associates* of how European insurers use third-party asset managers to navigate the investment and regulatory environment.

- Section 2 highlights three key roles of the asset management industry in society and the economy: serving the needs of investors, funding the real economy, and contributing to the transition to a more sustainable economy. This section also gives some estimates of the level of financing that asset managers provide to different sectors of the economy via their investments in debt securities and listed shares.

- Section 3 focuses on the role taken by asset managers in promoting environmental and social sustainability and good governance. This section includes an article prepared by *McKinsey & Company* on the key business opportunities offered by the growing demand for ESG investment solutions. It also illustrates the importance taken by ESG factors in the business model of asset managers by providing concrete examples of how asset managers integrate ESG into sovereign debt analysis and help finance green projects through investments in green bonds.

- Section 4 provides an overview of the industry's clients, with a breakdown of foreign and domestic clients.

- Section 5 focuses on the asset allocation of investment funds and discretionary mandates and highlights the rise of in the share of passive investment strategies.

- Section 6 looks at the industrial organisation of the asset management industry, by providing data on the number of asset management companies active in Europe, the recent evolution of the revenues and costs of asset managers, and the level of direct and indirect employment generated by the asset management industry.

# 1. Assets under Management in Europe

## 1.1. Introduction

Asset managers invest and manage risks to achieve a specific investment goal, taking into account their client's needs, objectives and characteristics. They conduct research on macroeconomic developments, trends in financial markets, industries and companies to find attractive investment opportunities. They select financial securities such as stocks and bonds that are publicly offered, and they may invest in unlisted assets such as private equity or real estate. This report focuses on asset managers who are hired by retail and institutional investors to manage their assets and are paid a fee for their services. These asset managers are sometimes called "third-party asset managers.

Some asset managers focus their investment strategies on a single asset class, such as equity or fixed income. Other managers focus on a style of investing within an asset class, such as large-capitalisation growth or dividend-yielding European equities, or cover broad market areas, offering multiple strategies within a fund or family of funds, and/or provide custom investment services for clients.

There are two main types of asset managers:

- Passive asset managers who seek to replicate a specified financial market index. Passive asset managers buy and hold all, or a representative sample of, the securities in their target indices.

- Active asset managers who try to beat the market through security selection. Under an active management approach, asset managers can adjust their portfolios to changing market circumstances with a view to delivering against the objective of their funds or mandates, for example, achieving growth, providing income, limiting downside risk, and/or integrating ESG factors into the investment decision. To this end, active asset managers use different tools and undertake or rely on investment research to analyse specific industries, markets and issuers.

In general, asset managers undertake their investing activities in two different ways: either by managing investment funds or by managing discretionary mandates.

- Investment funds – UCITS or alternative investment funds (AIFs) – pool the savings of investors with similar investment goals. Each fund has its own particular investment objective, with corresponding risk levels and asset allocation. Investors can buy or redeem shares in these funds. They offer investors significant advantages in terms of risk diversification, risk-adjusted return and investor protection. Investment funds can be targeted at either retail clients, institutional clients or both.

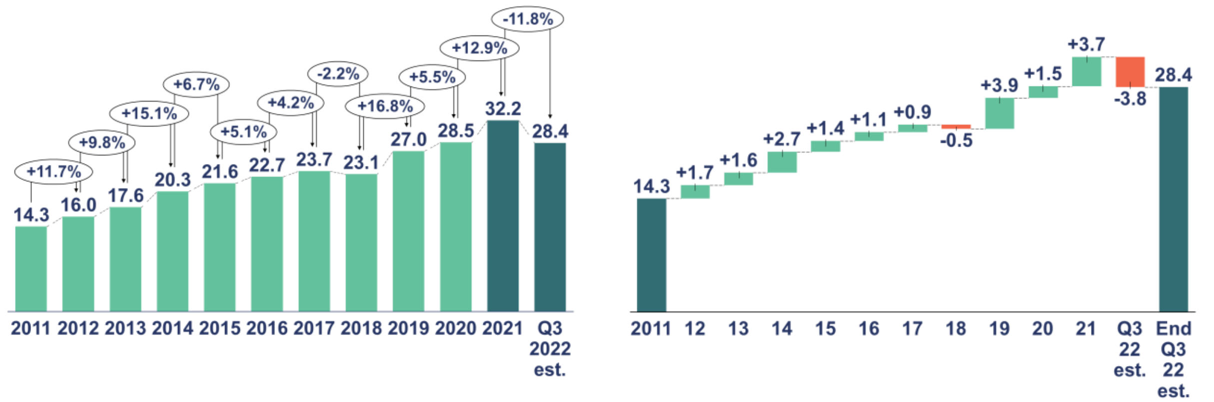
- Discretionary mandates are investment 'mandates' delegated to an asset manager by a specific investor. The term "discretionary" refers to the fact that the asset manager receives the authority to buy and sell assets and execute transactions on behalf of that investor. "Mandates" are legal agreements between the asset manager and the investor, which set out the specific terms and parameters of their relationship. The contract term includes the investment strategy, investment guidelines, risk controls, particular benchmarks, reporting requirements, management fees, performance fees where applicable, evaluation processes, and more recently preferences in terms of environmental, social and governance (ESG) investment. Some clients want the asset manager to handle everything, whereas others want to maintain a veto over key decisions, or only outsource funds earmarked for a particular type of asset, for instance, fixed income and private placement assets. In general, the conclusion of a mandate includes the following steps: defining the strategy and asset allocation, developing mandate requirements, creating Request for Proposal (RFPs) for the selection of an asset manager, appointing an asset manager and embedding mandate requirements into legal documents.

## 1.2. Evolution of AuM in Europe

Total assets under management (AuM) in Europe rose steadily between 2012-2017, thanks to a combination of strongly performing financial markets and net new money entrusted to asset managers. A sharp drop in stock markets at the end of 2018 led to the first decline in AuM in the decade. The excellent performance of financial markets reversed this trend in 2019, and despite the strong decline of financial markets following the outbreak of the Covid-19 pandemic in early 2020, AuM increased again in 2020 thanks to strong market rallies in Q2 and Q4.

Investor confidence and the continued strong growth in stock markets in 2021 led to a further increase in AuM, which ended the year at EUR 32.2 trillion. However, according to our calculations, total AuM dropped below the EUR 30 trillion threshold (EUR 28.4 trillion) by the end of Q3 2022[i], as global stock and bond markets have turned significantly lower since the beginning of the year.

EXHIBIT 1.1
**European Assets under Management**
EUR trillions, percent




In relation to European GDP, European AuM rose from about 98% of GDP at the end of 2011 to 171% at the end of 2021. For 2022, we project the AuM/GDP will have decreased to below 150% of GDP by the end of September.

Asset management in Europe is primarily concentrated in six countries, where almost 85% of the activity takes place. In each of these six countries, AuM was higher than EUR 1.5 trillion.

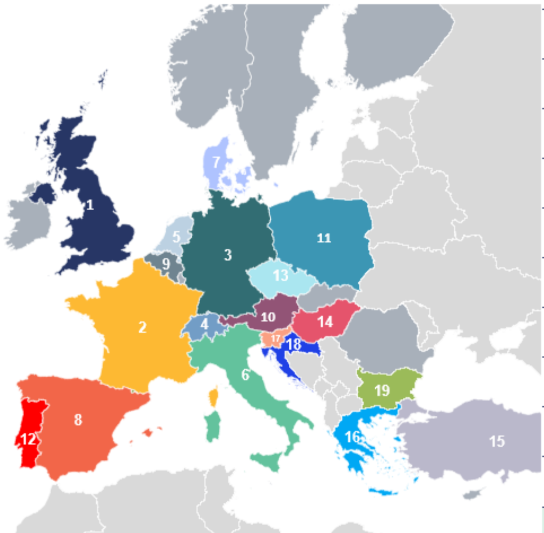
The UK is the largest European asset management market, followed by France, Germany, Switzerland, the Netherlands, and Italy. The presence of large financial centres, such as London, Paris, Frankfurt or Zurich, and sizable domestic markets can explain the market concentration in most of these countries. In the Netherlands, the presence of the largest occupational pension fund sector in Europe is the main reason behind the existence of considerable asset management activities there.[ii]

Asset managers in Denmark, Spain, Belgium, and Austria also manage substantial amounts of fund and mandate assets. In Central and Eastern Europe, Poland is a significant asset management centre, followed by the Czech Republic and Hungary.

The share of the rest of Europe (9.1%) is attributable to other European countries for which no survey data is available, such as Sweden, Finland, Norway, Luxembourg, and Ireland, where asset managers are also active.

EXHIBIT 1.2

**European Assets under Management at the End of 2021**




| | Country | AuM (€bn) | Market Share |
|---|---|---|---|
| 1 | UK | 11,910 | 37.0% |
| 2 | France | 5,038 | 15.6% |
| 3 | Germany | 3,509 | 10.9% |
| 4 | Switzerland | 3,191 | 9.9% |
| 5 | Netherlands | 2,083 | 6.5% |
| 6 | Italy | 1,624 | 5.0% |
| 7 | Denmark | 605 | 1.9% |
| 8 | Spain | 479 | 1.5% |
| 9 | Belgium | 417 | 1.3% |
| 10 | Austria | 172 | 0.5% |
| 11 | Poland | 66 | 0.2% |
| 12 | Portugal | 47 | 0.1% |
| 13 | Czech Republic | 36 | 0.1% |
| 14 | Hungary | 31 | 0.1% |
| 15 | Turkey | 28 | 0.1% |
| 16 | Greece | 16 | 0.1% |
| 17 | Slovenia | 6 | <0.1% |
| 18 | Croatia | 4 | <0.1% |
| 19 | Bulgaria | 2 | <0.1% |
| | Rest of Europe | 2,934 | 9.1% |
| | **Total** | **32,197** | |

## 1.3. AuM in investment funds and discretionary mandates

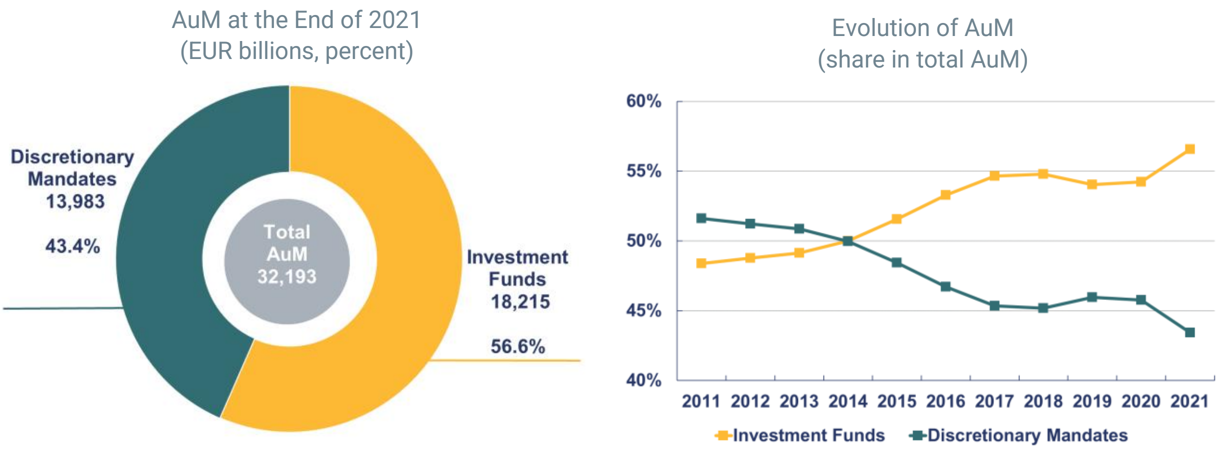
Investment fund assets represented EUR 18,215 billion or 56.6% of total European AuM at end-2021. The share of discretionary mandate assets in total AuM stood at 43.4%, amounting to EUR 13,983 billion.

The share of investment funds among total AuM has steadily risen each year between 2011 and 2018. The higher share of equity in the portfolio allocation of investment funds compared to discretionary mandates combined with the strong rise of the stock markets over the 2012-2017 period, are the main factors behind this evolution. The share of investment funds declined slightly in 2019, but this was mainly due to a reclassification of data. In 2020, the share of investment funds increased further.

In 2021 the share of investment funds rose by 2.3 percentage points, the strongest growth of the decade. This exceptional growth can be primarily explained by differences in the asset allocation of investment funds and discretionary mandates. As explained in Section 5, investment funds have a much larger portion of their financial assets invested in listed equity than discretionary mandates (43% compared to 21%) and, correspondingly, a smaller share in bonds (26% compared to 48%). Given the excellent performance of global stock markets and the negative performance of bond markets over the course of 2021, this resulted in stronger growth of fund assets compared to mandates. Another reason for the declining share of mandates is that a handful of institutional clients in certain countries, namely France, Portugal, have reinternalized the management of their mandated assets in 2021.

EXHIBIT 1.3

**Discretionary Mandates vs Investment Funds**

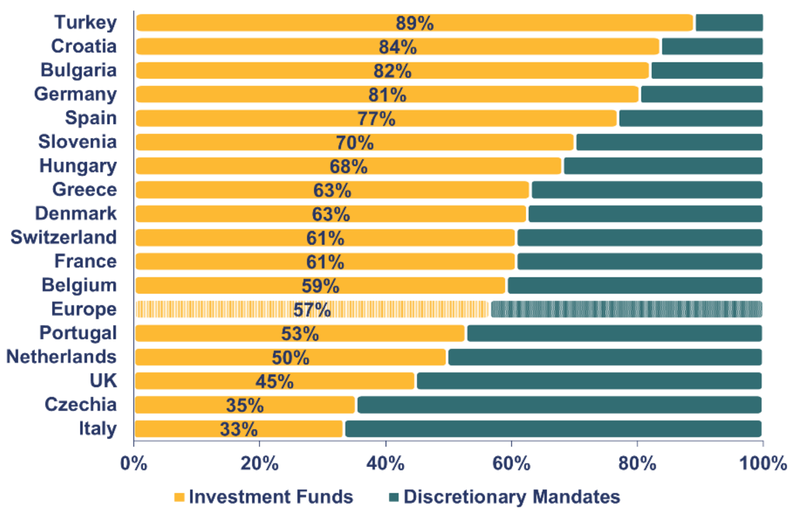



The split between investment funds and discretionary mandates varies significantly between European countries. Discretionary mandates accounted for 23% of all AuM in Spain at end-2021, while they accounted for 67% in Italy. These differences are chiefly influenced by the dominant asset management product solutions offered to institutional investors in different European countries. For example, institutional investors in Germany primarily make use of AIFs to manage their institutional assets, whereas institutional investors in the United Kingdom are more likely to be offered a discretionary mandate.

EXHIBIT 1.4

**Discretionary Mandates and Investment Fund Assets at the End of 2021**

share in total AuM

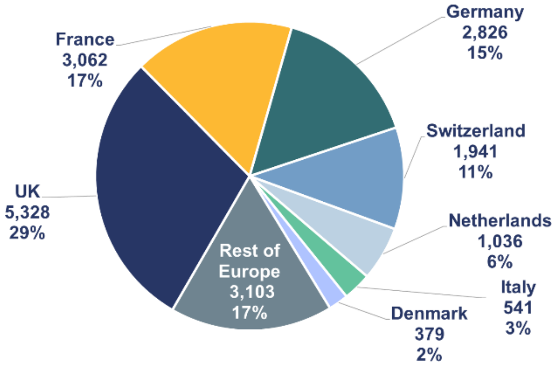



At the end of 2021, more than 80% of European investment fund assets were managed in six countries: the UK (29%), France (17%), Germany (15%), Switzerland (11%), the Netherlands (6%) and Italy (3%). [iii] [iv]

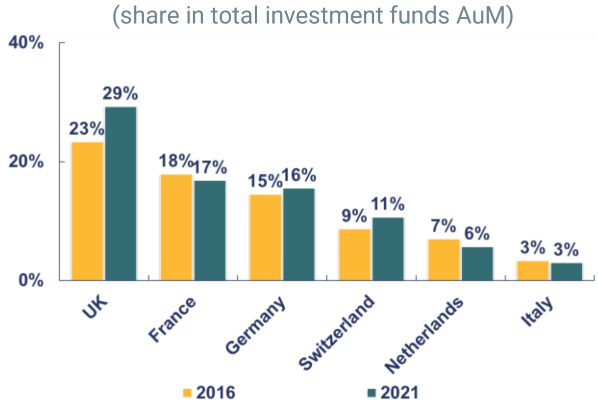
Compared to five years ago, the market share of the UK increased by 6 percentage points, mainly as a result of booming stock markets and the higher-than-average share of equity in the asset allocation of funds managed in the UK.

EXHIBIT 1.5
**IF AuM by Geographical Breakdown**

Investment Funds at the End of 2021
(EUR billions, percent)



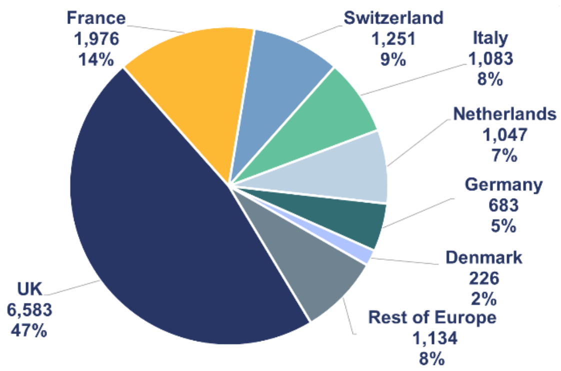

Evolution in Recent Years
(share in total investment funds AuM)



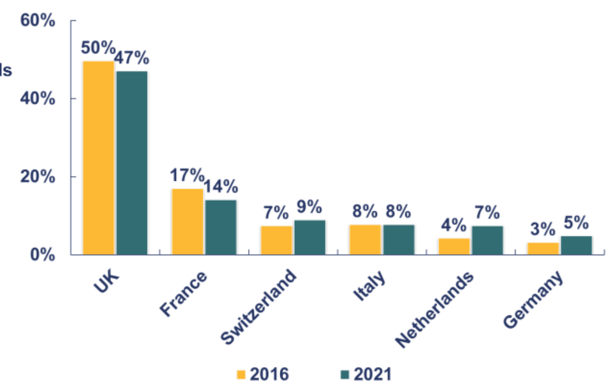

The AuM of discretionary mandates is even more concentrated, with more than 60% of assets being managed in the UK and France at the end of 2021. The 47% market share of the UK is a direct consequence of the high level of pension fund assets being managed by asset managers located in the UK. The 14% market share held by asset managers in France reflects the size of the French insurance industry as well as the high level of delegation by French and foreign institutional investors to asset managers.[v]

EXHIBIT 1.6
**DM AuM by Geographical Breakdown**

Discretionary Mandates at the End of 2021
(EUR billions, percent)




Evolution in Recent Years
(share in total discretionary mandates AuM)



Most discretionary mandate market shares have remained roughly stable over the last five years, except in the Netherlands where several pension funds stopped managing their assets in the form of alternative investment funds and switched to mandates in reaction to the new prudential rules of IFR/IFD.

## 1.4. Market share of European asset managers

According to EFAMA calculations based on McKinsey data, the share of European financial assets managed by European asset managers was at 33% at the end of 2021, with EUR 23 trillion being managed for institutional clients and EUR 9 trillion for retail clients.[vi] The share of externally managed financial assets has increased from 23% in 2011 to 33% in 2021. For institutional investors, this share increased from 22% to 31% over the same period, while for retail investors it rose from 27% to 37%.

EXHIBIT 1.7
**Total Financial Assets in Europe at the End of 2021**
EUR trillions

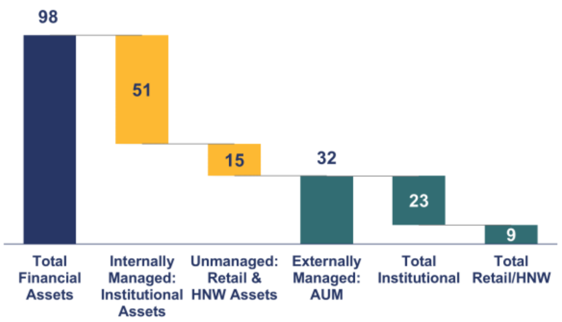
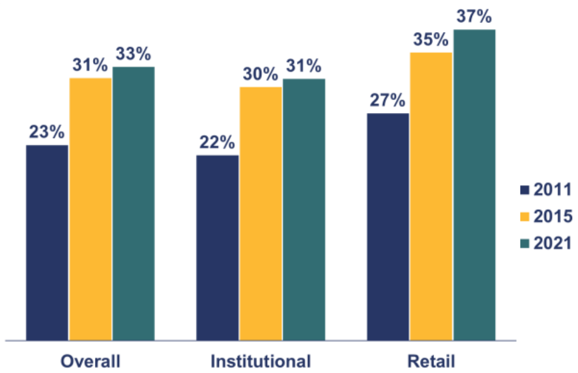



EXHIBIT 1.8
**European Financial Assets**
% share managed by third-party asset managers




Source: EFAMA's calculations based on McKinsey Performance Lens Global Growth

There are several reasons why institutional investors are relying on the services of asset managers. In nutshell, delegating the investing process to a qualified asset manager frees the institutional investors concerned from the responsibility of making day-to-day investment decisions and leaves them free to focus on other things that matter.

Asset managers are able to diversify their clients' portfolios, giving them access to a wide range of investment options and instruments to increase the overall value of the portfolios and mitigate the associated risks. Their clients can obtain better prices for executed trades, as they can put through a single buy or sell order for multiple clients.

More recently, the rise in regulatory and governance requirements has led a wider group of institutional investors to look to benefit from economies of scale in portfolio management, administration, risk management, market and securities research and technology investments. By outsourcing the investment management of their assets, institutional asset owners avoid the need to invest in areas like data feeds, data analytics, machine learning, computer-driven trading programs, and artificial intelligence, which have become key parts of the investment process. They can also benefit from other types of services, including to ease the reporting process and facilitate the preparation of mandatory reports on how the assets have been managed.

In return for these services, asset managers charge a fee, which is based in general on the value of the assets they manage. In this way, the incentives of investors and asset managers to achieve positive returns are aligned. Depending on the fee charged and the in-house resources and expertise, institutional investors decide whether they want to rely on third-party asset managers, rather than maintaining a team to manage the assets for which they have the responsibility.

The trend toward greater outsourcing is mainly driven by three factors: the rise in the costs of setting up a business line dedicated to investment management in an environment, the decline in the fees charged by asset managers, and the search for yield in an environment of ultra-low yield on plain vanilla bonds.

Looking forward, there remains a huge untapped potential for asset managers to increase their share in the institutional market.

As far as retail investors are concerned, it can be expected that the Capital Markets Union (CMU)'s project will lead to a larger number of European households calling upon the expertise of asset managers to invest part of their bank deposits into capital market instruments.

## Opportunities for Asset Managers in the Insurance Market

*A short perspective by Cerulli Associates*

The Cerulli Report 'European Insurance Industry 2022 – In Search of Better Returns'[vii] provides a detailed analysis of how European insurers use third-party asset managers to navigate the investment and regulatory environment.

The report is based on qualitative interviews with a range of insurers, captive asset manager managers, and independent asset managers in six European markets: the UK, France, Italy, Germany, Switzerland, and the Netherlands. A total of 21 asset managers running nearly EUR 3.3 trillion of European insurance AuM as of December 2021 completed a survey conducted during March and April 2022. And a total of 154 European insurance companies, representing approximately EUR 6 trillion of European insurance investment assets, completed another survey, conducted in February 2022.

The section below provides a high-level overview of some key takeaways from the Report, which can be purchased from Cerulli Associates.

### *Opportunities in insurance general account business*

Total general account assets outsourced by European insurers to non-affiliated asset managers stood at EUR 1.5 trillion at the end of 2021, accounting for 16.9% of total general account assets.

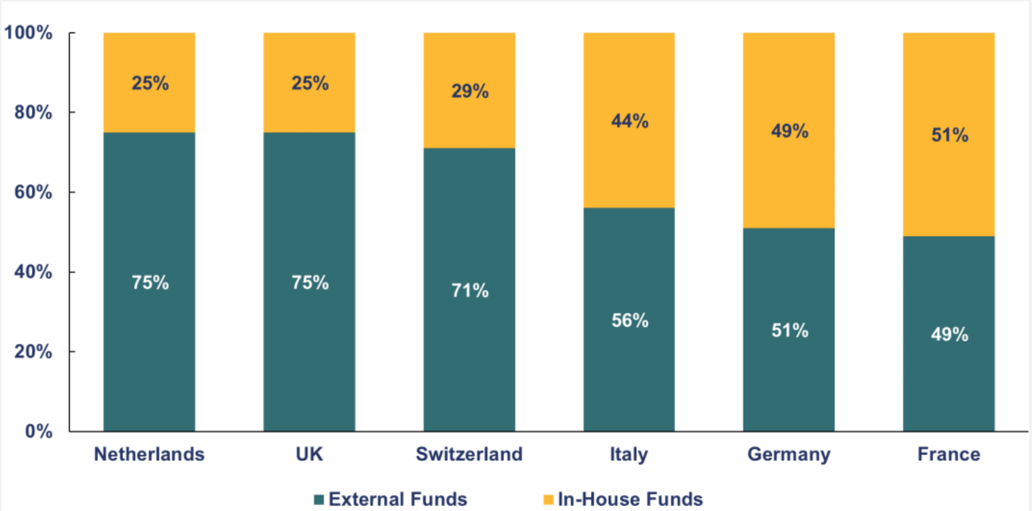
Insurers must decide what level of in-house capabilities they want to achieve, because if they lack the right infrastructure, they will find it challenging to invest in complex asset classes. When they do not have the internal expertise and are unable to achieve their investment goals themselves, they outsource assets to external asset managers.

Cerulli's survey found that insurers are re-examining their strategic allocations to alternative investment classes because of the potential end to the era of low yields and the risk of persistently high inflation. Skilled asset managers with a good track record in alternatives will be well-placed to help insurers navigate complex scenarios created by the macroeconomic situation. In this context, Cerulli's insurer survey found that 48% of respondents are looking to increase the number of asset managers they work with on their private asset investments across their general account business. Insurers are also exploring fixed-income asset classes in which they have little previous experience, such as emerging market debt, subordinated/mezzanine debt, and commercial real estate debt.

## *Outsourcing in the unit-linked market*

Asset managers can also take advantage of the opportunity in the growing European unit-linked market, which stood at EUR 3.7 trillion in 2021 and is expected to grow to EUR 4.2 trillion by the end of 2025. The UK is the largest unit-linked market in Europe, accounting for 43% of the region's unit-linked assets or EUR 1,586 billion. France is the second-largest unit-linked market in Europe, with assets of EUR 501 billion. Cerulli's survey of insurers found that approximately 75% of UK unit-linked insurance assets are outsourced to external managers, compared to 49% in France (see Figure 1 below).

Figure 1
**European Insurers: Proportion of Unit-Linked Insurance Assets Outsourced to External Managers, 2022**
percent




Source: Cerulli Associates

Another interesting finding is that collective investment undertakings, i.e., investment funds, make up most of the unit-linked assets across the European markets, as illustrated in Figure 2. For instance, collective undertakings made up 84% of assets in France and 85% of assets in Italy at the end of 2021.

Figure 2
**Unit-Linked Insurance Investments in Selected Markets by Asset Class, 2021**
percent

| | France | Germany | Italy | Netherlands |
|---|---|---|---|---|
| **Government bonds** | **0.0%** | **0.0%** | **6.0%** | **2.7%** |
| **Corporate bonds** | **0.6%** | **0.3%** | **3.3%** | **0.2%** |
| **Equity** | **4.4%** | **0.0%** | **4.1%** | **0.3%** |
| **Collective investment undertakings** | **84.2%** | **98.5%** | **84.5%** | **93.3%** |
| *Equity funds* | *33.6%* | *55.7%* | *39.3%* | *19.3%* |
| *Debt funds* | *9.1%* | *10.1%* | *28.5%* | *25.4%* |
| *Money market funds* | *3.3%* | *0.5%* | *1.8%* | *0.6%* |
| *Asset allocation funds* | *25.8%* | *17.9%* | *8.6%* | *35.6%* |
| *Real estate funds* | *8.0%* | *0.5%* | *0.0%* | *0.2%* |
| *Alternative funds* | *1.3%* | *0.1%* | *1.5%* | *0.2%* |
| *Other* | *3.1%* | *13.7%* | *4.9%* | *12.0%* |
| **Structured notes** | **8.9%** | **0.9%** | **0.2%** | **0.0%** |
| **Cash and deposits** | **1.8%** | **0.0%** | **1.9%** | **1.2%** |
| **Mortgages and loans** | **0.0%** | **0.3%** | **0.0%** | **1.6%** |
| **Other investments** | **0.0%** | **0.0%** | **0.0%** | **1.4%** |

Sources: EIOPA, Cerulli Associates

According to Cerulli, insurers use a mix of quantitative and qualitative mechanisms to decide which funds to include on their unit-linked platforms. Key criteria include a fund's popularity, performance, liquidity, and sustainability, as well as the strength of the asset manager's brand. Insurers also consider the diversity of funds on their platforms across value and growth, as well as off-the-shelf multi-asset solutions, including active, passive, and sustainable products.

In addition to standard selection criteria, partnerships with asset managers are increasingly influencing fund selection. Given that unit-linked products need to be sold to end investors, insurers increasingly want to engage managers to build solutions that will generate demand from distributors such as financial advisors—and, ultimately, end investors. In addition, European insurers are increasingly requesting marketing and sales education support, so that they can better sell solutions to distributors and end investors.

Looking forward, Cerulli's survey identified two key asset allocation trends in the European unit-linked market that offer promising opportunities for asset managers:

- Sustainability: ESG is a key area of focus for unit-linked insurers across Europe. Cerulli's insurer survey found that 66% of respondents across Europe are considering incorporating renewable energy into their fund offerings. The proportion of SFDR Article 8 and Article 9 funds is also set to increase in every European market covered by Cerulli's research.
- Thematic funds: another key asset allocation trend is the rise of thematic funds. This is, in part, because thematic investments are easier for distributors to understand, but also because distributors can use the stories behind themes to sell to end investors. The themes that are most popular across Europe are those related to ESG.

## *Priorities for asset managers*

Cerulli's survey of asset managers found that improving ESG reporting and measurement capabilities and growing the number of strategic partnerships are among European asset managers' priorities when it comes to growing their insurance asset management business.

Figure 3
**European Asset Managers: Priorities for European Insurance Asset Management Growth, 2022**
percent


Source: Cerulli Associates

As noted above, insurers are increasing their already-significant demand for detailed reporting on ESG factors, looking for more detail on green bonds, ESG ratings, carbon emissions, and so on.

Concerning strategic partnerships, many asset managers consider that they enable them to simplify and entrench their relationships with insurers. They can provide access to profitable activities such as cross-selling, as well as access to private market allocations that command higher margins. In addition, strategic partnerships can allow managers to demonstrate their ability to carry out sophisticated mandates. That being said, strategic relationships can require substantial resources – and fee discounts.

# 2. Role of Asset Managers in Society and the Economy

## 2.1. Some unique characteristics

Asset managers exhibit a number of distinguishing features that set them apart from commercial banks and other institutional investors:

- Agency business model: asset managers act primarily as agents managing assets on behalf of clients as opposed to investing on the managers' behalf. In contrast, commercial banks and insurance companies typically act as principals: accepting deposits with a liability of redemption at par and on-demand, or assuming specified liabilities with respect to policyholders.

- Fiduciary duty: asset managers are bound by regulation to act in the best interest of their clients and invest in accordance with a predefined set of rules and principles. As such, they owe a number of fiduciary duties to their clients, including duties to exercise reasonable care, to disclose conflicts of interest and to act in good faith. Asset managers must provide the information necessary for investors to make informed decisions and report regularly on how their investments are doing.

- Limited balance sheet risk: asset managers do not act as providers of credit to individuals or corporations, nor do they provide custody or related services. They do not act as counterparties in derivatives, financing or securities transactions. Moreover, they are bound by specific constraints as to the use of leverage and operations with borrowed money and are required to hold sufficient regulatory capital, all of which are under the supervision of the relevant national authority. In this way, there is no asset-liability mismatch on their balance sheets, which are very small compared to the balance sheets of banks and insurance companies.

- Protection of client assets: asset managers are subject to a robust regulatory framework, which requires them to, among other things, establish comprehensive risk management and compliance policies and procedures. These regulatory regimes protect clients from a liquidation or failure of their asset manager, in particular as the clients' assets are held separately from the firm's assets.

## 2.2. Three important roles

In a nutshell, asset managers invest with the aim of obtaining a return commensurate with the level of risk undertaken. In so doing, they help investors achieve their financial goals, provide capital to finance the economy, and play a critical role in supporting the transition towards sustainability.

### 2.2.1. Serving the needs of investors

Asset managers provide their clients with access to a wide range of investment products and solutions, which have different risk profiles.

In general, a fund distributor (most often a bank employee in Continental Europe), a financial adviser, or the retail investors themselves, mix and match those products to achieve the risk/return profile they desire. In the case of institutional investors, professionals such as consultants or the investment staff at a pension fund, propose a specific allocation among different financial instruments, asset classes, industries and geographical locations, considering the particular liabilities faced by the investor in the future, which may imply different time frames, levels and types of risk tolerance, needed return and the liquidity required.

### *Providing risk-adjusted returns*

Asset managers help asset owners achieve positive real returns on their savings.

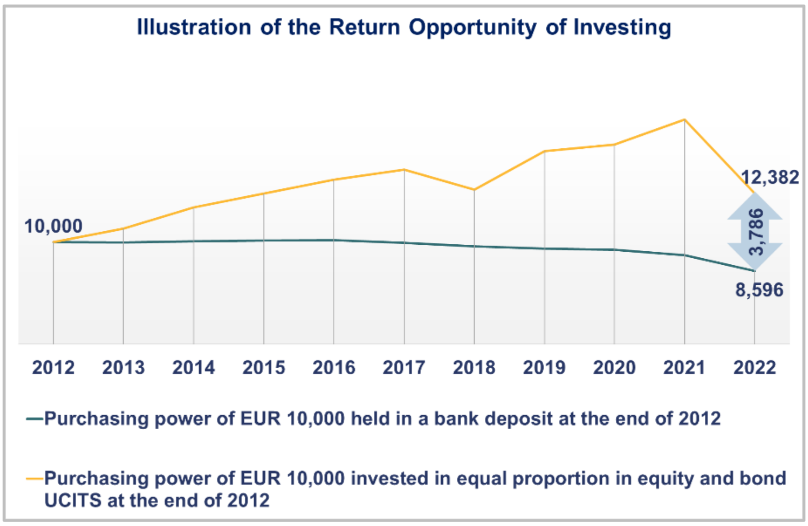
To fully appreciate the return opportunities of investing, we have compared the expected value at the end of 2022 of EUR 10,000 invested over the last ten years in a hypothetical retail fund portfolio composed of equity (50%) and bond (50%) with the value of this amount of money held in a bank deposit. We have calculated the expected value in terms of purchasing power, considering all costs as well as the impact of inflation. We have assumed that the returns on equity and bond funds in 2022 would be equal to those observed in January-September 2022, i.e., -18.2% and -12.8%.

Exhibit 2.1 shows that under these assumptions, the purchasing power of the fund portfolio would reach EUR 12,382 at the end of 2022, whereas the real value of the bank deposit would be EUR 8,596. Despite the sharp falls in global financial markets in 2022, the opportunity cost of holding EUR 10,000 in a bank deposits rather than in equity and bond funds can be estimated at EUR 3,786.

EXHIBIT 2.1

**Net Real Performance of a Ten-Year Investment of EUR 10,000**

EUR




Sources: EFAMA's calculations based on Morningstar Direct data

### *Mitigating investment risk*

By managing portfolios of multiple "risky" securities, asset managers reduce the overall risk of the amount invested. The importance of diversification as an investment technique finds its origin in the work of Nobel Prized laureate Harry Markowitz, who developed the idea that it is possible to construct a portfolio of multiple assets that can result in greater returns without a higher level of risk.

To help them make the best choice, asset managers rely on research as well as professional databases and software packages, which help them monitor developments in the industries, countries, and regions in which they invest. The goal is to screen out poor investment opportunities and detect those that are potentially advantageous.

### *Reducing transaction costs*

The ability of asset managers to trade in large blocks of securities allows them to minimise transaction costs. Given that monitoring activities have a cost, asset managers can benefit from economies of scale that households and many other investors would find difficult to achieve.

### *Providing liquidity*

Asset managers closely monitor the liquidity situation in the markets and the profile of their clients to be able to anticipate the evolution of inflows and outflows and the risk of rapid and large net outflows. They also have risk management policies and portfolio management procedures in place to ensure that they can meet their liquidity provision obligation when difficulties in financial markets occur.

## 2.2.2. Funding the real economy

The asset management industry is also there to contribute to the real economy.

### *Channelling savings towards investment*

Asset managers create products and offer their expertise in terms of portfolio management to mobilize and channel available capital into investments. By providing a connection between the pools of savings and the investment opportunities, asset managers link investors and companies.

Typically, those companies would issue capital market securities, such as corporate bonds and stocks, to fund their operations and investments. In response to the financing demand, asset managers provide equity capital in both primary (IPOs and private placements) and secondary markets, as well as debt financing to corporations and governments, thereby helping these entities meet their short-term funding needs and long-term capital requirements. In this way, they play an important intermediary role in the financial system by funding new investment projects and generating returns for millions of investors.

Asset managers also provide liquidity for the smooth functioning of capital markets and thus for the real economy. Their activities are also known to improve price discovery and increase allocative efficiency. As they have a wide variety of distinct goals, strategies, and timeframes for their investments, their interaction with, and impact on, the market occurs in many different ways.

### *Engaging with companies and governments*

Asset managers play an important role as stewards of companies with a view to maintaining and enhancing the long-term value of companies for investors. This responsibility is often described as active ownership or engagement. In this context, asset managers use their influence to steer the companies and governments represented in their portfolios to deliver long-term value creation for their shareholders.

Asset managers have two main tools at their disposal to achieve their stewardship goals: engagement and voting.

- Engagement: asset managers engage with company management or board members to raise any concerns, encourage better governance, and to understand the extent to which management is delivering sustainable returns for shareholders.
- Voting: asset managers participate in general meetings and take part in the votes on behalf of their clients.

### 2.2.3. Contributing to the transition to a more sustainable economy

Asset managers offer a broad range of sustainable investment products and solutions that are integrating environmental, social and governance (ESG) criteria into their investment decision-making and risk management processes. In this context, they engage with investee companies and governments to improve their financial and ESG performance by offering to invest their assets in companies and projects that aim at shifting to a greener, more inclusive economy. The important role played by asset managers in this area is explained in detail in section 3.

Asset managers also maintain a constructive and ongoing dialogue with companies and issuers by providing specific recommendations and setting regular follow-up where appropriate.

Engagement is an important tool in reducing greenwashing. Regular contact gives asset managers a better understanding of the company and/or issuer and helps ensure that their investments meet their ESG goals.

## 2.3. Funding contribution of European asset managers

This section presents some estimates of the level of financing that asset managers provide to different sectors of the economy[viii] via their investments in debt securities and listed shares.

We used data from the ECB, the BIS, national banks, national statistical agencies, Morningstar Direct and the OECD to calculate the level of financing provided by investment funds domiciled in Europe. In the second step, we estimated the overall contribution of the asset management industry as a whole, taking into account the impact of discretionary mandates.

### 2.3.1. Funding contribution of investment funds

Exhibit 2.2 shows that European investment funds owned an estimated EUR 3.7 trillion, or 13%, of the total amount of debt securities issued by European residents at the end of 2021.

Sovereign debt securities represented the highest amount of debt securities owned by European investment funds (EUR 1,200 billion), followed closely by debt securities issued by Monetary Financial Institutions (EUR 1,178 billion). In relation to the outstanding stock of securities, the share of debt issued by non-financial corporations, i.e., private and public corporate enterprises producing goods or providing non-financial services, held by investment funds was the highest (30%).

The share of investment funds in the existing outstanding amounts of debt securities issued by European residents increased from 10% in 2011 to 13% in 2021. This represented an increase of EUR 1,535 billion.

Exhibit 2.3 shows that the total value of listed shares issued by European residents at the end of 2021 amounted to EUR 15.4 trillion, with European investment funds owning EUR 2.6 trillion, or 17% of the shares issued in Europe. A large stake of the listed shares owned by European investment funds (18%) is also attributed to non-financial corporations, confirming the significant contribution of the fund management industry to the real economy.

The industry's relative holdings of shares issued by European residents have significantly risen since 2011 to reach 19% in 2020. However, this share fell in 2021 to 17%, as a result of the gradual shift in European investment fund portfolios from European towards non-European stocks. This trend has been highlighted in the ECB's Working Paper authored by Cervalho and Schmitz (2021)[ix].

EXHIBIT 2.2
**Debt Securities Issued in Europe and Owned by European Investment Funds at the End of 2021**
EUR billions, percent

| Issuer | Securities held by European IFs | Total securities issued | Share of European IFs |
|---|---|---|---|
| General government | 1,200 | 14,187 | 9% |
| MFIs | 1,178 | 8,378 | 14% |
| Non-financial corporations | 715 | 2,387 | 30% |
| Other | 649 | 3,729 | 17% |
| **Total** | **3,742** | **28,681** | **13%** |

Source: EFAMA's calculation based on ECB, BIS, OECD, national banks and Morningstar Direct data

EXHIBIT 2.3
**Listed Shares Issued in Europe and Owned by European Investment Funds at the End of 2021**
EUR billions, percent

| Issuer | Listed shares held by European IFs | Total listed shares issued | Share of European IFs |
|---|---|---|---|
| General government | --- | --- | --- |
| MFIs | 130 | 938 | 14% |
| Non-financial corporations | 2,154 | 12,133 | 18% |
| Other | 314 | 2,290 | 14% |
| **Total** | **2,598** | **15,361** | **17%** |

Source: EFAMA's calculation based on ECB, BIS, OECD, national banks and Morningstar Direct data

### 2.3.2. Overall funding contribution of asset managers

To estimate the overall impact of European asset managers on the financing of the European economy, we extended our analysis to take into account the contribution of discretionary mandates.

In the absence of reliable data on the breakdown of the assets held in mandates, we have assumed that mandates hold the same ratio of debt securities and listed shares issued in Europe to the total amount of debt securities and listed shares owned by European investment funds, 48.4% and 35.8% at the end of 2021, respectively. We base this assumption on the fact that the universe of European investment funds represents a large population of funds, which is highly diversified in terms of investment strategies and investors and can therefore act as a proxy for estimating the asset allocation of the pool of financial assets managed in Europe.

On this basis, we calculate that the outstanding amount of debt and equity issued by European residents and held by European asset managers stood at EUR 6,989 billion and EUR 3,648 billion, respectively, at the end of 2021. Exhibit 2.4 highlights that European asset managers held 24.4% of the debt securities and 23.8% of the listed shares issued by European residents. It should also be noted that the industry's holding of listed shares represented almost one third or 28.2% of the free-float market capitalisation in Europe.

EXHIBIT 2.4
**Debt Securities and Listed Shares Issued in Europe and Held by European Asset Managers**
EUR billions

| | Securities other than shares | Listed shares |
|---|---|---|
| European assets held by European asset managers | 6,989 | 3,648 |
| Securities/Shares issued by European residents | 28,681 | 15,361 |
| Total share of European asset managers | 24.4% | 23.8% |
| (in % of free-float market capitalization) * | | 28.2% |

* Shares that can be publicly traded and are not restricted (i.e., held by insiders), free-float source: STOXX Europe Total Market Index and EFAMA's calculation.

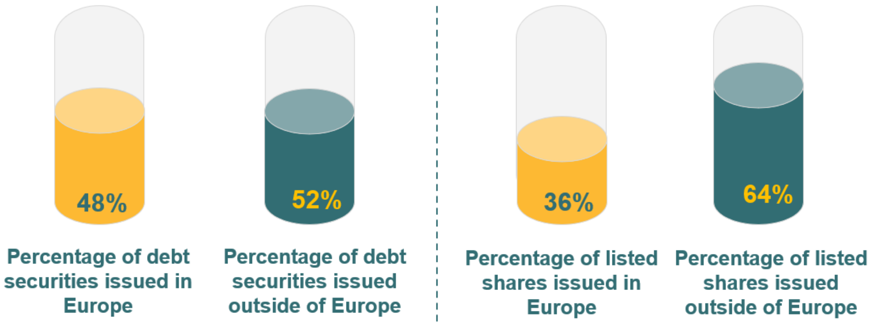
Source: EFAMA's calculation based on ECB, BIS, OECD, national banks and Morningstar Direct data

### 2.3.3. Financing the economy outside of Europe

European asset managers not only fund the European economy but also economic activity in the rest of the world to seize investment opportunities for the benefit of their clients. Exhibit 2.5 shows the share of debt securities and listed shares held by European investment funds and issued both inside and outside the European area.

European investment funds hold a higher level of listed shares issued outside of Europe (64%) than domestically (36%). The domestic holdings of listed shares have decreased by 4 percentage points, from 40% at the end of 2020 to 36% at the end of 2021, whereas the share of debt securities issued outside of Europe (52%) has exceeded that of debt securities issued domestically (48%) for the first time in 2021.

EXHIBIT 2.5
**Debt Securities and Listed Shares Owned by European Investment Funds at the End of 2021**
percent




Source: EFAMA's calculation based on ECB, BIS, OECD, national banks and Morningstar Direct data

# 3. ESG in Asset Management

Asset managers have become key contributors to the transition to a sustainable economy by incorporating Environmental, Social and Governance (ESG) factors in their investment processes and engaging in more effective and assertive stewardship activities.

## 3.1. Regulation, guiding principles and global initiatives

Regulation and several global initiatives to encourage companies to adopt a more sustainable business model are the leading drivers behind the rapid adoption of sustainability factors at the various levels of the value chain of many asset managers operating in the European Union. Equally, asset managers feel compelled to respond to the growing demand for ESG products and sustainable investment approaches.

### 3.1.1. Regulation

The EU Taxonomy Regulation and associated technical screening criteria developed an EU-wide classification system of economic activities that can be considered environmentally sustainable. The Regulation applied on 1 January 2022 in respect of the climate change mitigation and adaptation objectives, with the four remaining environmental objectives still on their way. The main goal of the taxonomy is to provide clear and effective information for investors and channel investment to projects and programmes that will help the EU meet its climate and energy targets.

The Sustainable Finance Disclosure Regulation (SFDR) imposes mandatory and harmonised disclosure obligations to help investors understand, compare, and monitor the sustainability characteristics and ambitions of investment firms and financial products. The regulation sets the standards for financial products and discretionary mandates which incorporate ESG considerations in their investment approach. The SFDR began to apply in a phased way from March 2021, supplemented by the Regulatory Technical Standards applying from January 2023, and has already significantly impacted the asset management industry.

Among other obligations, SFDR requires asset managers to classify the funds they offer in Europe as either ESG (Article 8 or 9) or non-ESG (Article 6). Article 8 funds promote environmental or social characteristics, whereas Article 9 funds have a sustainable investment objective. All 'sustainable investments' within Article 8 and 9 funds must not significantly harm any environmental or social objective and the investee companies must follow good governance practices. Starting January 1, 2023, these funds should, amongst others, report 'how and to what extent underlying investments qualify as Taxonomy-aligned.

SFDR also requires asset managers to disclose how they integrate "sustainability risks" into their investment process as well as the "PAI factors" or "principal adverse impacts" of their investment decisions on certain sustainability factors, in particular on climate change. Principal adverse impacts are the potentially harmful impacts of a firm's investment decision on a range of environmental, social and governance matters. Asset managers must also describe their policies for assessing good governance practices, including assessing management structure, employee relations, remuneration of staff and tax compliance.

The EU Corporate Sustainability Reporting Directive (CSRD) is a new legislation that extends the scope of the non-financial reporting requirements to contribute to the transition to a fully sustainable and inclusive financial system. The text introduces obligations for companies to publicly disclose information on their sustainability impacts, risks and opportunities in their management report based on sustainability reporting standards to be developed by the European Financial Reporting Advisory Group (EFRAG). This will provide users with relevant, comparable and reliable information that will facilitate sustainable decision-making.

Companies that are already subject to the Non-Financial Reporting Directive will have to disclose sustainability information as of 1 January 2024. The reporting obligation for the other large listed and non-listed companies is 1 January 2025. The CSRD will extend the non-financial reporting requirements from 11,600 companies (under the NFRD) to 49,000, covering the 75% of the total EU's companies turnover.

A large number of asset managers are expected to fall into the scope, as well as the subsidiaries that have a certain turnover in Europe.

### 3.1.2. Guiding principles

As part of their commitment to integrate ESG factors into their investment processes, many asset managers also adhere to a number of guiding principles that have been developed by a number of key industry groups to promote more transparent and standardized reporting on sustainable investing. These include, among others:

The International Capital Market Association (ICMA)'s

- Green Bond Principles, which is a set of voluntary guidelines that promote more transparent, unified reporting on bonds' environmental objectives and estimated impact.

- Social Bond Principles, which outline best practices for issuing a social bond; they also arm investors with the information necessary to evaluate the social impact of their investments.

- Sustainability-Linked Bonds Principles, which are voluntary process guidelines that outline best practices for financial instruments to incorporate forward-looking ESG outcomes and promote integrity in the development of the Sustainability-Linked Bond (SLB) market by clarifying the approach for issuance of an SLB. SLBs are any type of bond instrument for which the financial and/or structural characteristics can vary depending on whether the issuer achieves predefined Sustainability/ESG objectives.

The Principles for Responsible Investment (PRI) is an international organization that works to promote the incorporation of ESG factors into investment decision-making. Launched in April 2006 with support from the United Nations, the PRI had close to 4,000 participating financial institutions responsible for a total AuM of over EUR 106 trillion at the end of 2021. These institutions participate by becoming signatories to the PRI's six key principles and then filing regular reports on their progress.

- Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.
- Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.
- Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- Principle 4: We will promote acceptance and implementation of the principles within the investment industry.
- Principle 5: We will work together to enhance our effectiveness in implementing the principles.
- Principle 6: We will each report on our activities and progress towards implementing the principles.

### 3.1.3. Global initiatives

Many asset managers also participate in global initiatives, such as the Net Zero Asset Managers Initiative (NZAM) is an international group of asset managers committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5 degrees Celsius and investing aligned with net-zero emissions by 2050 or sooner.

Specifically, the Net Zero Asset Managers commit to:

- work in partnership with asset owner clients on decarbonisation goals, consistent with an ambition to reach net zero emissions by 2050 or sooner across all AUM,
- set an interim target for the proportion of assets to be managed in line with the attainment of net zero emissions by 2050 or sooner, and
- review their interim target at least every five years, with a view to ratcheting up the proportion of AUM covered until 100% of assets are included.

NZAM members included 273 asset managers, representing EUR 57 trillion in assets under management as of 31 May 2022.

## 3.2. ESG investing

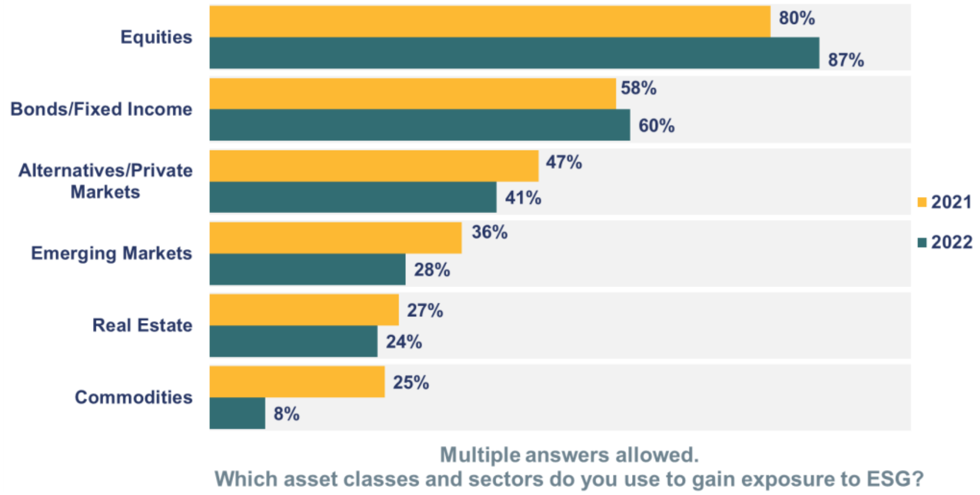
In general, asset managers who integrate ESG criteria into their investment strategies follow a two-pillar approach: they launch or relabel funds as Article 8 and 9 in order to respond to the demand for ESG funds, and they manage discretionary mandates that have sustainability objectives in addition to their financial objectives.

According to a recent report published by Capital Group[x], equities (80%) and bonds (58%) are the most popular asset classes to gain exposure to ESG among global investors. But investors have increased their usage of alternatives to 47%, real estate to 27% and commodities to 25%. While inflation has been rising since 2021 as economies emerge from the pandemic and struggle with supply-chain shortages, the war in Ukraine has enhanced the demand for inflation-linked assets.

EXHIBIT 3.1

**ESG Asset Classes**

percent



For investors explicitly seeking impact funds, tackling the challenges facing emerging markets — including hunger, poverty and disease — and fostering the growth and development of their economies are key steps to achieving the SDGs. And commodities are important growth drivers for many emerging-market countries. Meanwhile, the private-markets sector has a unique ability to channel funds into the infrastructure supporting the growth of these emerging-market economies.

### 3.2.1. ESG investing in discretionary mandates

Discretionary mandates are the tool used by institutional asset owners to define their ESG requirements, which can be incorporated into new and existing mandates, using one or a combination of the following approaches according to the wishes of the asset owners:

- ESG integration: asset managers apply all three factors – E, S and G – in their investment analysis and decisions to unlock potential value by identifying the risks and opportunities associated with companies as well as sovereigns.

- Best-in-class: asset managers invest in a defined percentage of companies/issuers that lead in their peer groups with respect to sustainability performance.

- Exclusion: asset managers exclude from their funds or portfolio certain sectors or companies active in a range of activities that are at odds with sustainable development, based on the asset owner's preferences, values or ethics.

- Thematic: asset managers invest in well-defined themes or assets to contribute to a specific environmental or social outcome.

- Impact: asset managers target investments to help tackle some critical issues for instance in sustainable energy, affordable healthcare, or inclusive connectivity.

- Stewardship: asset managers engage with companies to highlight the importance of ESG issues, improve practice on an ESG issue, change a sustainability outcome for instance in areas related to governance, human capital management, stakeholder engagement, and climate risk.

### 3.2.2. ESG investing impact

By participating in the issue of green bonds or in an Initial Public Offering (IPO), that is by providing capital to companies by investing in new shares through the primary market, asset managers can provide companies access to capital to finance new projects and business models promoting sustainability objectives.

When asset managers buy or sell stocks or bonds on the secondary market to promote sustainability, the impact is less straightforward because their investments do not provide companies access to new capital to give them a greater ability to grow and expand. However, decisions to invest in companies committed to meet ESG criteria or divest from companies that fail to incorporate ESG factors in their business send a strong message that can have notable implications for the cost of capital and valuations of the companies concerned.

This effect should not be underestimated given the growing amount of money from retail and institutional investors that flows into companies that drive transformation in support of sustainability goals and out of companies with a poor ESG track record.

As explained above, asset managers can also leverage their investment by engaging with management on sustainability goals, or by exercising voting rights at general assemblies. To identify companies and sovereigns committed to sustainable development, asset managers can rely on ESG rating providers, proprietary developed in-house ESG rating framework as well as analysts to evaluate the performance of companies and issuers on a wide range of ESG criteria.

## ESG Investing: Short-Term Shocks Will Not Derail a Secular Mega-Trend in Asset Management

*A short perspective by McKinsey & Company*

### *The growth and resilience of dedicated ESG investing*

In recent years, environmental, social, and governance (ESG) investing has emerged as a driving force in asset management. Between 2016 and 2021, global assets under management (AuM) in dedicated sustainable investing grew at a remarkable rate of 19% per year, well above the average growth rate for the asset management industry overall. At end of 2021, global AuM in dedicated ESG strategies reached a record high of US$2.1 trillion.[xi]

Rapid growth, however, has not shielded ESG investing from the multiple shocks now rippling through the global economy. Russia's invasion of Ukraine, an incipient European energy crisis, elevated global inflation rates, and monetary tightening in advanced economies have taken a significant toll on the asset management industry, and in the first six months of 2022 global AuM in ESG strategies fell by 20 percent, mirroring the industry-wide trend. However, while global non-dedicated ESG strategies experienced a net outflow of US$1,144 billion over the period, ESG strategies posted only a slight outflow of US$8 billion. Data from eVestment highlight the relative resilience of net inflows in dedicated ESG investing.

Figure 1

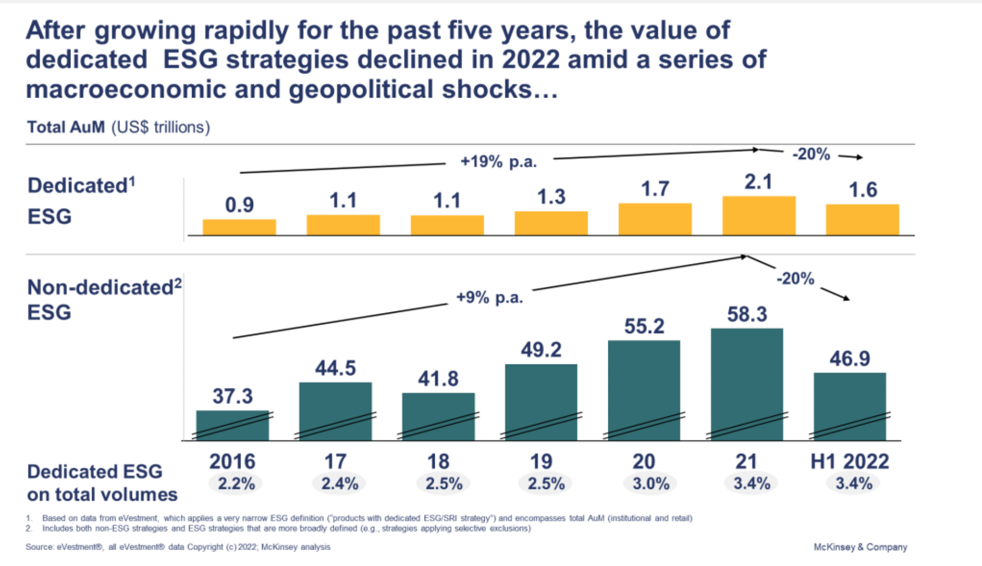
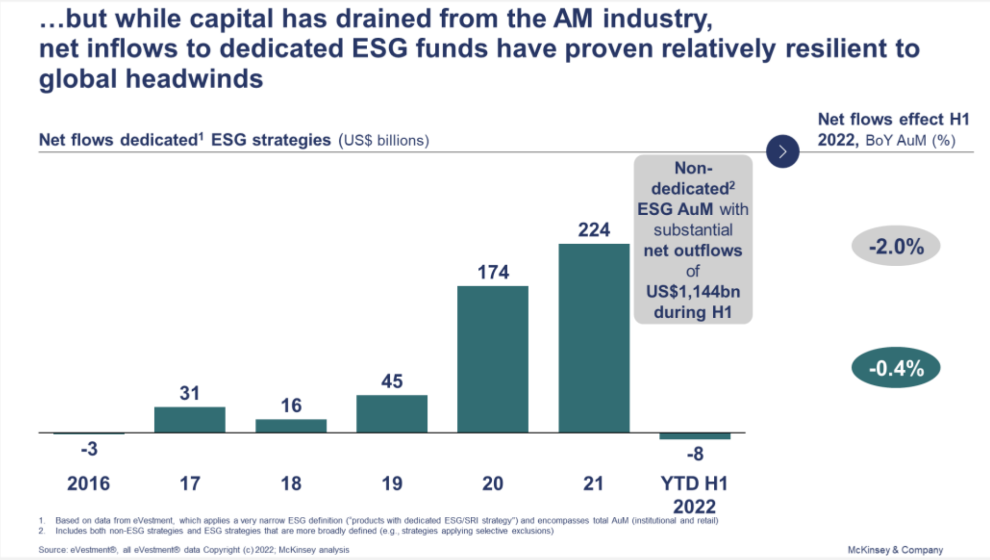


Figure 2




In a May 2022 survey by McKinsey, a majority of executives in asset and wealth management acknowledged that concerns around energy security could slow progress toward net-zero commitments. A majority also anticipated potential adjustments to ESG definitions and assessment methodologies. Nevertheless, 91% of surveyed executives reported increasing their ESG investments during 2022.

## *A cloudy outlook for the near term, but a bright future beyond*

Despite current headwinds, secular forces will continue to drive sustainable investing to outperform the broader asset management industry over the long term. Climate change and other burgeoning global challenges will increasingly align the principles of ESG with investor interests and public policy objectives. Tighter regulation and the voluntary commitments of many asset managers and their institutional clients to support sustainable growth are likely to strongly incentivize ESG investment strategies. While value considerations are a meaningful force behind ESG demand, pure risk-management and risk-adjusted-return calculations might also continue to favor ESG strategies. Once the domain of institutional investors, these advantages increasingly factor into the decisions of wholesale and retail investors.

A volatile macroeconomic and geopolitical environment may delay the achievement of ESG objectives, but it will not alter the calculus driving this global mega-trend. An analysis based on research by the McKinsey Global Institute and the McKinsey Transition Financing model indicates that in four of the world's largest financial markets[xii] the push for net-zero will present asset managers with a total opportunity of US$5 trillion to US$7 trillion between 2021 and 2030. Net-zero investing opportunities are concentrated in the power sector (48%), buildings[xiii] (26%), and mobility (17%). In terms of asset classes, the opportunity is balanced between equity (55%) and debt (45%). Notably, far greater opportunities exist for unlisted assets (70%) than for listed ones (30%).[xiv]

## *Seizing the opportunity presented by ESG*

McKinsey recently conducted an extensive benchmarking assessment encompassing almost two dozen of the world's leading asset managers, which revealed six core elements of successful ESG investing. These include:

1. Strategy, vision and ambition: senior executives drive internal and external thought leadership on ESG themes and demonstrate a clear commitment to mainstreaming ESG considerations in all parts of the value chain and across their entire organization.

2. Governance and business model: asset managers embed transparent ESG approaches in their own operations and governance models, burnishing their credibility as ESG investors by embracing the logic of sustainability.

3. Products/solutions and data management: transparent ESG products are presented with clear specifications for investment philosophy, styles, thematic offerings, and potential impact funds, and these products are increasingly complemented by portfolio construction services, climate-risk models, and other ESG service solutions.

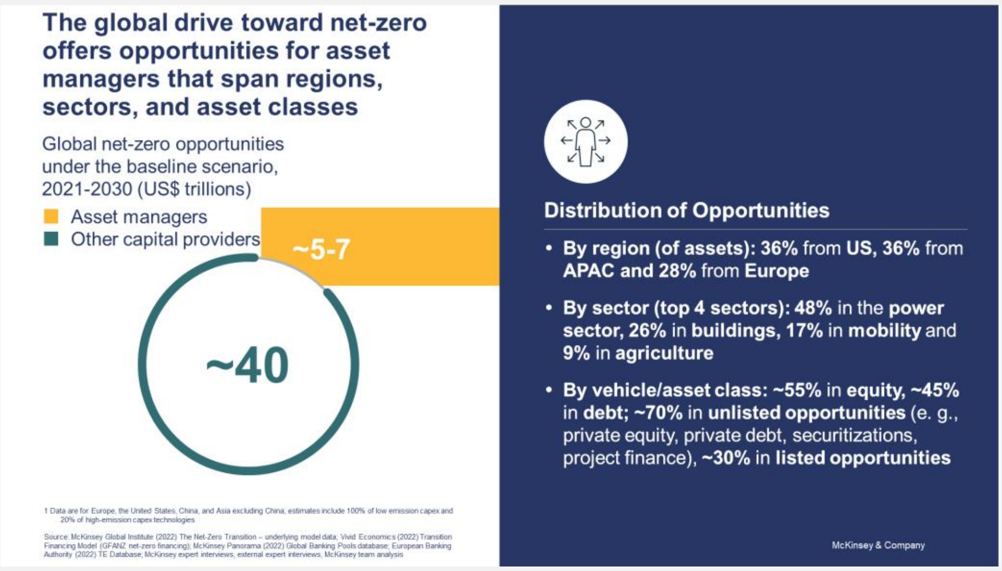
4. Investment management: ESG investment styles and strategies (including exclusions, positive tilts/themes, and engagement) are used consistently, and investment processes rigorously apply ESG assessment methodologies tailored to each asset class and style.

5. Engagement/stewardship: engagement with companies extends beyond the evergreen topic of governance to encompass a more balanced mix of governance, environmental, and social factors; leading players build their capabilities in these areas through a mix of training and hiring.

6. Client servicing and positioning: asset managers increasingly provide comprehensive sets of ESG tools tailored to specific distribution channels or client segments.

To maximize their impact, these six elements must be integrated into a comprehensive ESG strategy supported by robust internal and external stakeholder communications and an appropriate data-management architecture.

Figure 3




## *The hot market for impact investing: a key business opportunity*

Many of the top asset management firms are increasingly focused on impact investing, an especially promising ESG segment. Traditional asset managers, private market asset managers, and impact boutiques have all expanded their engagement in impact investing in private equity, debt, and infrastructure markets, drawing significant inflows from institutional and private investors.

Successful impact investing in private markets involves nuanced factors that often require reshaping the value proposition, and the relative emphasis placed on each of the three components of ESG is crucial. Net-zero impact funds are a major environmental opportunity, but affordable housing or diversity enhancement can deliver a highly positive social impact. Gathering credible data on ESG assets in private markets can be especially challenging, but this information plays a key role in deal sourcing, due diligence, value creation, and impact analysis. Finally, building the in-house knowledge and skills necessary to succeed both in private markets and in ESG/impact investing often requires a specialized strategy for workforce development.

### *Conclusion*

A deteriorating global economic outlook will not stop the rise of ESG investing. While ESG investment solutions are as vulnerable to short-term shocks as their non-ESG counterparts, the movement of capital into the ESG segment is an underlying secular mega-trend. Opportunities remain vast, and asset managers that adopt a holistic approach to ESG investing will be well positioned to generate attractive flow levels, enhance client satisfaction, and finance a more sustainable future.

Source: McKinsey & Company

### 3.2.3. Sustainable UCITS bond funds

*Sustainable or ESG bonds* are fixed income instruments whose proceeds are designated exclusively for financing or re-financing both environmental and social projects. They include green and social bonds. Green bonds aim to fund projects that have positive environmental and/or climate benefits, such as renewable energy plants that help reduce our reliance on fossil fuels, public transportation that allows people to travel less in private cars, installation of optical fibers to improve energy efficiency and others. Social funds focus on social causes mostly described by social Sustainable Development Goals[xv], such as poverty reduction, children, education, health, gender equality and similar. Sustainable bonds have become an important tool for European policymakers in reaching European Sustainable goals. For example, the European Commission has reported that 30% of NextGenerationEU, their largest stimulus package ever, would be raised through green and social bonds[xvi].

While there is still no taxonomy that regulates the market of green and social bonds, there has been some policy progress on a voluntary standard for green bonds. On 6 July 2021, the European Commission published its proposal for a regulation to establish a voluntary EU Green Bond Standard (EU GBS) to help develop and justify the environmental ambitions of the green bond market. The Council adopted its position on this proposal in April 2022. This standard ensures the alignment of the bond's use of proceeds with the requirements of the European taxonomy, as well as the disclosure of pre-determined information by EU green bonds' issuers along with a third party's pre- and post-issuance review of this information, registered by ESMA[xvii]. The EU GBS is currently still in an ongoing process of policy development [xviii].

*Sustainable bond funds* are investment funds that invest primarily in sustainable bonds. Asset managers direct the generated savings of their clients towards environmental- and social-friendly projects through sustainable bond funds. These offer returns to investors and help the economy transition into a more sustainable one.

We analyzed the market of sustainable UCITS bond funds by relying on two data providers, Refinitiv Eikon and Morningstar Direct. We first identified the universe of sustainable bond funds and then looked at their environmental and social ESG scores.

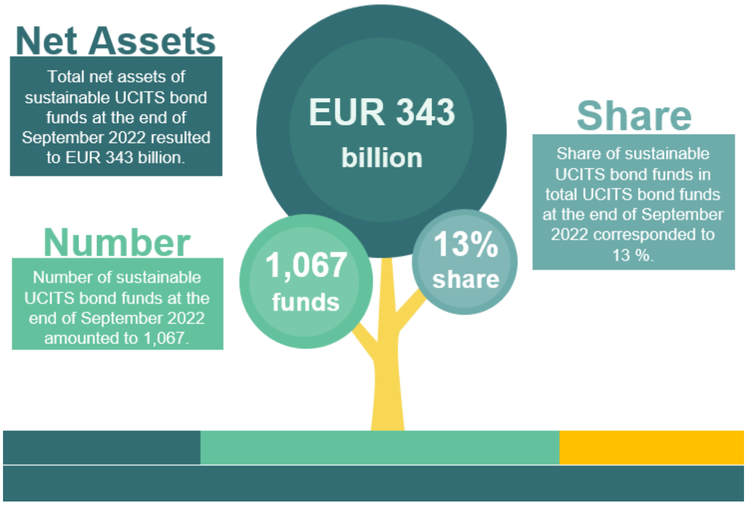
The net assets of sustainable UCITS bond funds amounted to an estimated EUR 343 billion at the end of September 2022 and covered 1,067 funds. The ratio of this category of funds in total UCITS bond net assets was equal to 13%[xix].

We have further analyzed the level of sustainability of sustainable bond funds by studying their Refinitiv ESG scores[xx] in order to filter for highly rated environmental (green) and social funds. Exhibit 3.5 shows

Refinitiv's ESG scores for sustainable UCITS bond funds, each fund being represented by a red sphere which points to the three Refinitiv's ESG scores attributed to this fund, i.e., the Environmental, Social and Governance scores.[xxi] It can be observed that high environmental scores tend to be associated with high social and governance scores.

EXHIBIT 3.4

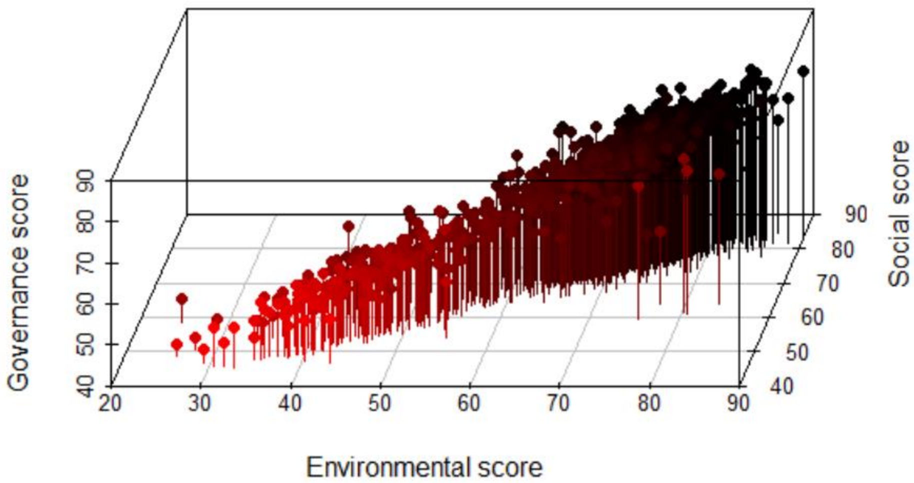
**Sustainable UCITS Bond Funds**




Source: EFAMA's calculation based on Refinitiv Eikon and Morningstar Direct data

EXHIBIT 3.5

**Refinitiv ESG Scores for UCITS Sustainable Bond Funds**




Source: EFAMA's calculation based on Refinitiv Eikon data

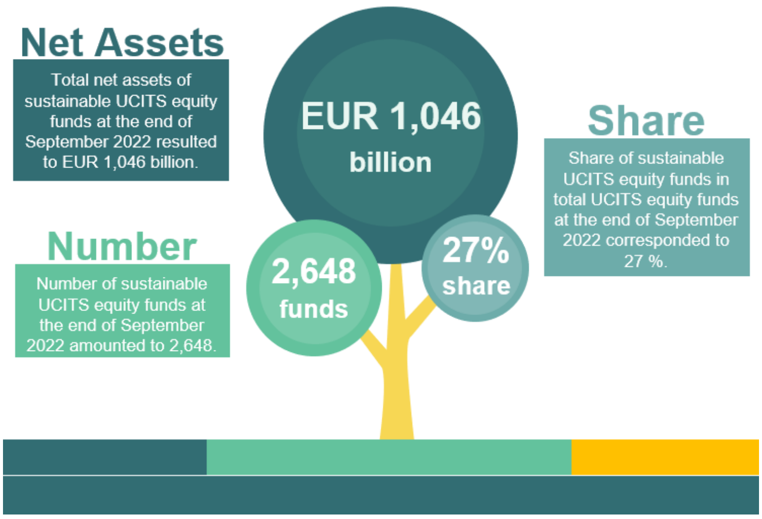
### 3.2.4. Sustainable UCITS equity funds

Sustainable (ESG) UCITS equity funds invest in companies with high environmental, social and governance standards and sound financial performance. This type of ESG investing still lacks a widely accepted definition but it is generally agreed that asset managers use strategies that include – but are not limited to – screening, ESG integration, corporate engagement, sustainable themes and impact investing.

The net assets of sustainable UCITS equity funds amounted to an estimated EUR 1.1 trillion at the end of September 2022, covering 2,648 funds. They represented a share of 27% of the total equity UCITS.

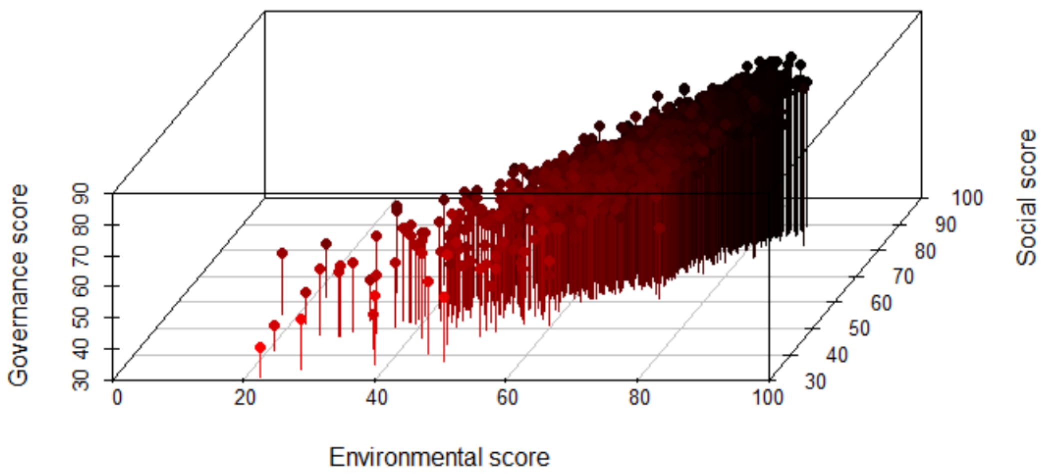
Exhibit 3.7 shows that, just like for sustainable bond funds, there is also a significant level of overlap between the three Refinitiv ESG scores.

EXHIBIT 3.6
**Sustainable Equity UCITS**




Source: EFAMA's calculation based on Refinitiv Eikon and Morningstar Direct data

EXHIBIT 3.7
**Refinitiv ESG Scores for Sustainable Equity UCITS**




Source: EFAMA's calculation based on Refinitiv Eikon and Morningstar Direct data

## ESG Investing

*Examples of various investment approaches*

Given the growing importance of ESG factors in the business model, asset managers are in the vanguard of the transition to a more sustainable economy. To illustrate their role, this box provides concrete examples of how asset managers integrate ESG into sovereign debt analysis and help finance green projects through investments in green bonds.

### How does your firm integrate ESG into sovereign debt analysis?

"Candriam has devised a proprietary Sovereign Sustainability model, which is updated annually to accurately reflect the global economy's ever-changing complexities and risks. It is based on four types of capital (Human, Social, Economic and Natural Capitals), focusing on how countries manage their Natural Capital, as well as the interdependencies between this and the three other capital forms. We evaluate countries on the efficiency with which they create well-being in the form of Human, Social, and Economic Capitals, accounting for potential depletion of or damage to the natural environment in the process. Countries are also screened according to our own democracy and freedom filter, excluding those that violate human rights principles or adopt totalitarian regimes. All model outputs are mappable to the 17 UN Sustainable Development Goals. In the latest model, our database included more than 400 individual factors which were analysed by a team of expert professionals prioritising factors which would significantly influence the future development of countries."

"In 2021, Ninety One developed the Net Zero Sovereign Index. Part of Ninety One's proprietary ESG toolkit, the index addresses the growing need for asset owners and managers to show that their sovereign bond portfolios are Paris-aligned and on a credible path to net zero. The index assesses 115 countries on a range of factors. The concept of fairness is embedded in index construction, based on the team's belief that emerging countries' emissions reduction paths may need to be less steep than those of Western economies to allow them to grow, support jobs and tackle poverty."

"abrdn's proprietary sovereign ESG framework assesses the ESG performance of over 80 emerging market issuers across a number of factors which fall within one of four pillars – environment, social, governance and political (ESGP). We use a range of data sources, mostly publicly available, such as the World Bank, UNDP and Transparency International and have aligned our indicators to 9 out of the 17 UN SDGs, with the aim to cover more as new ESG data becomes available. There are two parts to the framework – a quantitative part, where a relative score ranging from 0-100 for each issuer is calculated, and a qualitative forward-looking assessment, where a positive, negative or neutral Direction of Travel to each country is assigned. In the investment process for our Sustainable and Responsible Investment Fund and any other funds which are adopting our ESGP framework, we exclude the lowest scoring countries (captured on an exclusion list). We also employ State-owned Enterprise screens, combining a number of norms-based screens (UN Global Compact compliance) and screens of intensive fossil fuel producers. Through regular roadshows or meetings with senior government officials across those countries, we are often able to gather unique insights into the ability and willingness of such governments to tackle key ESGP issues."

"When investing in government bonds, APG looks at factors that impact the ability of countries to repay their loans, such as corruption, quality of governance, and the environment. In addition, our clients exclude government bonds from certain countries based on e.g., binding EU or UN Security Council weapons embargoes. We assess which part of its government bond portfolio is invested in countries with a high climate risk, looking at both physical risks and transition risks. To determine the physical climate risk of a country, APG uses indicators from ND-GAIN. We assess how vulnerable a country is to the effects of climate change, and the extent to which it is ready to handle such changes. For the transition risk, we look at a country's dependence on fossil fuels, its carbon emissions (carbon intensity), and its ability to switch to renewable energy sources."

"ESG factors are important for sovereign and quasi-sovereign debt and are therefore integrated into our investment process, with different quantitative indicators for sovereign issuers to corporate issuers. Our investment process applies AXA IM sectorial exclusion policies as well as AXA IM ESG standards exclusion policies to ESG integrated and sustainable funds.

Within both credit and sovereign research, the key ESG topics, risks, and KPIs highlighted are at the discretion of the analyst, allowing them to select topics and risks most relevant to the issuer. Each credit and sovereign analyst have been trained on ESG issues relevant to their assigned sector(s) or region, drawing from several third-party sources, including the Sustainability Accounting Standards Board (SASB), TCFD, MSCI, Sustainalytics and others including rating agencies and sell side research."

"Pictet Asset Management believes ESG integration in Emerging Market Sovereign Debt helps to assess factors not reflected in the traditional macro and country research and allows to uncover new investment opportunities. As long-term stewards of our investors' capital in emerging markets debt, our engagement on ESG factors is essential. ESG factors are formally integrated into the investment process which has been enhanced to use our own Sovereign ESG philosophy and proprietary scoring with the underlying data provided by Verisk Maplecroft and Global Footprint Network. This leads to each sovereign receiving a standalone E, S and G score with over 20 different sub-components and scores.

The team also partner with EMpower, the emerging markets foundation, to create social impact through investment in youth. With the partnership, we also benefit from gaining local knowledge by interacting with programme officers. Being able to visit NGOs personally helps us understand their policy priorities and gives us an opportunity to address issues and interact directly with the officials. We also seek to have open dialogue with emerging sovereign issuers. The investment managers aim to visit interact with emerging countries regularly and have the opportunity to meet with government officials including central bankers, finance ministers and local institutions such as pension funds. We also use these visits as an opportunity to engage in an ongoing dialogue on ESG issues we believe are most relevant to that country. Factors that we often engage on include education, social reform, health issues and inequality."

"Generali Investments is an ecosystem of different asset managers that apply different approaches to ESG analysis on sovereign, among which Sycomore. Sycomore applies an initial exclusion screen based on the countries' signature of the Charter of the United Nations and excludes countries targeted by international financial the sanctions imposed by the Office of Financial Assets Control (OFAC), sanctions of the Office of Financial Sanctions Implementation (OFSI), financial or trade related restrictions implemented by the UN or the EU Council, countries on the European Commission's list of non-cooperative jurisdictions for tax purposes or subject to sanctions from the Financial Action Task Force (FATF). A second selection screen is applied based on a several criteria aimed at assessing government practices in terms Environment, Governance, Economic health, Societal development and Social inclusion.

In 2021 Sycomore updated its methodology for analysing sovereign issuers in order to link up each of the indicators with one of the 17 Sustainable Development Goals set by the United Nations in its 2030 Agenda, with the aim to adapt the method for selecting countries to suit these goals and cover the largest number of priority areas, such as climate, biodiversity, energy, water, poverty, gender equality, economic prosperity, peace, agriculture, education etc. However, Sycomore's methodology is not designed to be exhaustive, as the choice of indicators remains largely dependent upon the data available and the need for consistency with our initial investment universe. As a result, the methodology covers elven SDGs and enables Sycomore to assess countries in keeping with the priorities set by the UN."

"To assess an investment in a sovereign bond, Nordea Asset Management uses proprietary tools to assess

- if the issuer meets our minimum Sustainability criteria in terms of good governance standards, violations of human and social rights, level of GHG emissions, and cooperation in the area of taxes
- if the issuer is having a positive contribution to reaching the Sustainable Development Goals (SDGs)
- if there is adequate investor compensation for the ESG and financial risks, looking in particular at the factors that influence spreads and at the country's ability and willingness to service debt

We are constantly aiming to be better at assessing the sustainability of investment in sovereign bonds. This means that we constantly strive to be better and gain knowledge on all aspects of sustainability. We are also actively involved in the activities of various relevant groups, including the High-level expert group to advise the European Commission on how to scale up sustainable finance in low and middle-income countries, UNPRI Sovereign Debt Advisory Debt Advisory Committee, Investors Policy Dialogue on Deforestation (IPDD), and the Emerging Markets Investor Alliance."

## How is your firm helping finance green projects through investments in green bonds?

"As of November 2022, total Green, Social, Sustainability and Sustainability-linked bonds managed by Ostrum Asset Management, which is affiliated with Natixis Investment Managers, reached EUR 23 billion. For Ostrum AM, the Just Transition is a transition to a low-carbon world, respectful of the environment and biodiversity, while being inclusive from a social and territorial point of view. This year, Ostrum AM has launched the Ostrum Global Sustainable Transition Bonds, which is the first bond fund with a global investment universe devoted to the Just Transition. The fund is classified as Article 9 under SFDR and complies with requirements set by the French Greenfin accreditation. Our proprietary analysis methodologies enable us to select the most qualitative instruments and identify issuers with a threefold goal: reduce the carbon footprint, promote social impact and safeguard ecosystems and local economies. A dedicated proprietary Just Transition indicator has been created for both corporates and sovereign issuers in order to select our investments. The Fund finances projects around renewable energy, green buildings, clean mobility, inclusive development (healthcare, education, decent housing) or helps to reconcile the development of local economies and the preservation of ecosystems (circular economy, sustainably use resources, biodiversity). The Fund relies on an active global fixed income investment process. In addition to financial criteria, ESG factors are integrated into the analysis of each issuer / bond. An assessment of ESG materiality is carried out both on the credit quality of issuers in the corporate sector, as well as for sovereign issuers and quasi-sovereign issuers in developed and developing countries. Available to all types of investors, the fund supports both institutional investors in enhancing their sustainability commitments as they align with their own CSR policies, and retail investors striving to bring greater meaning to their investment."

"As of 30 September 2022, BlackRock held nearly EUR 38 billion in green bonds for our clients, across dedicated portfolios and as a component of broader fixed income mandates. We developed a proprietary methodology for tracking impact of investments in green bonds at a portfolio level. Our 2022 Annual Impact Report on one of BlackRock's green bond funds highlights that a EUR 1 million investment in the fund's holdings would have created annual environmental impacts equivalent to all the following results together: more than 54 thousand new passengers on public transit, 381 individuals benefiting from forest, agriculture and water/waste projects, energy savings amounting to 16 homes' annual energy use, 395 cars off the road, 12 Olympic-sized swimming pools in water savings, 19 hectares of land area re/afforested or preserved, and 3,700 MWh of renewable energy generated."

"Candriam has been actively involved in the green bond market for a long time and has developed a robust internal analysis and methodology for green bonds. We provide a dedicated green bond offering as part of our sustainable bond impact strategies which include green bonds, social bonds and Sustainability-Linked Bonds (SLBs).

In line with SFDR, we aim to hold 25% of green bonds in its bond portfolios by 2025. In addition, we have been carrying out and will continue to carry out engagement activities with issuers to improve transparency on the use of proceeds of green bonds and the quality of reporting, including annual KPIs. We have also participated in a number of industry initiatives, including with the International Capital Market Association (ICMA)."

"In 2015, Allianz Global Investors was among the first movers to launch a Green Bonds strategy to offer a solution for clients to mobilize capital markets towards the transition to a low carbon society, natural capital preservation and adaptation to climate change. Since then, the green bond market expanded and diversified rapidly. Corporates and SSA issuers are increasingly using green bonds to finance their green projects, offering investors transparency on the use of proceeds and the positive impacts generated by those projects. Allianz Global Investors is now managing more than EUR 1.2 bn AuM in dedicated green bond strategies."

"Sustainability and social bonds have seen rapid growth in the past year, originating almost entirely from EM sovereigns. Ninety One participated in a number of these new issues. These bond issuances have supported Benin's 2030 development agenda, and green and social projects in the Philippines including in healthcare, education and food security. Ninety One also participated in the first ever sovereign Sustainability Linked Bond, which includes financial incentives for Chile to meet its 2030 emissions reduction and renewable energy goals. Ninety One has also engaged with various policymakers across the EM debt investment universe as it strives to be at the forefront of discussions on the potential for ESG-linked bond issuance and best practice in terms of frameworks and key performance indicators. In recognition of the importance of a selective approach to the highly diverse green and sustainability linked bond market, Ninety One has developed its own analysis approach, which is aligned with the Emerging Markets Investors Alliance enhanced labelled bond principles."

"abrdn believes green bonds are key enablers in the transition to a low carbon economy, helping to fund numerous activities that have positive environmental benefits. Allocating capital to improve the environment and mitigate climate change is positive in our view. However, as responsible investors, it is essential asset managers take into account numerous factors in order to find the most attractive and high quality green bonds. In this context, we focus not just on how the bond's use of proceeds are spent, but also on the ESG credentials of the issuer itself. Using green bonds, we invest in a French utility company that has set itself science-based climate targets and has strong renewable capacity. The company clearly outlines eligible projects, as well as those that will be excluded, such as biomass from primary forests."

"Nordea Asset Management has launched a "Global Green Bond fund", an Article 9 fund, where the focus is global green bonds. We aim to provide shareholders with investment growth in the medium to long term and create a positive green impact."

"APG is one of the world's largest investors in the market for labeled bonds. We have built good relationships with parties that issue or want to issue such bonds, as well as with bank syndicates, regulators, and certification bodies. We use our network, experience and knowledge to develop the market. Green and other labeled bonds are bought with the specific intention to contribute to the Sustainable Development Investments (SDGs). We review every labelled bond issuance on their use of proceeds, and we match this with the Sustainable Development Investment Taxonomy. On the side of the issuer, we incorporate our Inclusion Policy, as with all other capital market investments. In the Inclusion Policy we have defined specific ESG criteria to assess the issuer and actively engage with (green bond) issuers, both on specific issuances (use or proceeds, impact reporting) as well as on the issuer level (general ESG risks and mitigation). We have published guidelines for investing in green, social and sustainable bonds, which further details our expectations from issuers and specific issuances."

"Generali Insurance Asset Management (GIAM) is supporting Generali Group in reaching its commitments to green bond financing, identifying, and investing in firms that adhere to strong environmental, social, and governance principles, based on in-house research analysis. By applying the GIAM green, social, sustainable, and sustainability-linked bond (hereafter, "ESG bonds") Bond Filtering Methodology, GIAM contributes significantly to the examination of fixed income instruments brought to the notice of credit research and portfolio managers. GIAM developed and applies its proprietary ESG bonds assessment framework in order to identify bonds that will deliver a meaningful impact. The framework is split into four layers of analysis – sustainability policy compliance (e.g., negative screening), issuer ESG score, bond framework assessment, and asset level analysis (traceability, transparency and reporting), which are interwoven into the whole assessment process. Each layer is assessed individually, using both proprietary research and data from external third parties. In line with its broader climate strategy, the bottom-up approach to ESG bond selection is key to GIAM in generating a positive impact for investors by preventing greenwashing and unfaithful communication, and in helping companies enable their climate transition. This assessment and filtering process is combined with the traditional financial considerations, such as on yield curve and risk factors, to reconcile the creation of long-term financial returns while also having a positive impact on society."

"AXA IM's Green investments (project-led green share) represented EUR 35 billion AUMs in 2021. There are three categories of Green investments: Real Assets Green buildings and Infrastructure, Green bonds and Green thematic equities.

We continue to add to our 'green' products and investments, increasing our AUM by 50% in just 3 years and channelling capital to where it can have the greatest impact. Moreover, AXA IM's green bond assessment framework is built to reflect our view that the green bond market keeps its standards in terms of quality and integrity, while providing solutions to support issuers in their transition journey."

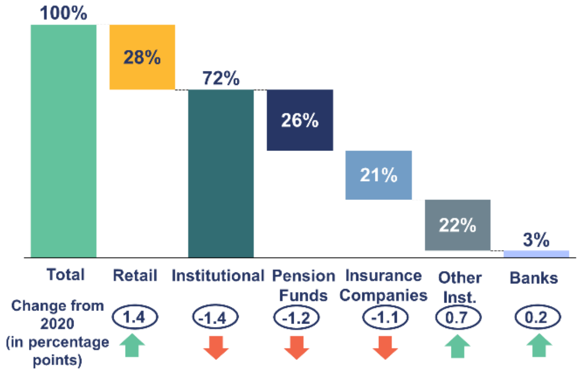
# 4. Clients of the European Asset Management Industry

## 4.1. Clients at the European level

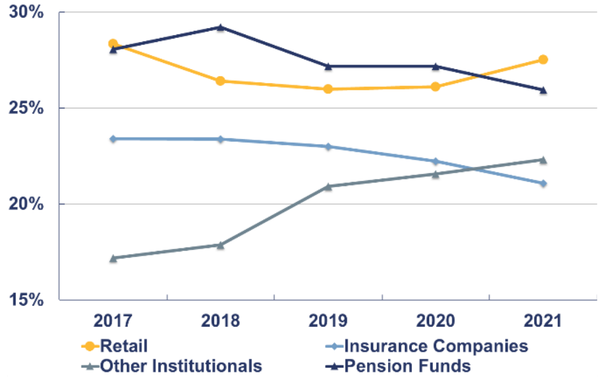
Asset managers serve two broad categories of clients: retail and institutional. Retail clients are predominantly household investors, but also high-net-worth individuals (HNWI). The main types of institutional clients are pension funds, insurance companies and other institutional bodies such as charities, foundations, holding companies and large corporations. Institutional clients are the largest clients of the industry, as they control large amounts of financial assets and often outsource the management of all - or a large proportion of - their assets to external asset managers.

EXHIBIT 4.1
**Breakdown of Clients by AuM**

Breakdown of Clients by AuM at the End of 2021
(percent)




Evolution of Breakdown between Clients
(share in total AuM)




Over the past five years, the share of retail clients declined in 2018 and rose again in 2020 and 2021. The decline in 2018 was due to rising market volatility that eroded investor confidence. The trend reversed in 2020 and accelerated in 2021 and European households increased their investment in capital market instruments and bought a record amount of investment funds in 2021.[xxii] Two interconnected factors explain this shift in retail investor sentiment:

- The recovery of global stock markets after the outbreak of the Covid-19 pandemic and the exceptionally low interest rates on bank deposits strengthened retail investor confidence in financial markets and convinced many households to shift some of their savings into capital market instruments to avoid losing purchasing power. Despite declining stock markets, European retail investors appear to continue investing net new money into funds.[xxiii]

- As a result of the Covid lockdown measures, many people had more time to manage their savings more actively in 2020 and discovered investing in capital markets. This was made even easier by the emergence of online brokers and user-friendly investment platforms, allowing retail investors to invest in the markets in a simple and cost-efficient manner. This attracted many newer and younger retail investors into the capital markets. First-timers represented almost 14% of retail investors in France.[xxiv] These investors were, on average, 10-15 years younger than regular investors.

The share of pension funds peaked in 2018, driven up by the strong growth of the sector in the UK, resulting from the introduction of the automatic pension enrolment scheme in 2012. In recent years, as this scheme matured, the share of pension funds dropped down again. Pension fund assets did continue to increase in nominal terms, but growth was higher in the retail and other institutional segments, resulting in a declining market share.

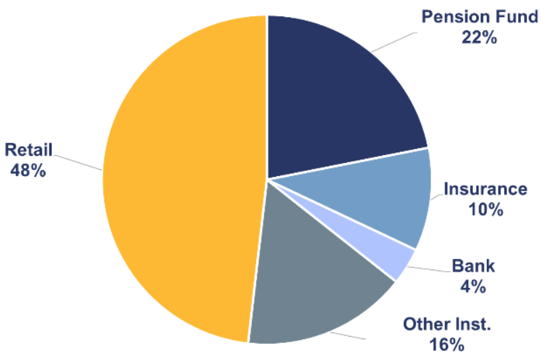
The share of insurance companies has steadily declined since 2017, as traditional life insurance contracts became less attractive in the prolonged low interest rate environment. A second reason for the decline is the fact that insurance companies, which are subject to Solvency II rules, have a lower level of exposure to equity compared to other types of clients. As a result, insurers benefited less from the strong performance of stock markets in recent years. There are also some anecdotal cases of specific insurance companies, for example in 2021 in France and Portugal, that reinternalized the management of their mandated assets.

The share of other institutional clients has increased steadily in recent years. This trend illustrates that, apart from pension funds and insurers – the traditional clients of the asset management sector – other institutions are increasingly outsourcing their asset management to professional asset managers.[xxv] In Germany, for example, private and public non-profit organisations have significantly increased in importance as clients of the asset management industry. One example is KENFO, the German nuclear waste management fund, which has become an important 'other' institutional investor.

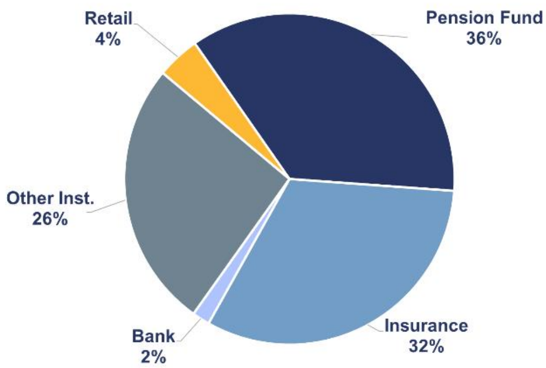
Investment funds and discretionary mandates are typically geared towards different types of clients. In the investment fund market, retail clients are the main client. However, some institutional clients, specifically pension funds, insurers and other institutional clients, also invest a significant share of their portfolios into investment funds.

EXHIBIT 4.2
**Breakdown of Clients by AuM [1]**

Breakdown of Investment Fund Clients by AuM at the End of 2021 (percent)




Breakdown of Discretionary Mandate Clients by AuM at the End of 2021 (percent)




[1] These charts only include figures for a sub-set of countries. Data on the following countries are included: Austria, Bulgaria, Croatia, Czech Republic, Denmark, France, Greece, Hungary, Italy, Poland, Portugal, Slovenia, Spain, Switzerland, Turkey, and the United Kingdom.

In the discretionary mandate market, institutional clients dominate, as mandates are usually associated with a substantial minimum investment amount, thus rendering them inaccessible to mainstream retail investors. Another reason is that mandates can offer very specific investment solutions to the investors' sophisticated needs, such as asset-liability management, liability-driven investments, and separation of alpha- and beta-investment strategies. It is mainly large investors, in terms of investable assets, that have such specific investment requirements. However, the rise of robo-advice and online platforms/banks in recent years, has created more possibilities for retail clients to also invest in the markets via discretionary mandates

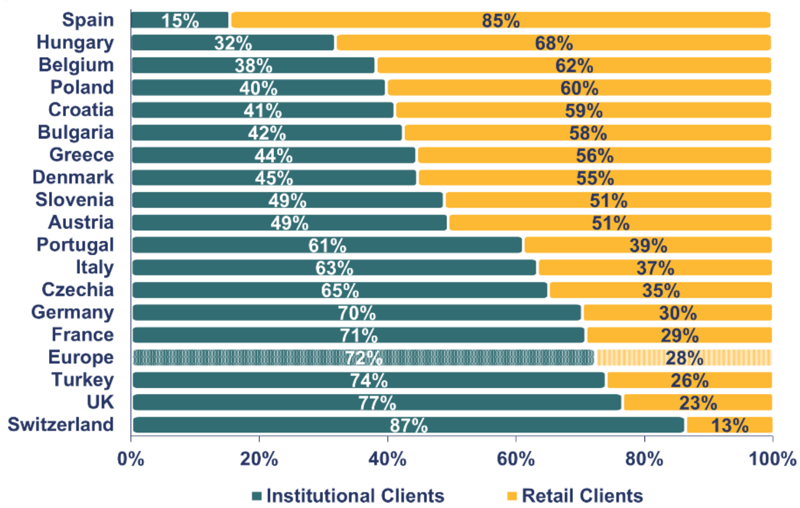
## 4.2. Clients at country level

Looking at the asset managers' client base across Europe, we can see wide variations between countries. These reflect differences in the role of insurance products in retirement savings, the structure of national pension systems, the role of banks in the distribution of retail investment products and the cross-border activities of asset managers as well as their capacity to attract capital from foreign investors.[xxvi]

EXHIBIT 4.3

**AuM by Type of Client at the End of 2021**

share in total AuM




There are also significant differences in the client base of investment funds and discretionary mandates in each of the main European markets:

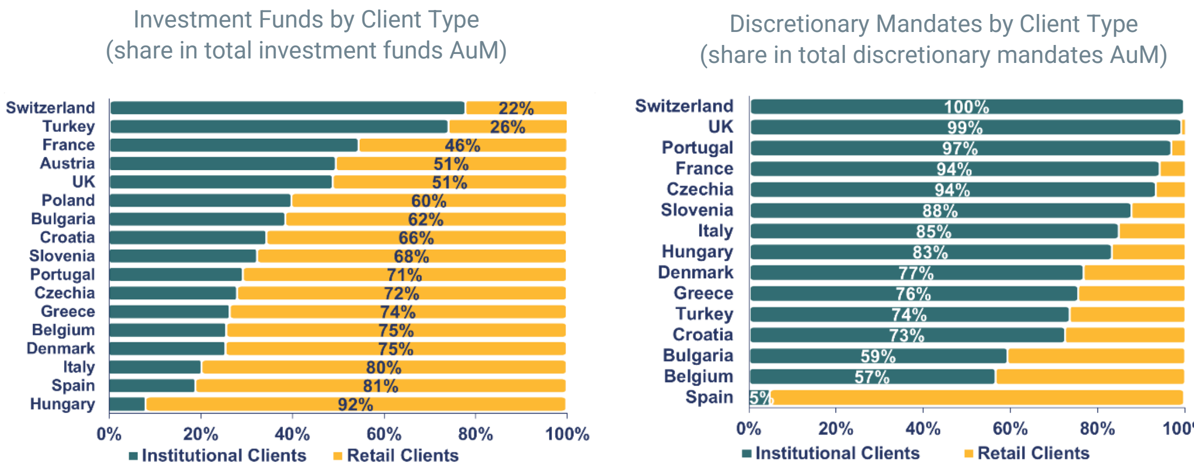
- Pension funds are the main clients of UK-based asset managers, both in the fund and mandate markets. This is a result of the auto-enrolment pension scheme in the UK.
- Investment funds are used widely in French workplace pension schemes, which are only managed by insurers. In addition, money market funds play an important role in cash management for many French corporations. The French mandate market also mainly serves insurance companies.
- In Germany, mandates are less popular than funds. In the fund market, 'Spezialfonds' are popular fund investment vehicles dedicated exclusively to insurance companies, pension funds and other institutional investors.
- Asset managers in Switzerland cater primarily to institutional clients. This is the case for mandate clients, but also for fund clients. Bank clients account for 12% of the Swiss market, an

exceptionally high percentage compared to other European countries where these clients are negligible, but not surprising given the size of the Swiss banking sector.

- Italian asset managers focus mainly on offering mandates, with insurance companies as the main clients. Funds on the other hand are mainly targeted at the retail market.
- In the Netherlands and Denmark, with their large second-pillar pension systems, pension funds are the main clients of the industry. In the Netherlands, pension funds have been shifting in recent years from fund wrappers to more discretionary mandates as a result of the more advantageous capital requirements under the new IFR/IFD prudential rules.

EXHIBIT 4.4

**Investment Funds and Discretionary Mandates by Client Type at the End of 2021**




## 4.3. Domestic and foreign clients

The assets managed on behalf of domestic clients accounted for 67% of AuM at the end 2021, compared to 73% at the end of 2017. The decline reflects the increased importance of foreign clients in the client base of European asset managers. This development is in line with one of the key goals of the Capital Markets Union, which is to further integrate national capital markets into a genuine single market.

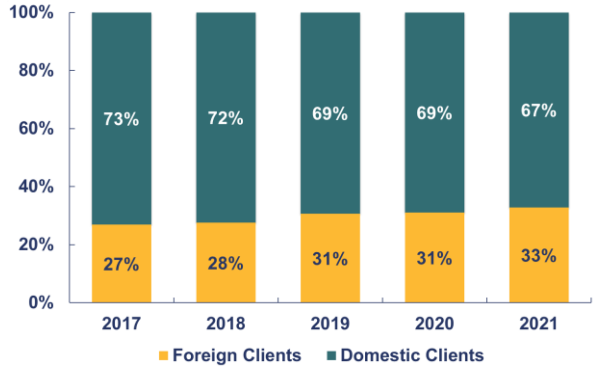
In several European countries, the share of foreign clients has gradually increased in recent years. For example, the share of foreign clients in France rose from 15% in 2020 to close to 18% in 2021. A similar trend is also apparent in most European countries, for example Denmark, the Czech Republic, Portugal and Belgium.

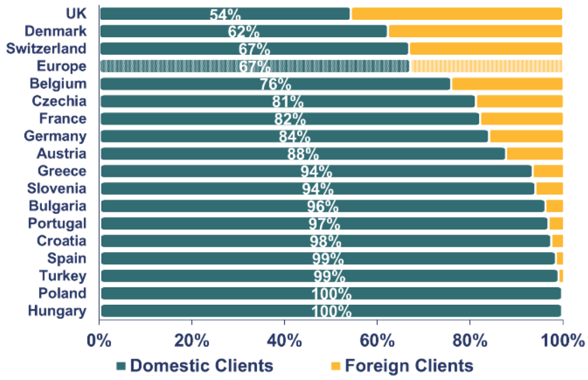
The share of AuM being managed on behalf of foreign clients is the highest in the UK. At the end of 2021, it was equal to 46%, compared to 44% in 2020 and 40% in 2017. This high, and rising, percentage confirms the role of London as an international hub from where global asset management companies undertake the actual management of their assets.

EXHIBIT 4.5

**Domestic and Foreign Clients**

share in total AuM



# 5. Asset Allocation in Europe

## 5.1. Investment portfolios

The asset allocation within investment portfolios reflects the investment guidelines defined by asset owners in discretionary mandates and the diverse investment objectives pursued by investment funds. At the end of 2021, bond assets accounted for 36% of the assets managed by asset managers in Europe, compared with 33% for equity assets and 6% for money market and cash equivalents. The remainder of the portfolios (25%) were made up of other assets.

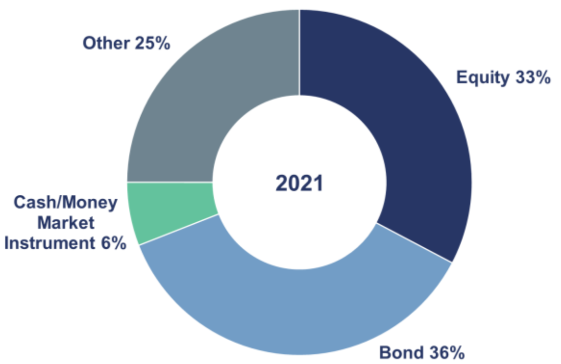
The predominance of fixed-income instruments reflects the importance of institutional clients, which generally consider bonds as safe instruments for preserving capital, generating income and meeting regular payment obligations vis-a-vis their investors. This was further reinforced by the implementation of Solvency II regulatory constraints. However, the share of bonds in the overall asset allocation has gradually decline since 2018 as a result of the strong performance of stock markets. Mirroring this evolution, the share of equity in the asset allocation of asset managers steadily grew over the last three years, especially in 2019 and 2021.

The share of other assets such as real estate and infrastructure assets, hedge funds, structured products, private equity and liability-driven investments, remained broadly stable in recent years, and the same is true for the percentage of cash and money market instruments.

EXHIBIT 5.1

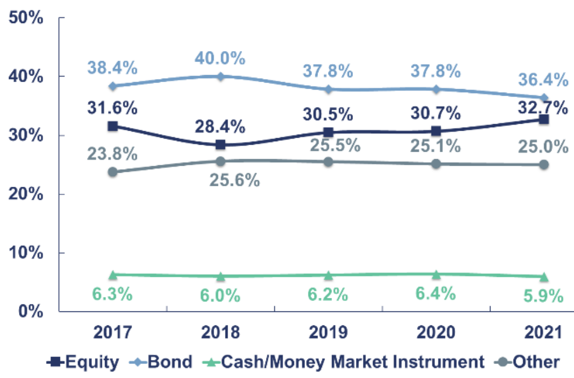
**Asset Allocation at the End of 2021**

share in total AuM




**Evolution of Asset Allocation**

share in total AuM




Looking forward, it is likely that the share of bonds will increase again in the coming years if interest rates remain at the level observed in recent months. Indeed, the increase in the yield on government bonds means that there is less of a need for pension funds and insurers to move into higher-returning but less liquid and riskier assets. The turbulence in the UK gilt market in October 2022 and its impact on defined-benefit pension schemes highlighted indeed the importance of maintaining sufficient liquidity buffers.

Another important trend is the rise in the share of passive asset management, especially since 2016. The decline of the fees of passive investment strategies to very low levels is the main driver behind this evolution.

EXHIBIT 5.2
**Western European AuM by Investment Style**
% of total AuM, excluding money market instruments

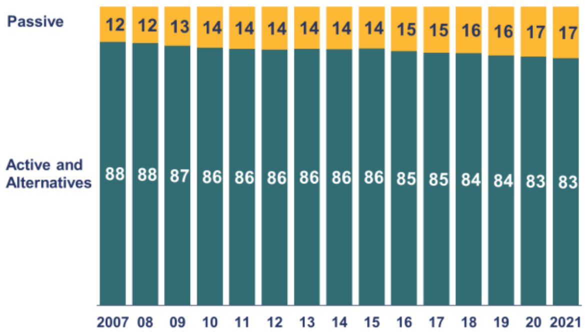
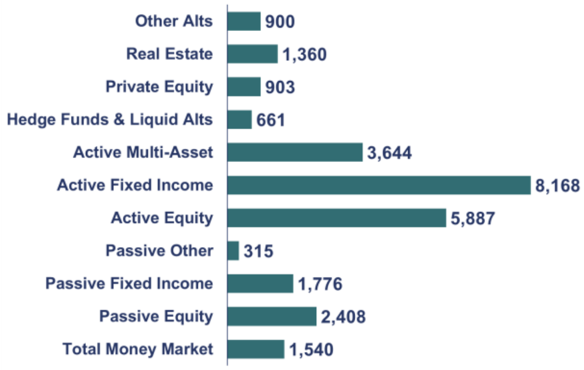



EXHIBIT 5.3
**Western European AuM by Asset Classes**
EUR billions




Source: McKinsey Performance Lens Global Growth Cube

## 5.2. Asset allocation of funds and mandates

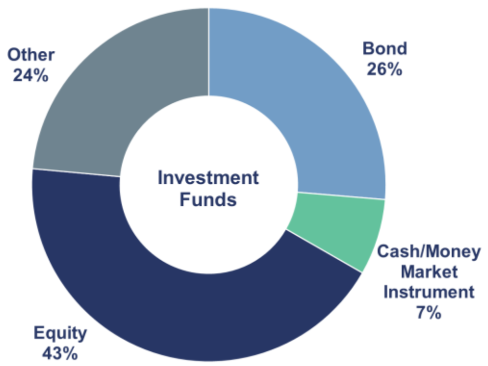
There are significant differences in the asset allocation of investment funds and discretionary mandates.[xxvii]

At the end of 2021, equities represented 43% of investment fund assets whereas bonds only represented 26%. The share of equities has increased steadily in recent years, due to the strong growth of the stock markets and the search for yield in an environment of generally falling interest rates. Following the stock market decline at the end of 2018, the share of equities grew briskly in 2019-2021, wheras the share of bonds and other types of assets fell.

Mandates have an asset allocation that is much more biased towards bonds, as their main clients, pension funds and insurance company-income assets. In contrast to funds, the share of equity in the asset mix of mandates, has not changed significantly over recent years, despite the rise in stock markets. This can be explained by the fact that the growing maturity of pension liabilities tends to reduce the exposure of pension funds to equities. For insurers, the imposed solvency requirements play a role. The share of bonds has gradually dropped down in recent years, while that of other assets has increased.

EXHIBIT 5.4
### Asset Allocation in Investment Funds

Asset Allocation at the End of 2021
(share in total investment funds AuM)




Evolution in Recent Years
(share in total investment funds AuM)

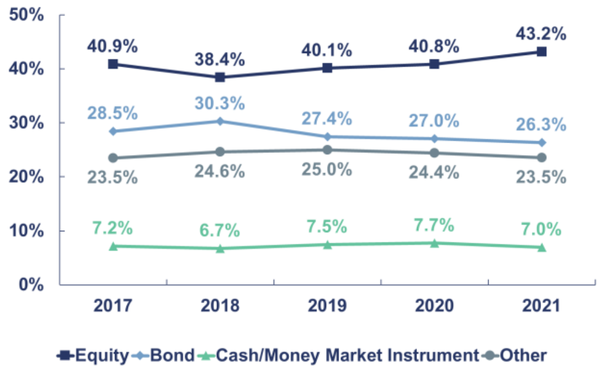
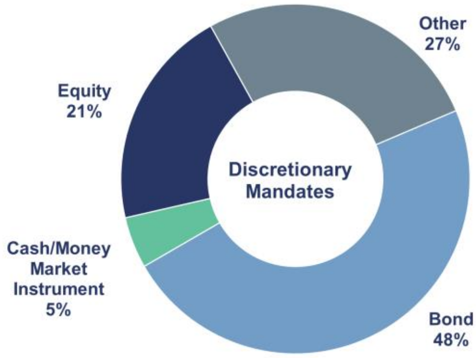
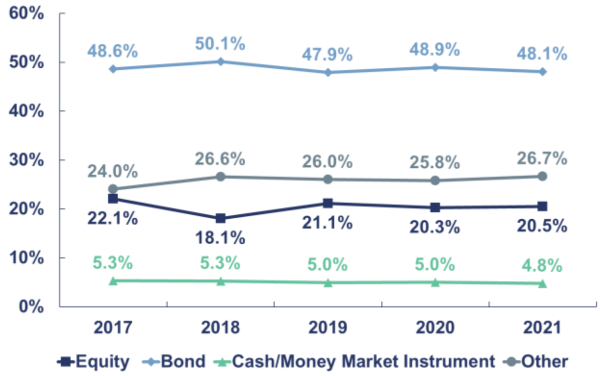



EXHIBIT 5.5
### Asset Allocation in Discretionary Mandates

Asset Allocation at the End of 2021
(share in total discretionary mandates AuM)




Evolution in Recent Years
(share in total discretionary mandates AuM)



# 6. Industry Organisation

## 6.1. Asset management companies

More than 4,800 asset management companies were active in Europe in 2021.

The UK, France and Germany have the highest number of asset management companies. This reflects the relative importance of London, Paris and Frankfurt as asset management centres and the role played in those markets by independent and specialised asset managers, such as management companies of private equity funds.

The relatively high number of asset management companies operating in Ireland and Luxembourg mirrors the role played by these two countries in the cross-border distribution of UCITS and AIFs and the regulatory requirement that fund houses maintain a management company in each country where they have funds domiciled. The same, to a lesser extent, is true for Cyprus and Malta. It should be noted, however, that this requirement does not prevent most global asset management groups with a fund range in Luxembourg or Ireland from operating under a delegation model whereby the key investment management functions are not carried out in those countries, but in the groups' asset management centres.

EXHIBIT 6.1
**Number of Asset Management Companies[1]**

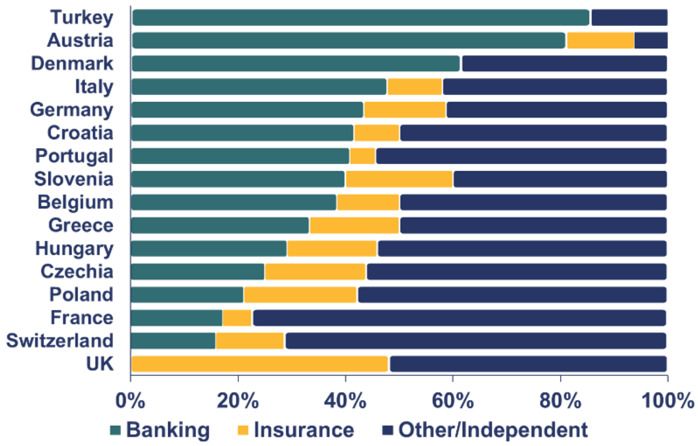
| Country | 2021 | Country | 2021 |
|---|---|---|---|
| Austria | 20 | Luxembourg | 246 |
| Belgium | 63 | Malta | 107 |
| Bulgaria | 30 | Netherlands | 108 |
| Croatia | 21 | Norway | 30 |
| Cyprus | 194 | Poland | 57 |
| Czech Republic | 28 | Portugal | 68 |
| Denmark | 59 | Romania | 22 |
| Finland | 37 | Slovakia | 11 |
| France | 708 | Slovenia | 5 |
| Germany | 607 | Spain | 124 |
| Greece | 51 | Sweden | 95 |
| Hungary | 23 | Switzerland | 308 |
| Ireland | 372 | Turkey | 52 |
| Italy | 239 | United Kingdom | 1,100 |
| Liechtenstein | 18 | **Europe** | **4,803** |

[1] The figures give the number of management companies registered in the countries concerned, except for Austria, Czech Republic, Hungary and Romania where the figures refer to the members of the national trade association. For the United Kingdom, the number is an estimation.

Another dimension of the organisation of the European asset management industry is the extent to which asset management firms operate as stand-alone companies or form part of financial services groups. This varies significantly from country to country.

Exhibit 6.2 shows the number of asset management companies belonging to a banking group or an insurance group. Companies that are independent, or are controlled by other types of financial firms, are grouped in the 'Other/Independent' category.

EXHIBIT 6.2
**Number of Asset Management Companies by Parent Group Categories at the End of 2021**

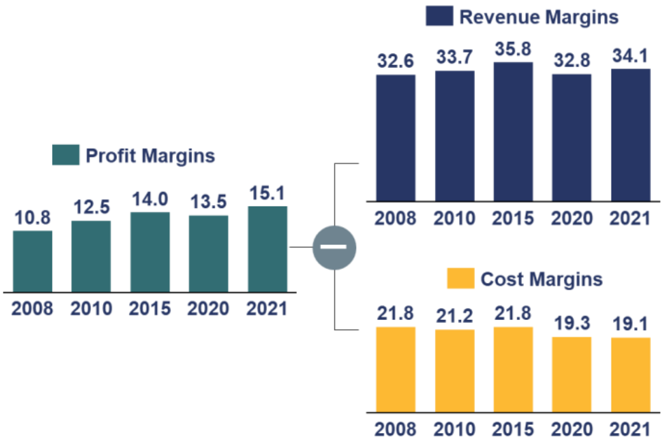



## 6.2. Revenues and costs

Industry operating profit margins (calculated as pre-tax operating profits divided by revenues) have recovered from the dip observed during the global financial crisis in 2008. This evolution resulted from a rise in revenue margins, which occurred despite the sustained pressure on fees, as well from a decline in operating costs as a percentage of total AuM, which has been driven by the strong market performance. Exhibits 6.4 and 6.5 show however that costs have increased significantly in euro terms, in particular technology costs which have been driven by market data, application development and leadership expenses.

As explained by the President of EFAMA in the foreword of this report, we anticipate that the sharp fall in financial markets will lead to a decline in revenues and profit margins in 2022, which will put strong pressure on costs.

EXHIBIT 6.3
**Western European Asset Net Revenue and Cost**
Bps of average AuM




Source: McKinsey Performance Lens Global Growth Cube

EXHIBIT 6.4
**Technology Cost Growth Faced by Third-Party Asset Managers in Western Europe**
EUR billions

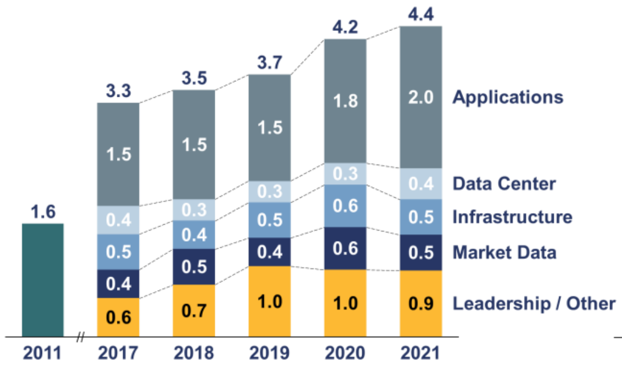
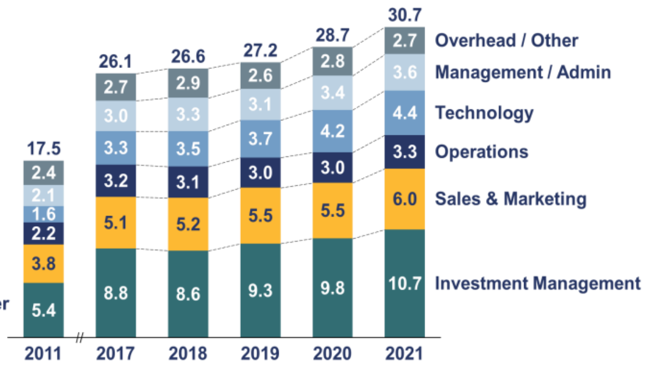



EXHIBIT 6.5
**Cost Pool of Third-Party Asset Managers in Western Europe**
EUR billions



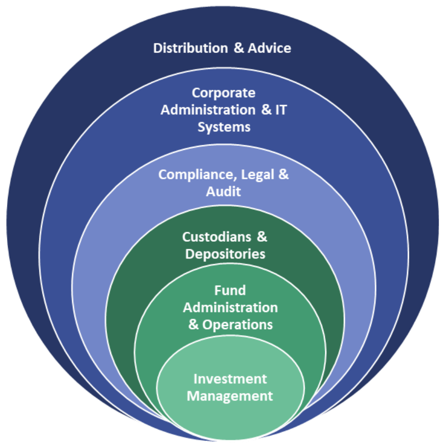

Source: McKinsey Performance Lens Global Asset Management

## 6.3. Employment

The level of direct employment in asset management companies is another important measure of the contribution of the industry to the overall economy. On the basis of data collected from EFAMA members, we estimate that around 120,000 individuals are directly employed by the asset management industry across Europe. The bulk of these jobs are concentrated in the main asset management centres.

EXHIBIT 6.6
**Direct Employment in European Asset Management Companies in 2021**


EXHIBIT 6.7
**Asset Management and Related Services**

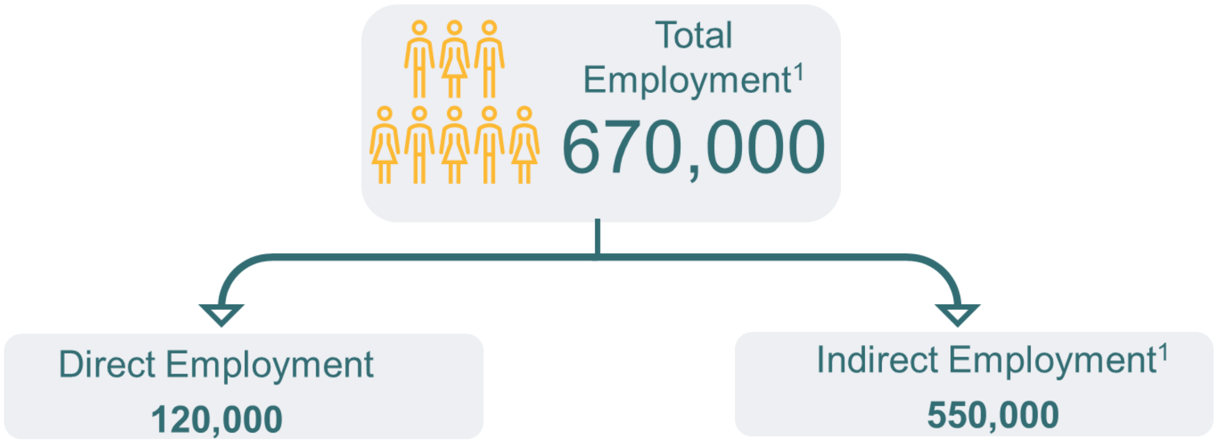


When looking at the overall employment generated by the asset management industry, it is important to take into account the indirect employment linked to fund distribution, which remain mostly handled by banks and financial advisors. Related services and support functions, such as accounting, auditing, custodianship, IT, legal, marketing, research and FinTech, should also be factored in.

Taking into account all these related services along the asset management value chain, the French asset management association (AFG) has estimated that, in France, every direct job in asset management creates 4.6 full-time equivalent jobs in related services.[xxviii] Based on this ratio, it is possible to estimate that European asset managers, and all the firms providing services to the asset management industry, generate some 670,000 full-time equivalent jobs.

EXHIBIT 6.8

**Total Employment in the European Asset Management Industry in 2021**




[1] Full-time equivalent jobs.

# Data Annex

### A.1: European AuM by Geographical Breakdown at the End of 2021
(EUR billions and percent)

| Country | AuM | % Δ in 2021 [1] | Market Share | AuM / GDP |
|---|---|---|---|---|
| UK | 11,910 | 14% | 37.0% | 440% |
| France | 5,038 | 10% | 15.6% | 203% |
| Germany | 3,509 | 22% | 10.9% | 98% |
| Switzerland | 3,191 | 24% | 9.9% | 464% |
| Netherlands | 2,083 | 14% | 6.5% | 242% |
| Italy | 1,624 | 5% | 5.0% | 91% |
| Denmark | 605 | 23% | 1.9% | 181% |
| Spain [2] | 479 | 18% | 1.5% | 40% |
| Belgium | 417 | 20% | 1.3% | 82% |
| Austria [3] | 172 | 14% | 0.5% | 43% |
| Poland [4] | 66 | 8% | 0.2% | 12% |
| Portugal | 47 | -3% | 0.1% | 22% |
| Czech Republic | 36 | -7% | 0.1% | 15% |
| Hungary | 31 | 9% | 0.1% | 20% |
| Turkey | 28 | 45% | 0.1% | 4% |
| Greece | 16 | 30% | 0.1% | 9% |
| Slovenia | 6 | 53% | <0.1% | 12% |
| Croatia | 4 | n.a. | <0.1% | 7% |
| Bulgaria | 2 | 48% | <0.1% | 2% |
| Other | 2,934 | n.a | 9.1% | n.a. |
| **Europe** | **32,197** | **13%** | **100%** | **171%** |

[1] End 2021 AuM compared to end 2020 AuM.
[2] Spanish data for discretionary mandates is estimated by INVERCO.
[3] Austrian data include investment fund assets only.
[4] Polish data include investment fund assets only.

### A.2: Investment Fund Assets by Geographical Breakdown of AuM at the End of 2021
(EUR billions and percent)

| Country | AuM | % Δ in 2021 [1] | Market Share | AuM / GDP |
|---|---|---|---|---|
| UK | 5,328 | 29% | 29.2% | 197% |
| France | 3,062 | 15% | 16.8% | 123% |
| Germany | 2,826 | 24% | 15.5% | 79% |
| Switzerland | 1,941 | 26% | 10.7% | 282% |
| Netherlands | 1,036 | 3% | 5.7% | 120% |
| Italy | 541 | 9% | 3.0% | 30% |
| Denmark | 379 | 23% | 2.1% | 113% |
| Spain | 369 | 16% | 2.0% | 31% |
| Belgium | 247 | 30% | 1.4% | 49% |
| Austria | 172 | 14% | 0.9% | 43% |
| Poland | 66 | 8% | 0.4% | 12% |
| Turkey | 25 | 40% | 0.1% | 4% |
| Portugal | 25 | 42% | 0.1% | 12% |
| Hungary | 21 | 12% | 0.1% | 14% |
| Czech Republic | 13 | -4% | 0.1% | 5% |
| Greece | 10 | 42% | 0.1% | 6% |
| Slovenia | 4 | 56% | <0.1% | 8% |
| Croatia | 3 | n.a | <0.1% | 6% |
| Bulgaria | 1 | 60% | <0.1% | 2% |
| Other | 2,146 | n.a | 11.8% | n.a. |
| **Europe** | **18,215** | **18%** | **100%** | **97%** |

[1] End 2021 AuM compared to end 2020 AuM

## A.3: Discretionary Mandates by Geographical Breakdown of AuM at the End of 2021

(EUR billions and percent)

| Country | AuM | % Δ in 2021 [1] | Market Share | AuM / GDP |
|---|---|---|---|---|
| UK | 6,583 | 4% | 47.1% | 243% |
| France | 1,976 | 3% | 14.1% | 80% |
| Switzerland | 1,251 | 20% | 8.9% | 182% |
| Italy | 1,083 | 2% | 7.7% | 61% |
| Netherlands | 1,047 | 28% | 7.5% | 122% |
| Germany | 683 | 15% | 4.9% | 19% |
| Denmark | 226 | 22% | 1.6% | 68% |
| Belgium [2] | 170 | 9% | 1.2% | 34% |
| Spain [3] | 110 | 28% | 0.8% | 9% |
| Czech Republic | 23 | -9% | 0.2% | 10% |
| Portugal | 22 | -28% | 0.2% | 11% |
| Hungary | 10 | 4% | 0.1% | 6% |
| Greece | 6 | 14% | <0.1% | 3% |
| Turkey | 3 | 113% | <0.1% | 0.4% |
| Slovenia | 2 | 46% | <0.1% | 4% |
| Croatia | 1 | n.a. | <0.1% | 1% |
| Bulgaria | 0.3 | 9% | <0.1% | 0% |
| Other | 787 | -3% | 6% | n.a. |
| **Europe** | **13,983** | **7%** | **100%** | **74%** |

[1] End 2021 AuM compared to end 2020 AuM.
[2] Belgian data include unit-linked insurance products and pension funds.
[3] Spanish data for discretionary mandates is estimated by INVERCO.

## A.4: Investment Fund Assets at the End of 2021

(EUR billions and percent)

| | Investment Funds by Country of Management | | Investment Funds by Country of Domiciliation | |
|---|---|---|---|---|
| Country | Net Assets | Market Share | Net Assets | Market Share |
| UK | 5,328 | 29% | 2,136 | 9.8% |
| France | 3,062 | 17% | 2,231 | 10.2% |
| Germany | 2,826 | 16% | 2,913 | 13.3% |
| Switzerland | 1,941 | 11% | 892 | 4.1% |
| Netherlands | 1,036 | 6% | 1,036 | 4.7% |
| Italy | 541 | 3% | 358 | 1.6% |
| Denmark | 379 | 2% | 367 | 1.7% |
| Spain | 369 | 2% | 347 | 1.6% |
| Belgium | 247 | 1% | 211 | 1.0% |
| Austria | 172 | 1% | 230 | 1.0% |
| Poland | 66 | 0.4% | 66 | 0.3% |
| Turkey | 25 | 0.1% | 28 | 0.1% |
| Portugal | 25 | 0.1% | 31 | 0.1% |
| Hungary | 21 | 0.1% | 21 | 0.1% |
| Czech Republic | 13 | 0.1% | 18 | 0.1% |
| Greece | 10 | 0.1% | 12 | 0.1% |
| Slovenia | 4 | <0.1% | 5 | <0.1% |
| Croatia | 3 | <0.1% | 4 | <0.1% |
| Bulgaria | 1 | <0.1% | 1 | <0.1% |
| Other | 2,146 | 11.8% | 10,993 | 50% |
| **Europe** | **18,215** | **100%** | **21,900** | **100%** |

### A.5: AuM by Type of Client and Country at the End of 2021
(share in total AuM)

| | Institutional Clients | | | | | Retail Clients |
|---|---|---|---|---|---|---|
| Country | Pension Funds | Insurers | Banks | Other Inst. | Total Institutional | Total Retail |
| Austria | 13% | 8% | 8% | 21% | 49% | 51% |
| Belgium | 8% | 6% | 6% | 18% | 38% | 62% |
| Bulgaria | 17% | 14% | 4% | 7% | 42% | 58% |
| Croatia | 10% | 21% | 3% | 8% | 41% | 59% |
| Czech Republic | 30% | 25% | 5% | 5% | 65% | 35% |
| Denmark | 24% | 4% | 2% | 15% | 45% | 55% |
| France | 10% | 47% | 4% | 10% | 71% | 29% |
| Germany | 10% | 24% | 6% | 31% | 70% | 30% |
| Greece | 25% | 12% | 1% | 6% | 44% | 56% |
| Hungary | 17% | 11% | 0% | 4% | 32% | 68% |
| Italy | 4% | 43% | 0% | 16% | 63% | 37% |
| Poland | 0% | 4% | 0% | 36% | 40% | 60% |
| Portugal | 16% | 20% | 5% | 21% | 61% | 39% |
| Slovenia | 6% | 40% | 0% | 3% | 49% | 51% |
| Spain | 1% | 3% | 0% | 11% | 15% | 85% |
| Switzerland | 33% | 14% | 12% | 27% | 87% | 13% |
| Turkey | 46% | 1% | 11% | 15% | 74% | 26% |
| UK | 40% | 11% | 0% | 25% | 77% | 23% |
| **Europe** | **26%** | **21%** | **3%** | **22%** | **72%** | **28%** |

### A.6: Breakdown of Investment Fund Clients by AuM at the End of 2021
(share in total AuM)

| | Institutional Clients | | | | | Retail Clients |
|---|---|---|---|---|---|---|
| Country | Pension Funds | Insurers | Banks | Other Inst. | Total Institutional | Total Retail |
| Austria | 13% | 8% | 8% | 21% | 49% | 51% |
| Bulgaria | 21% | 4% | 5% | 8% | 38% | 62% |
| Croatia | 12% | 10% | 4% | 9% | 34% | 66% |
| Czech Republic | 2% | 6% | 17% | 3% | 28% | 72% |
| Denmark | 16% | 1% | 2% | 6% | 25% | 75% |
| France | 8% | 22% | 6% | 17% | 54% | 46% |
| Greece | 8% | 7% | 1% | 9% | 26% | 74% |
| Hungary | 2% | 3% | 0% | 2% | 8% | 92% |
| Italy | 0% | 0% | 0% | 20% | 20% | 80% |
| Poland | 0% | 4% | 0% | 36% | 40% | 60% |
| Portugal | 5% | 2% | 8% | 14% | 29% | 71% |
| Slovenia | 1% | 28% | 0% | 3% | 32% | 68% |
| Spain | 1% | 4% | 0% | 14% | 19% | 81% |
| Switzerland | 30% | 12% | 11% | 25% | 78% | 22% |
| Turkey | 51% | 0% | 12% | 11% | 74% | 26% |
| UK | 31% | 5% | 0% | 13% | 49% | 51% |
| **Europe** | **22%** | **10%** | **4%** | **16%** | **52%** | **48%** |

### A.7: Breakdown of Discretionary Mandate Clients by AuM at the End of 2021
(share in total AuM)

| | Institutional Clients | | | | | Retail Clients |
|---|---|---|---|---|---|---|
| Country | Pension Funds | Insurers | Banks | Other Inst. | Total Institutional | Total Retail |
| Bulgaria | 0% | 55% | 0% | 5% | 59% | 41% |
| Croatia | 0% | 72% | 0% | 1% | 73% | 27% |
| Czech Republic | 51% | 40% | 0% | 2% | 94% | 6% |
| Denmark | 36% | 10% | 3% | 29% | 77% | 23% |
| France | 11% | 82% | 1% | 1% | 94% | 6% |
| Greece | 54% | 20% | 1% | 1% | 76% | 24% |
| Hungary | 49% | 28% | 0% | 7% | 83% | 17% |
| Italy | 6% | 64% | 0% | 14% | 85% | 15% |
| Portugal | 29% | 39% | 1% | 28% | 97% | 3% |
| Slovenia | 18% | 67% | 0% | 2% | 88% | 12% |
| Spain | 0% | 0% | 0% | 5% | 5% | 95% |
| Switzerland | 38% | 16% | 14% | 32% | 100% | 0% |
| Turkey | 4% | 12% | 4% | 54% | 74% | 26% |
| UK | 48% | 16% | 0% | 35% | 99% | 1% |
| **Europe** | **36%** | **32%** | **2%** | **26%** | **96%** | **4%** |

### A.8: Asset Allocation by Country at the End of 2021
(in percent)

| | Investment Funds | | | | Discretionary Mandates | | | | Funds and Mandates | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Country | Equity | Bond | Cash/ MMI | Other | Equity | Bond | Cash/ MMI | Other | Equity | Bond | Cash/ MMI | Other |
| Austria | 24% | 44% | 1% | 31% | n.a. | n.a. | n.a. | n.a. | 24% | 44% | 1% | 31% |
| Belgium | 56% | 34% | 5% | 5% | 29% | 60% | 3% | 8% | 45% | 45% | 4% | 6% |
| Bulgaria | 57% | 24% | 6% | 13% | 29% | 66% | 4% | 1% | 52% | 32% | 5% | 11% |
| Croatia | 23% | 50% | 20% | 7% | 9% | 70% | 5% | 16% | 21% | 53% | 17% | 9% |
| Czech Republic | 19% | 22% | 15% | 44% | 26% | 65% | 4% | 6% | 23% | 50% | 7% | 19% |
| Denmark | 45% | 37% | 1% | 17% | 24% | 46% | 1% | 29% | 37% | 40% | 1% | 21% |
| France | 28% | 16% | 26% | 30% | 10% | 84% | 1% | 5% | 20% | 48% | 14% | 18% |
| Germany | 27% | 30% | 5% | 38% | 11% | 71% | 4% | 14% | 24% | 38% | 5% | 34% |
| Greece | 24% | 38% | 6% | 33% | 29% | 46% | 15% | 10% | 26% | 41% | 9% | 24% |
| Hungary | 24% | 27% | 28% | 21% | 27% | 52% | 11% | 9% | 25% | 35% | 23% | 17% |
| Italy | 26% | 41% | 9% | 23% | 16% | 79% | 4% | 1% | 19% | 67% | 6% | 8% |
| Poland | 13% | 34% | 0% | 53% | n.a. | n.a. | n.a. | n.a. | 13% | 34% | 0% | 53% |
| Portugal | 21% | 31% | 10% | 38% | 10% | 57% | 4% | 29% | 16% | 44% | 7% | 34% |
| Slovenia | 74% | 16% | 5% | 6% | 17% | 76% | 2% | 5% | 57% | 34% | 4% | 6% |
| Spain | 33% | 58% | 7% | 1% | 9% | 33% | 2% | 56% | 27% | 52% | 6% | 14% |
| Switzerland | 36% | 20% | 4% | 40% | 23% | 29% | 1% | 47% | 31% | 24% | 3% | 43% |
| Turkey | 17% | 44% | 12% | 27% | 1% | 23% | 20% | 55% | 15% | 42% | 13% | 30% |
| UK [1] | 63% | 25% | 3% | 9% | 24% | 35% | 7% | 34% | 42% | 30% | 5% | 23% |
| **Europe** | **43%** | **26%** | **7%** | **24%** | **21%** | **48%** | **5%** | **27%** | **33%** | **36%** | **6%** | **25%** |

[1] The UK Investment Funds figures includes substantial assets managed in the UK on behalf of overseas-domiciled funds for which an accurate asset allocation breakdown is not available. Therefore, EFAMA has made estimates for the purposes of this table.

# Other Research Publications in 2022

## Fact Book 2022

EFAMA's annual Fact Book is the reference publication for comprehensive information on the European investment fund industry. The 20th edition of the Fact Book was published in June 2022, and for the first time, it was made available online, free of charge.


This year's edition included special info-boxes focusing on MMFs, SFDR, the cost and performance of UCITS, ELTIFs, the impact of inflation, and the rise of China in the fund market, as well as in previous years, detailed information on the investment fund markets and regulatory developments in 29 European countries.

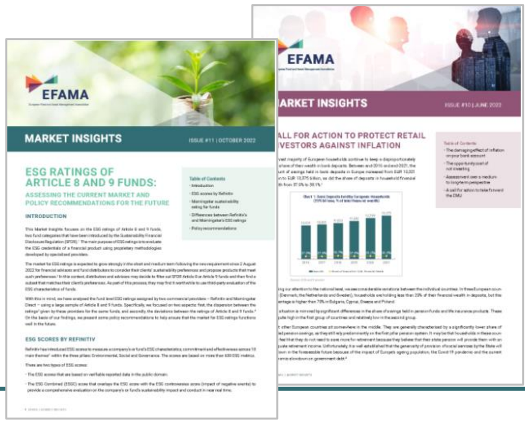
All public information is available here.

## Market Insights

Market Insights aim at analysing recent industry trends and developments based on the latest available data.

Findings are presented in a succinct and visual form and placed into a policy perspective.

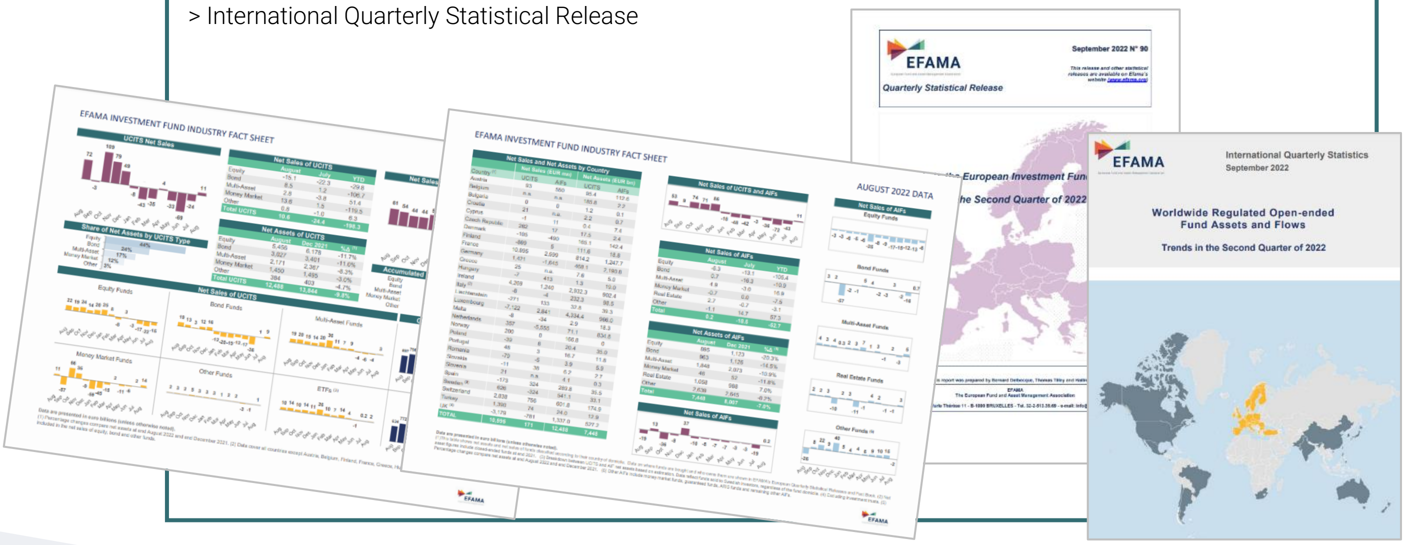
All public information is available here.




EFAMA provides regular statistical updates to members and publishes key figures for the public.

All public information is available here.

Statistical publications include:
> European Monthly Industry Fact Sheet
> European Quarterly Statistical Release
> International Quarterly Statistical Release



## Authors

**Bernard Delbecque**
Senior Director for Economics and Research
bernard.delbecque@efama.org

**Vera Jotanovic**
Senior Economist
vera.jotanovic@efama.org

**Thomas Tilley**
Senior Economist
thomas.tilley@efama.org

**Hailin Yang**
Statistician
hailin.yang@efama.org

## Endnotes

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[i] As explained in the introduction, this report is primarily based on end-2021 data received from EFAMA member associations. The AuM at the end of Q3 2022 have been estimated on the basis of the growth in investment fund assets in January-September 2022. We are grateful to EFAMA's Economics and Research Standing Committee for valuable discussions on the state of the asset management industry. The views expressed in this report do not necessarily represent those of the Committee, and any errors are ours.

[ii] Table A.1 in the data annex contains further information on the AuM per country.

[iii] Table A.2 in the data annex contains further data on the investment fund AuM per country.

[iv] Table A.4 in the data annex compares the investment funds managed in various European countries with the investment fund net assets domiciled in the same countries.

[v] Table A.3 in the data annex contains further information on discretionary mandate assets per country.

[vi] For more information on the clients of the asset management industry, see Section 4.

[vii] The report can be purchased by clicking here.

[viii] The term 'Europe' in the continuation of the report refers to the Eurozone, the non-Euro EU countries (Sweden, Denmark, Poland, Hungary, Romania, Croatia, Bulgaria and the Czech Republic) and the United Kingdom.

[ix] ECB (2021). Shifts in the portfolio holdings of euro area investors in the midst of COVID-19: looking-through investment funds. Authors: Cervalho, D and Schmitz, M. ECB Working Paper Series no. 2526.

[x] The report is available here.

[xi] McKinsey analysis based on data from eVestment, which applies a very narrow ESG definition and uses total AuM (institutional and retail).

[xii] These markets are Europe, the United States, China, and Asia excluding China.

[xiii] This category includes both the construction of new buildings and the maintenance, management, and retrofitting of existing buildings.

[xiv] McKinsey Global Institute (2022) "The Net-Zero Transition" – underlying model data; Vivid Economics (2022) Transition Financing Model (GFANZ net-zero financing); McKinsey Panorama (2022); Global Banking Pools database; European Banking Authority (2022) TE Database; McKinsey expert interviews, external expert interviews, McKinsey team analysis.

[xv] To read more about UN Sustainable Development Goals click here.

[xvi] To read more about the Recovery Plan for Europe click here.

[xvii] The Green Bonds Standard usability guide can be found here.

[xviii] The legislative train schedule for EU GBS can be found here.

[xix] Morningstar has reduced the amount of funds it classifies as sustainable in 2022.

[xx] Refinitiv has introduced ESG scores, which are designed to measure a company's or fund's relative ESG performance, commitment and effectiveness across 10 main themes across the three pillars Environmental, Social and Governance, on the basis of more than 630 ESG metrics.

[xxi] Governance scores can be obtained by projecting the fund's red sphere on the left quadrant, while Environmental and Social scores are obtained by looking at the coordinates of the fund's projection on the bottom quadrant.

[xxii] EFAMA (2022) Fact Book 2022

[xxiii] See EFAMA (2022) European Quarterly Statistical Releases

[xxiv] See AMF (2020). Retail investor behaviour during the Covid-19 crisis.

[xxv] The large jump in the percentage of other institutional clients between 2018-2019 is also a consequence of a change in data reporting in Germany.

[xxvi] Tables A.5, A.6 and A7 in the data annex contain further data on the AuM by type of client and per country at end 2021.

[xxvii] Table A.8 in the data annex contain data on the asset allocation of investment funds and discretionary mandates per country end 2021.

[xxviii] AFG (2011). CAHIERS DE LA GESTION -2.

## About EFAMA

EFAMA is the voice of the European investment management industry, which manages over EUR 28.4 trillion of assets on behalf of its clients in Europe and around the world. We advocate for a regulatory environment that supports our industry's crucial role in steering capital towards investments for a sustainable future and providing long-term value for investors.

Besides fostering a Capital Markets Union, consumer empowerment and sustainable finance in Europe, we also support open and well-functioning global capital markets and engage with international standard setters and relevant third-country authorities.

EFAMA is a primary source of industry statistical data and issues regular publications, including Market Insights and the authoritative EFAMA Fact Book.

More information is available at www.efama.org

Rue Marie-Thérèse 11 | B-1000 Bruxelles
T +32 2 513 39 69 | info@efama.org | www.efama.org
EU transparency register: 3373670692-24