ASSET MANAGEMENT IN EUROPE

An overview of the asset management industry

15th EDITION
FACTS and FIGURES

December 2023

EFAMA
European Fund and Asset Management Association

Table of Contents

Boxes

Foreword by EFAMA President

I am pleased to introduce this 15th edition of EFAMA's Asset Management Report. Whilst the other flagship publication of EFAMA – its Fact Book – focuses on recent developments in the UCITS and AIFs market, the 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.

Reading this report strengthened my view that asset managers play a crucial role in the allocation of capital, which, in turn, has a significant impact on economic growth and development. At the same time, I am convinced that the world has moved into a phase of deep transformation, which will have a strong impact on the business model of the asset management industry. I would like to share my thoughts on this matter.

First, the report clearly explains how asset managers help retail investors achieve positive real returns on their savings, allocate capital to finance new investment projects, and engage with investee companies to encourage better governance and improve their environmental and social performance, thereby contributing to the transition to a more sustainable economy.

While carrying out their mission, asset managers are looking for investment opportunities that offer interesting potential returns to their clients – the asset owners. To ensure that the European economy is sufficiently attractive in terms of return on investment, it is essential that the relevant authorities remain attentive to long-term growth potential by supporting technological progress and investing in education and infrastructure. By setting forth ambitious sustainable growth targets, together with a program of actions to meet them, the authorities will create a virtuous circle of growth and higher confidence, which will be reinforced by more private investment and funding from asset managers.

Another interesting finding highlighted in the report is the increase in the share of financial assets managed on behalf of retail investors, from 26% in 2020 to 30% in 2022. After having accumulated a massive amount of savings in deposits in 2020 because of the pandemic, European households decreased their saving rate in 2021 and 2022 and rearranged their asset allocation by investing larger amounts in capital market instruments. This is good news. However, only a small number of European households invest significant portions of their financial wealth in capital markets, while most households keep all their financial wealth in deposits. Hence, more than ever, additional efforts to encourage retail participation in capital markets are necessary.

This is the main objective of the Retail Investment Strategy. Our strong conviction is that although costs are undoubtedly an important component, there are other equally important criteria to assess the value that an investment brings to an investor. Those need to be better reflected in the final rules.

This report also confirms that European asset managers took the lead in contributing to the transition to a greener, more sustainable economy. About half of AuM managed by European asset managers are done so according to ESG criteria. There are two main reasons for this: first, European policymakers have taken a leadership role in establishing an ambitious regulatory framework to meet the challenge of the transition to a sustainable economy. Secondly, our citizens are increasingly aware of ESG risks, especially those related to climate change and resource depletion.

The imperative need to promote long-term investments in sustainable economic activities and avoid doing harm to the planet and society will remain a priority for the authorities and European citizens for many years to come. One only has to remember that to reach net zero emissions by 2050, annual clean energy investment worldwide will need to more than triple by 2030 to around EUR 3.5 trillion. As highlighted in the results of a questionnaire filled in by EFAMA corporate members, financing this transition is an opportunity for asset managers, as they are ideally placed to respond to the growing demand for sustainable investment products. But it also represents a challenge, as the sustainable finance regulatory framework still needs to evolve, and reliable data to analyse the sustainable features of companies are still not fully available

Enabling the transition to a greener economy is not the only challenge facing the industry and society at large. At least three other disruptions are set to transform the world:

- **Major demographic changes**: the world population will continue to rise and is expected to peak around 11 billion, compared to 3 billion in 1960 and around 8 billion today. This growth will be driven by emerging economies, whereas the population of Europe will remain at best stable, with a falling share of the working-age population and the millennial generation getting older. This new environment will have a serious impact on the fiscal situation of Member States as well as on the consumption, saving and investment behaviour of European citizens. This will require our industry to adapt its product range.

- **Rapid technological revolution**: the pace of technological advancements has been accelerating across various domains, including artificial intelligence, machine learning, blockchain, quantum computing, etc. It is now accepted that these innovations will reshape the functioning of society and the asset management industry's operations and strategy, as explained by McKinsey's analysis of generative artificial intelligence in asset management, which is presented in section 1 of this report.

- **Trend towards deglobalisation**: trade tensions between major economies and the impact of the pandemic are some of the factors that are contributing to a reversal of certain aspects of globalization. This trend is likely to reduce the interconnectedness of economies across the world, and the movement of capital across borders. Asset managers will need to adapt to a more complex global environment.

These disruptions will have important implications for the macroeconomic environment in which the industry is managing the assets of its clients. The first one is that there will likely be more volatility, which requires ensuring that the various liquidity management strategies in place are adequate to absorb potential liquidity shocks.

The second implication is that the world economy is likely to grow more slowly than in the past, especially among advanced economies.

Thirdly, inflation is likely to be structurally higher. Hence, after having recorded a period of lower-for-longer and zero-for-ever interest rates, we have entered a period of higher-for-longer interest rates, which will force asset managers to reconsider the asset allocation of the portfolios they manage. Therefore, as argued by Cerulli in its contribution to this report, the investors' allocation to private assets is expected to grow over the next few years, in the pursuit of enhanced long-term performance. From this perspective, the new ELTIF 2.0 framework has the potential to unlock under-committed investor capital to real assets, as well as to gradually introduce less-liquid assets to retail investors. We are confident that the ESMA regulatory technical standards (RTS) currently being finalised will support the spirit of the reform, specifically around minimum holding periods and redemption terms.

The disruptions under way and their impact on the macroeconomic landscape will also have a strong impact on the business model of asset managers. Asset growth will be lower, competition will intensify, and revenues will be under pressure on the back of margin pressure and growing demand for passive management. Costs, at the same time, will continue to increase, with technology costs in particular rising sharply, as documented in the report.

These are the challenges facing our industry. The good news is that asset managers only oversee about 30% of total financial assets in Europe. According to EFAMA, EUR 46 trillion of assets are still managed internally by institutional investors, whereas EUR 15 trillion of assets are owned by retail investors, without being professionally managed. I am firmly convinced that the European asset management industry is well equipped to manage a greater share of these assets in the years to come. The rise in regulatory and governance requirements will persuade a wider group of institutional investors to look to benefit from economies of scale in portfolio management, administration, risk management, market research and technology investments. And as far as retail investors are concerned, hopefully, the Capital Markets Union's initiative will lead to a growing number of European households calling upon the expertise of asset managers to provide them with personalised investment solutions which new technology such as AI can accelerate.

Sandro Pierri

EFAMA President

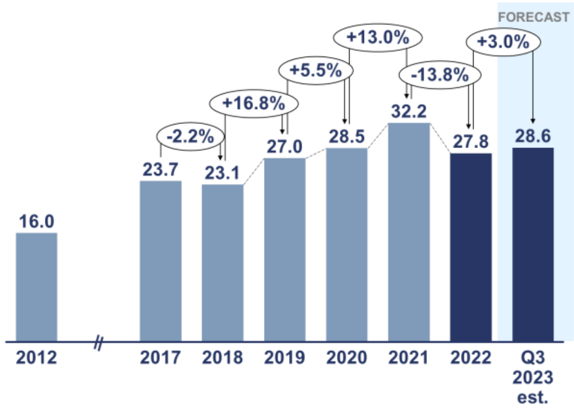
Key Findings and Figures

Asset under management in Europe

Total assets under management (AuM) in Europe dropped by 13.8% in 2022, to EUR 27.8 trillion. This decline was primarily attributable to the slowdown in the world economy, along with falling stock and bond markets caused by the Russian invasion of Ukraine.

As investor confidence began to return, the stock markets picked up over the first three quarters of 2023, resulting in an increase in total AuM to EUR 28.6 trillion at the end of September 2023, according to our estimations.

European assets under management in Europe
(EUR trillions, percent)

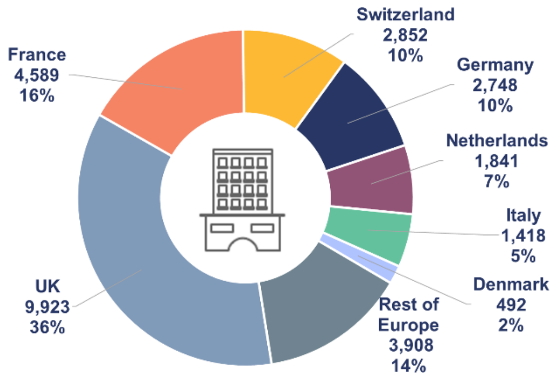


AuM in European countries

Asset management in Europe is concentrated mainly 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, Switzerland, Germany, the Netherlands and Italy. This concentration can be primarily explained by the presence of large financial centres in those countries.

AuM in European countries at the end of 2022
(EUR billions, percent of total)

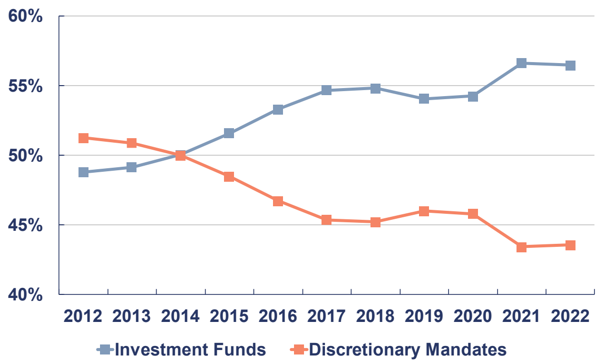


Funds and discretionary mandates

Managed assets can be divided into two broad categories: investment funds and discretionary mandates.

The share of investment funds in total AuM has risen steadily between 2012-2018 - and then again in 2021 - reaching 56.5% by the end of 2022. This evolution is due to the higher share of equities in the portfolio allocation of investment funds, compared to discretionary mandates, combined with the rise in stock markets up to 2021. The fall in stock market prices halted this trend in 2022.

Discretionary mandates and investment funds
(Share in total AuM)



Role of asset managers

Asset managers channel savings into capital market instruments to achieve a specific investment goal. They support the economy by financing new projects and providing liquidity to the markets. They engage with - and improve the governance of - investee companies, thus enhancing the long-term value of companies for investors. They are also at the forefront of the transition to a more sustainable economy by increasingly allocating capital to sustainable companies and activities. Asset managers invest with the aim of obtaining a return for their clients that is commensurate with their level of risk preferences.

A stylised view of the asset managers in society and the economy

Financing the European economy

Euro-area domiciled investment funds held a significant share of the debt securities and listed shares issued by non-financial corporations in the euro area and held by euro area investors (36% and 20%, respectively, at the end of 2022).

These percentages give an idea of the importance of the contribution of these investment funds to the financing of the euro area real economy.

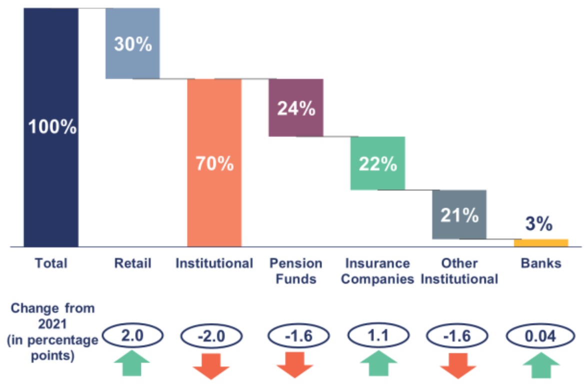
Share of euro area investment funds in the debt securities and listed shares issued by non-financial corporations in the euro area and held by euro area investors
(Percent of total at the end of 2022)

Clients of the industry

The asset management industry serves two principal types of clients: retail and institutional. Institutional clients are primarily pension funds, insurers and other institutional clients, such as charities, foundations and holding companies.

The share of retail clients in total AuM rose from 28% to 30% during 2022. This can in part be explained by the fact that EU retail investors restructured their asset allocation in 2021 and 2022 by investing larger amounts in funds. This change limited the fall in the total AuM managed on behalf of retail investors.

Breakdown of AuM by clients at the end of 2022
(Percent of total and change in pp. from 2021)

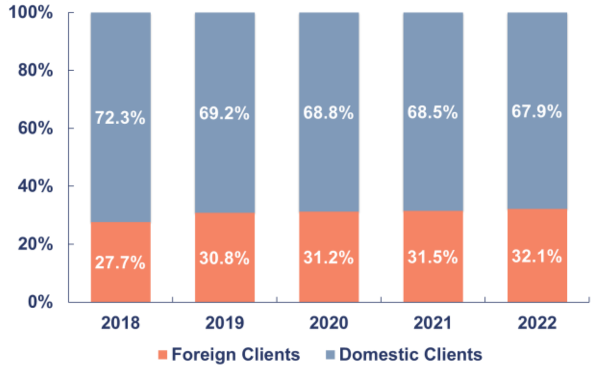


Domestic and foreign clients

The share of clients who are based in another country to that of their asset manager has been steadily rising in recent years, from 27.7% in 2018 to 32.1% at the end of 2022. Foreign clients tend to be more prominent in the mandate, than in the fund, market.

This growing share of foreign clients is in line with the key goal of the Capital Markets Union (CMU) to strengthen the integration of national capital markets into a genuine single market.

Domestic and foreign clients – Recent trends
(Share in total AuM)

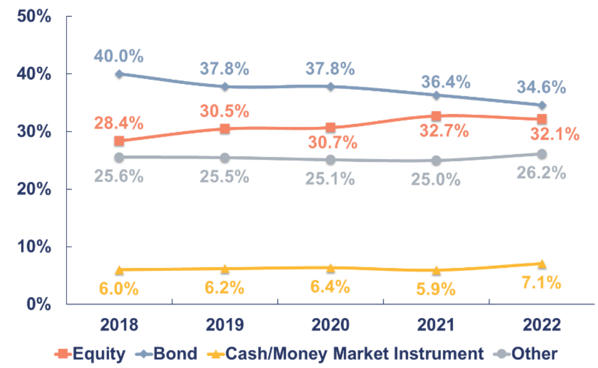


Asset allocation in Europe

In 2022, the share of both equities and bonds in the portfolios of European asset managers fell, as a result of the decline in the stock and bond markets. The shares of cash and other assets increased accordingly.

This increase in the share of other assets was also driven by the growing interest of institutional clients for private assets such as private equity, private debt, infrastructure and real estate funds.

Asset allocation – Recent trends
(Percentage of total)

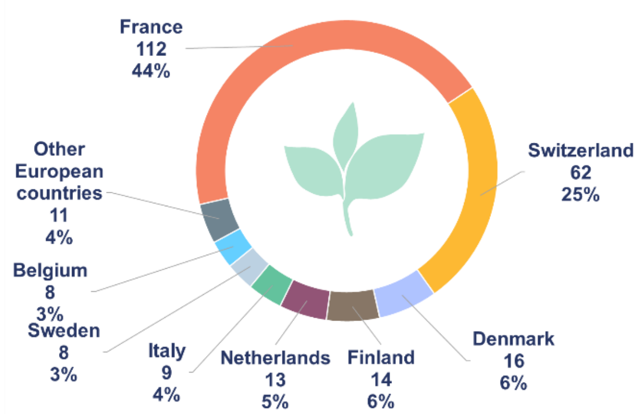


Management of SFDR Article 8 and 9 funds

The Sustainable Finance Disclosure Regulation (SFDR) led to the emergence of two new categories of funds: Article 8 funds, with sustainability characteristics; and Article 9 funds, with sustainability objectives. Management of SFDR Article 9 funds is primarily concentrated in France and Switzerland.

SFDR markets have already undergone major changes since their inception, notably in 2022, as significant amounts of Article 9 funds were reclassified as Article 8. As fund managers continue to adapt to new policy guidance in particular clearer definitions and better ESG data, these markets are likely to remain in flux over the coming years.

SFDR Article 9 funds managed in Europe
(EUR billions, percentage of total, at the end of 2022)



Introduction

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

The report is primarily based on data provided by national associations from Austria, Belgium, Bulgaria, Czech Republic, Denmark, France, Germany, Greece, Hungary, Italy, the Netherlands, Poland, Portugal, Romania, Slovenia, Switzerland, Spain, Turkey and the United Kingdom. Additional internal and external data have been used to estimate assets managed in other European countries by the end of 2022.

The Report is divided into five main sections:

- Section 1 provides a general introduction to the **current state of the European asset management industry** and provides an estimate of the total assets under management (AuM) in Europe by the end of September 2023. There is a breakdown by country, investment fund and discretionary mandate by the end of 2022. It also includes an article prepared by *McKinsey* on generative artificial intelligence in asset management.

- Section 2 highlights a few of the **key roles played by the asset management industry in society and the economy**; serving the needs of investors, engaging with investee companies to encourage better governance improve their environmental and social performance and funding the real economy. This section provides estimates of the levels of financing that asset managers provide to different sectors of the economy via their investments in debt securities and listed shares. It also illustrates the positive role of voting and engagement activities by asset managers. Annex 1 contains concrete examples of how EFAMA corporate members are active in this area.

- Section 3 provides an overview of the **industry's clients**, focussing on the breakdown of retail clients and the main types of institutional clients. It also provides figures on foreign and domestic clients.

- Section 4 focuses on the **asset allocation** of investment funds and discretionary mandates. It highlights the rise in the share of passive investment strategies and the declining home bias in equities and bond investments. It also includes an analysis by *Cerulli* on European alternative investments. This section also delves deeper into the holdings of ESG assets and gives an overview of SFDR Article 8 and Article 9 funds managed in European countries.

- Section 5 looks at the **industrial organisation** of the asset management industry. It provides data on the number of asset management companies active in Europe, the practice of delegation, recent evolutions in 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. Overview

Asset managers invest - and manage risks - to achieve a specific investment goal, taking into account their client's needs, objectives and characteristics. After conducting research on macroeconomic developments and trends in financial markets, industries or companies, they select financial securities - such as stocks and bonds - that are publicly offered. They can also invest in unlisted assets, such as private equity or real estate. This report focuses on those 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 referred to as 'third-party' asset managers.

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

There are two main investment strategies that asset managers can take when managing assets:

- **Passive asset management** aims to replicate the performance of a specified financial market index. Passive asset managers do this by buying and holding all - or a representative sample of - the securities in their target indices. In some cases, they make use of financial derivatives to 'synthetically' replicate the performance of a specific index, without necessarily investing in the physical securities of the index itself.

- **Active asset management** tries to outperform the market through securities selection. Through 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 investment decisions. Active asset managers often 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 individual investment objective, with corresponding risk levels and asset allocation. Investors can buy or redeem shares in these funds. Funds offer investors significant advantages in terms of risk diversification, risk-adjusted return and investor protection. Investment funds can be targeted at 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 has 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.

1.2. Evolution of AuM in Europe

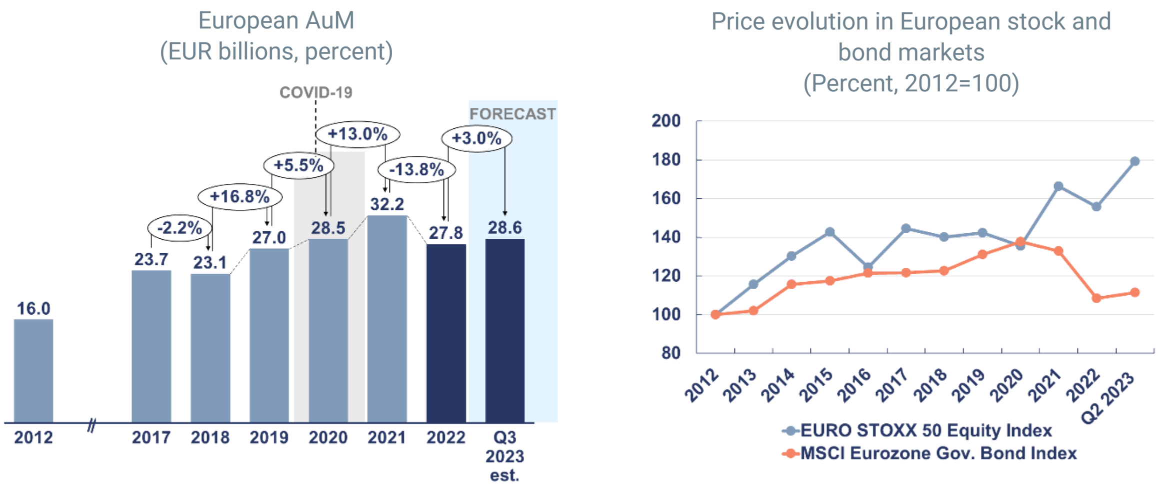
Total assets under management (AuM) in Europe enjoyed steady growth between 2012-2017, thanks to a combination of robust financial market performance and inflows of new money entrusted to asset managers. A sharp drop in stock markets at the close of 2018 led to the first decline in AuM of the decade (-2.2%). AuM recovered strongly in 2019 (+16.8%). In 2020, the outbreak of the Covid-19 pandemic in March resulted in a steep drop in financial markets, which was followed by a strong market rally that continued into 2021, leading to a record of EUR 32.2 trillion by the close of 2021.

In contrast, 2022 proved a challenging year for the asset management sector. The slowdown in economic growth triggered by Russia's war against Ukraine and the tightening of monetary policy, undermined investor confidence and led to a decline in stock markets. At the same time, the steep and consecutive interest rate hikes also had a pronounced negative impact on the valuation of outstanding bonds. For example, the MSCI Eurozone Government Bond Index plummeted by more than 18% over the course of 2022. These concurrent declines in the valuations of both stocks and bonds led to a 13.8% contraction in AuM for the year.

As stock markets rallied at the start of the year and inflation began to ease, investor confidence recovered during the first three quarters of 2023, resulting in an estimated 3% increase in AuM to EUR 28.6 trillion by the end of Q3 2023.[i]

EXHIBIT 1.1

European AuM and European stock and bond markets – Recent trends



Source: EFAMA's calculations based on MSCI and Deutsche Börse group data.

Asset management in Europe is predominantly concentrated in six countries, which collectively manage around 85% of the sector's assets. In each of these countries in 2022, AuM exceeded EUR 1.4 trillion.

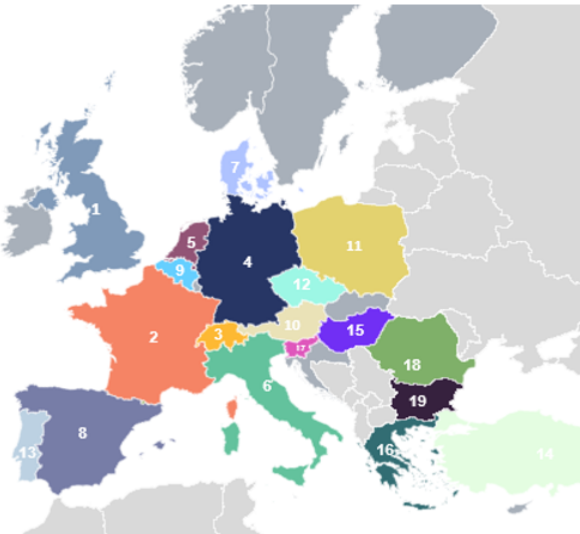
The UK is the largest European asset management market, followed by France, Switzerland, Germany, the Netherlands and Italy. The presence of large financial centres such as London, Paris, Frankfurt or Zurich, as well as sizable domestic markets, can explain this market concentration in most of these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

Extending beyond these six countries, asset managers in Denmark, Spain, Belgium and Austria also manage substantial amounts of fund and mandate assets. In Central and Eastern Europe, Poland emerges as a notable asset management centre, followed by the Czech Republic and Hungary.

The share of the rest of Europe (9.6%) accounts for those countries for which no survey data is available, such as Sweden, Finland, Norway, Luxembourg and Ireland, but where asset managers are also active.

EXHIBIT 1.2

European assets under management at the end of 2022



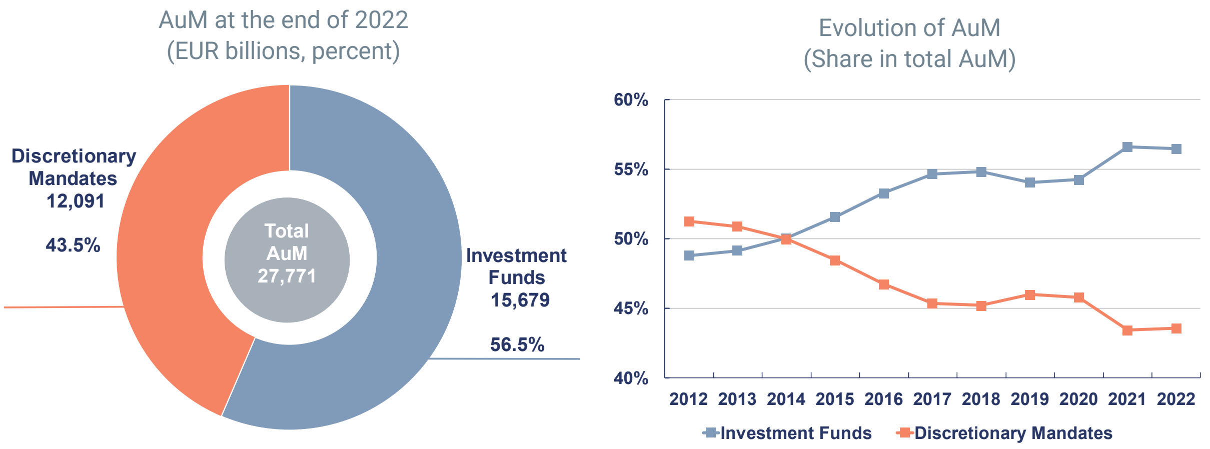
	Country	AuM (€bn)	Market Share
1	UK	9,923	35.7%
2	France	4,589	16.5%
3	Switzerland	2,852	10.3%
4	Germany	2,748	9.9%
5	Netherlands	1,841	6.6%
6	Italy	1,418	5.1%
7	Denmark	492	1.8%
8	Spain	449	1.6%
9	Belgium	365	1.3%
10	Austria	177	0.6%
11	Poland	57	0.2%
12	Czech Republic	52	0.2%
13	Portugal	42	0.2%
14	Turkey	36	0.1%
15	Hungary	32	0.1%
16	Greece	16	0.1%
17	Slovenia	7	<0.1%
18	Romania	6	<0.1%
19	Bulgaria	2	<0.1%
	Rest of Europe	2,667	9.6%
	Total	**27,771**	

1.3. AuM in investment funds and discretionary mandates

By the end of 2022, investment fund assets accounted for EUR 15,679 billion, equivalent to 56.5% of the total European AuM. Discretionary mandate assets represented the remaining 43.5%, totalling EUR 12,091 billion.

EXHIBIT 1.3

Discretionary mandates vs. investment funds - Recent trends



The share of investment funds among total AuM has steadily risen almost every year between 2012-2021. This declined slightly in 2019, but this was mainly due to a reclassification of data. In 2021, the share of investment funds rose by 2.3 percentage points, the strongest growth of the decade.

The contrast in growth rates between investment funds and mandates primarily stems from differences in their asset allocation. As explained in Section 4, investment funds have a much larger proportion of their financial assets invested in listed equities than discretionary mandates (40.5% compared to 22.2%) and correspondingly, a smaller share in bonds (26.9% compared to 43.8%). This divergence in allocation, coupled with the strong performance of stock markets over the past decade, is the reason for the superior growth of fund assets relative to mandates, particularly the jump in 2021.

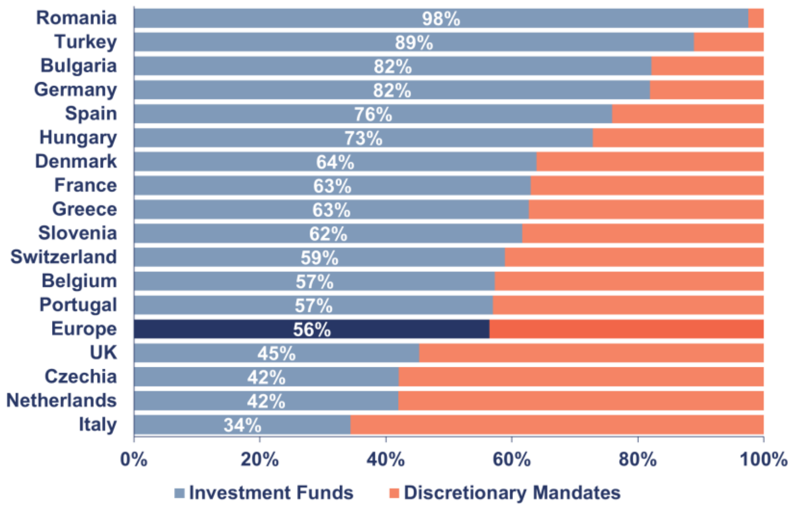
In 2022, as both stock and fixed-income markets experienced declines, the split between investment funds and mandates remained relatively stable.

The distribution of assets between investment funds and discretionary mandates shows substantial divergence across European countries. Discretionary mandates accounted for only 18% of all AuM in Bulgaria at end-2022, while they accounted for a far more substantial 58% in the Czech Republic. These differences are chiefly influenced by the prevailing asset management product solutions offered to institutional investors in different European countries. In Germany, for example, institutional investors primarily opt for Alternative Investment Funds (AIFs) to oversee their institutional assets, while in Italy, discretionary mandates are a significantly more common choice for institutional investors.

EXHIBIT 1.4

Discretionary mandates and investment fund assets at the end of 2022 – Country-level figures

Share in total AuM



At the end of 2022, more than 80% of European investment fund assets were managed in six countries: the UK (29%), France (18%), Germany (14%), Switzerland (11%), the Netherlands (5%) and Italy (3%).[iii iv]

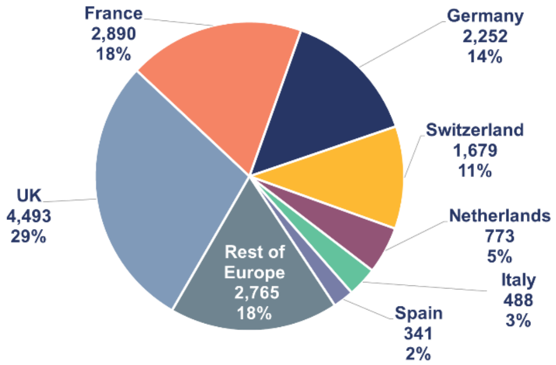
Compared to five years ago, the UK market share increased by three percentage points, mainly due to stock market growth and the higher-than-average share of equity in the asset allocation of funds managed in the UK.

The AuM of discretionary mandates is also relatively concentrated, with slightly less than 60% of assets being managed in the UK and France at the end of 2022. The 45% market share of the UK is a direct consequence of the high levels of pension fund assets being managed by asset managers located there. 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 1.5

IF AuM by geographical breakdown - 2022 figures and five-year trends

Investment funds at the end of 2022 (EUR billions, percent)



Evolution in recent years (Share in total investment funds AuM, change in pp.)

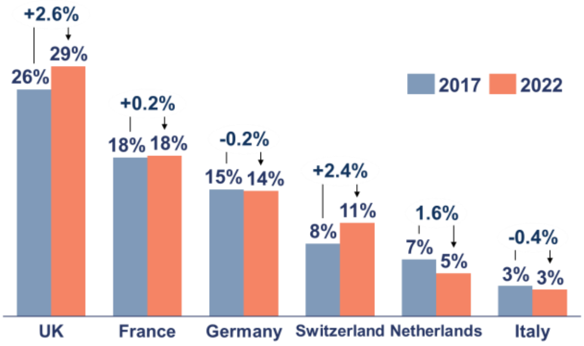
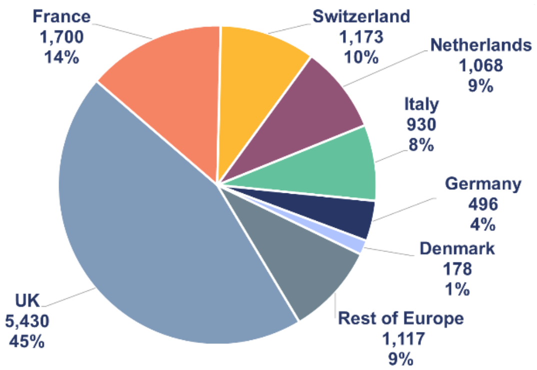


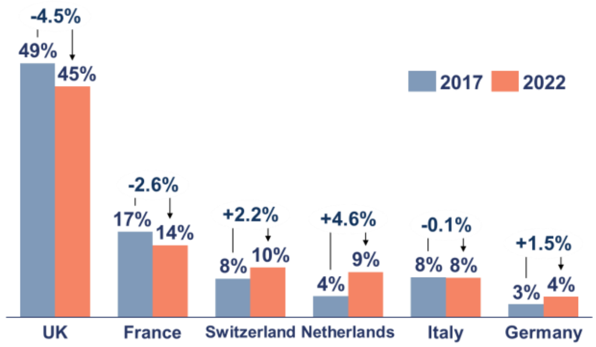
EXHIBIT 1.6

DM AuM by geographical breakdown - 2022 figures and five-year trends

Discretionary mandates at the end of 2022 (EUR billions, percent)



Evolution in recent years (Share in total discretionary mandates AuM, change in pp.)



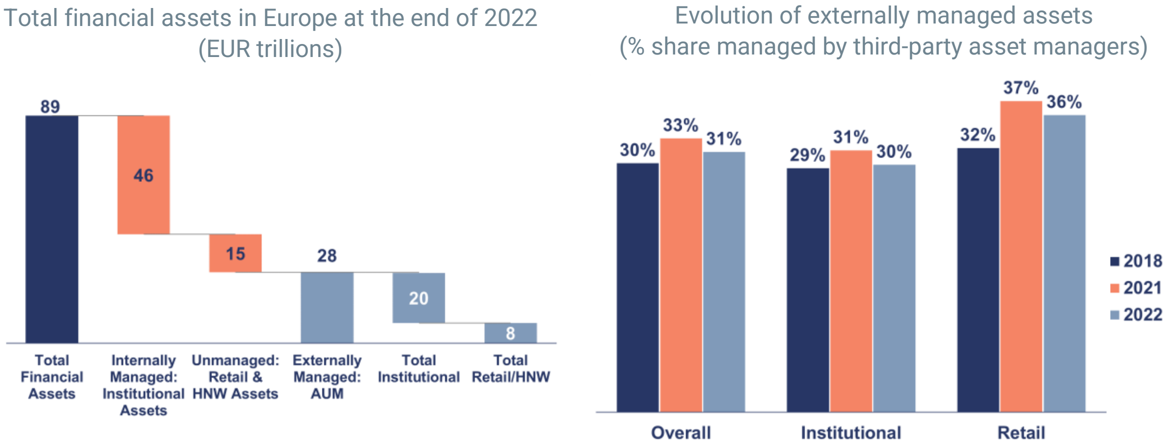
Over the past five years, market shares in the discretionary mandate sector have evolved. The two leading mandate hubs, the UK and France, experienced a decrease as a result of the fall in assets, which was driven significantly by a decline in bond valuations. In contrast, Germany, Switzerland and notably the Netherlands saw an upturn in their market shares. The sharp increase in the Dutch market share can be attributed to a significant development in the regulation; since 2020, several pension funds have transitioned from managing their assets through AIFs to discretionary mandates. This shift was prompted by the revisions made to the IFR/IFD prudential rules.

1.4. Market share of European asset managers

According to EFAMA calculations based on McKinsey data, European asset managers oversaw approximately 31% of all European financial assets at end 2022, with around EUR 20 trillion being managed for institutional clients and approximately EUR 8 trillion for retail clients.[vi] The share of externally managed financial assets increased from 30% in 2018 to 33% in 2021, only to drop to 31% in 2022. For institutional investors, this share increased from 29% to 31% and then down to 30% over the same period. For retail investors, meanwhile, it rose from 32% to 37% in 2021, decreasing to 36% in 2022.

EXHIBIT 1.7

Financial assets in Europe



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

There are several reasons why institutional investors rely on the services of asset managers. In essence, entrusting the investment process to a qualified asset manager frees the institutional investors concerned from the responsibility of making day-to-day investment decisions and allows them to focus on other important issues.

Asset managers can diversify their clients' portfolios, giving them access to an extensive array of investment options and instruments. Such diversification not only tends to enhance the overall value of portfolios, but also serves to mitigate associated risks. Moreover, clients can secure more favourable prices for executed trades, as asset managers execute individual buy or sell orders on behalf of multiple clients.

More recently, the rise in regulatory and governance requirements has led a wider group of institutional investors to seek to benefit from economies of scale in portfolio management, administration, risk management, market and securities research as well as technology investments. Outsourcing investment management liberates institutional asset owners from the need to invest in areas such as data feeds, data analytics, machine learning, computer-driven trading programs and artificial intelligence, all of which have become integral elements of the investment process. They can also benefit from other types of services, including those that 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 fees, which are generally based 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 structure and the in-house resources and expertise available, institutional investors can choose between relying on third-party asset managers or maintaining an in-house team to oversee the assets for which they have 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 of rapid technological changes, the decline in the fees charged by asset managers and the search for yield in a volatile market.

Looking ahead, there remains substantial untapped potential for asset managers to expand their share in the institutional market. As far as retail investors are concerned, it can be expected that the Capital Markets Union initiative will lead to a growing number of European households calling upon the expertise of asset managers to invest part of their bank deposits into capital market instruments.

1.5. Challenges and opportunities

The Exhibits below show the top five challenges and opportunities ranked by a core group of EFAMA corporate members. The new macroeconomic environment, with higher inflation and interest rates, against the background of escalating geopolitical tensions, is the most important challenge faced by asset managers. The gaps and remaining interpretation issues that characterise the sustainable finance framework, and the shortage of ESG data to assess the sustainability features of companies are also serious problems that expose asset managers to potential accusations of 'greenwashing'. This is happening in a context of continuing broad and deep regulatory changes and pressure on fees.

EXHIBIT 1.8
Challenges for the asset management industry
Ranked in descending order

1	Operating in the new macro-economic and geopolitical context
2	Coping with the uncertainty and gaps in the sustainable finance regulations
3	Coping with the pressure on fees
4	Adapting to the broad and deep regulatory changes
5	Accessing accurate and meaningful data on the sustainability features of companies

The growing demand for sustainable investment products creates opportunities for asset managers. New technologies also open attractive possibilities for asset managers. As explained by McKinsey in the article below, integrating generative artificial intelligence can offer asset managers a crucial advantage, in terms of efficiency gains and cost reduction. Technological advancements will also allow asset managers to offer personalised and tailored investment solutions more rapidly in a cost-effective way. Offered in a customer-centric way, these solutions have the potential to strengthen trust and attract clients. Lastly, asset managers will benefit from the expected increase in demand for private asset classes.

EXHIBIT 1.9
Opportunities for the asset management industry
Ranked in descending order

1	Embracing the enabling power of new technologies to remain competitive
2	Capturing the growing interest in sustainable investment products
3	Providing education and thought leadership to build trust and attract clients
4	Responding to the growing appetite for private assets to deliver enhanced returns
5	Addressing the demand for personalized and tailored investment solutions

Generative AI in Asset Management

A perspective by McKinsey & Company

Authors: Maximilian Fiedler, Achim Schlitter, Henning Soller, Lisa Weiß

As gen AI upends the competitive playing field, asset managers will benefit from systems that can integrate new iterations of an evolving technology.

Over the past year, the impact of generative artificial intelligence (gen AI) across a wide range of fields has created huge interest. While the underlying technology behind gen AI is not new, leaps in performance, novel applications, and less barriers to access have created opportunities for value creation and efficiency gains. Yet with these possibilities comes a host of risks and challenges that are not comprehensively identified. For asset managers, navigating gen AI – and installing appropriate safeguards against operational and regulatory risks – is likely to be vital to effectively integrate what is still very much a new technology.

Major players in the financial industry are already launching innovative gen AI applications. For example, a major US asset manager has filed a patent application for a gen AI service to help investors select equities, while another one is using gen AI to transform how its financial advisors leverage its proprietary knowledge base. Another major asset manager is using gen AI for marketing, and another is testing an internally developed tool with employees to identify new use cases, or even uses the technology for writing engagement letters. Meanwhile, mass-market productivity tools are using gen AI to enhance back-office efficiency by generating automated presentations, post-call summaries, and other routine outputs. While scaling these applications remains a medium-term objective for asset managers, it seems that gen AI programs focused on client communications, research, analysis, and internal productivity are swiftly gaining traction across the financial sector.

Many recent gen AI offerings are customized versions of more general applications. Rather than being designed from the ground up for a specific role, they adapt existing gen AI models to suit various contexts through techniques such as prompt enrichment, embedding, and parametric adjustment. For example, the adviser interface of one asset manager is based on ChatGPT-4, while productivity tools are supported by proprietary tooling, which itself utilizes ChatGPT's underlying technology[1]. This approach – modifying existing applications to suit specific corporate environments rather than creating new technologies from scratch – could offer important advantages, as firms are embracing programs that were developed for widespread use and have already been field-tested in other contexts.

Gen AI's unique combination of off-the-shelf accessibility, broad-based applicability, and capacity for novel use cases drives its disruptive impact.

(i) Off-the-shelf accessibility. Publicly available gen AI models can be accessed online by users who have no prior experience with the technology. A user communicates these tools as they would with a human colleague, and the program "understands" (or at least performs a realistic facsimile of understanding – more on this below) and responds in kind[2]. However, framing instructions to these

[1] Hugh Son, "Morgan Stanley kicks off generative AI era on Wall Street with assistant for financial advisors" CNBC, September 18, 2023

[2] Carlo Giovine, Larry Lerner, Jared Moon, and Stefan Schorsch, "Been there, doing that: How corporate and investment banks are tackling gen AI" McKinsey Financial Services, September 25, 2023

programs in the right terms, a skill known as "prompt engineering," can greatly increase their usefulness, so while the technology is available to everyone, user capabilities still matter.

(ii) Broad-based applicability: Because gen AI programs respond to natural language in complex and sophisticated ways, they can assist users with an unprecedented range of tasks. Earlier AI-enabled technologies could only be applied to a narrow set of use cases that were closely linked to the data on which the models were originally trained. By contrast, the latest gen AI programs can create original text, images, and other outputs to suit a wide variety of purposes without being "re-trained" on new context-specific data. While users often interface with these programs through text, gen AI applications are also capable of interpreting and producing images, sound, video, and computer code, both separately and as part of a single multimedia communication. This creative versatility sets gen AI apart from chatbots and other interactive technologies, as gen AI programs can generate (or at least creatively recombine) content to suit a seemingly endless variety of productive processes, from drafting legal documents to preparing audiovisual presentations to coding in Python.

(iii) Capacity for novel use cases: The accessibility and versatility of gen AI applications are enabling them to assume an expanding array of roles across industries and sectors. In some cases, these programs are augmenting the productive capabilities of human workers, while in others they can automate functions previously performed by humans. Large corporates are introducing gen AI into longstanding business processes, and entrepreneurs are designing new business models based entirely on gen AI capabilities. In asset management and across the financial-services sector, the evolving capacity of gen AI applications to evaluate massive amounts of qualitative and quantitative information, identify patterns, and generate outputs that are often indistinguishable from those produced by human beings has transformative implications.

Technical underpinnings of gen AI

Recognizing what distinguishes gen AI from superficially similar technologies requires understanding two key concepts: machine learning and neural networks.

Machine learning: The use of algorithms and statistical models to train a computer to perform tasks without explicit instructions, analogous to the human capacity for intuitive reasoning.

Neural networks: A branch of machine learning in which "artificial neurons" are used to process information from natural language, images, and other sources in ways that mimic the functions of the human brain.

From a technical perspective, gen AI programs are revolutionary because they utilize neural networks to realistically simulate cognition. Rather than simply responding to commands, gen AI programs leverage machine learning to make predictions and draw inferences by processing data and evaluating experiences. Each new iteration of the technology integrates these functions more effectively, enabling the latest generation of gen AI programs to engage in highly sophisticated forms of analysis that replicate both inductive and deductive reasoning.

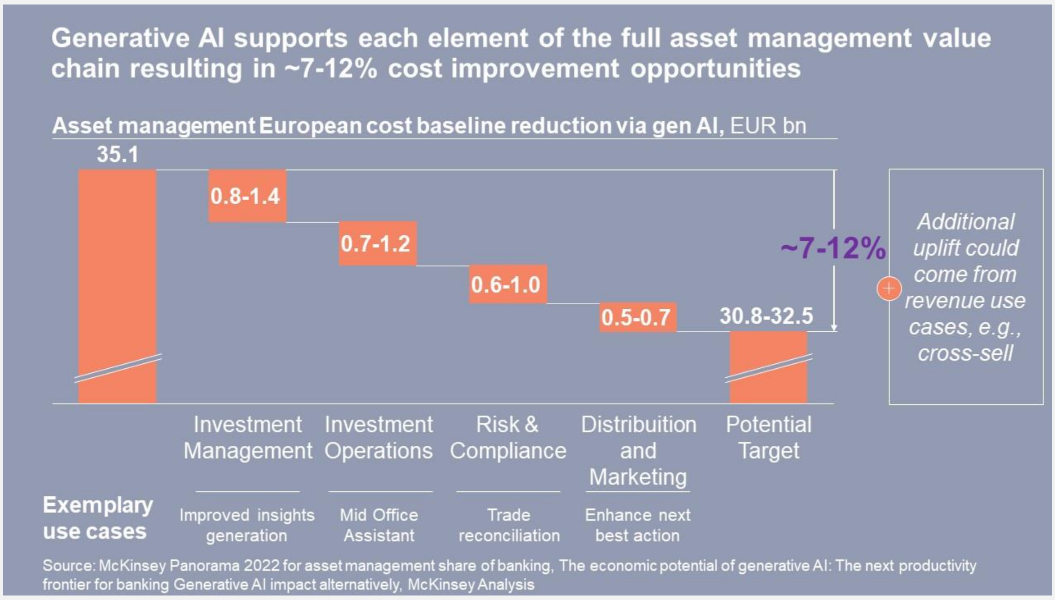
See: "What is AI?" McKinsey, April 24, 2023; "What is generative AI?" McKinsey, January 19, 2023.

Gen AI use cases span the asset-management value chain.

Our analysis shows that the uptake of gen AI could enhance the productivity of the European asset-management industry by ~ 7 to 12 percent, yielding between €2.6 and €4.3 billion in added value. This analysis is derived from McKinsey Panorama's estimate for the financial industry, which approximates efficiency gains based on the cost of asset management as a share of the total cost baseline, and thus it may differ from estimates derived from alternative methodologies. Beyond its impact on the cost baseline, gen AI has an additional as-yet-unquantified potential to unlock revenue directly, and with new use cases continually being discovered, the estimated trajectory for value addition is very high. 80 percent of the currently quantifiable value can be realized by adapting existing gen AI applications to asset management without the need to build new industry-specific gen AI models.

Exhibit 1

Generative AI can add value across the asset-management value chain, with the adoption of existing technologies yielding an estimated cost improvement of 7-12%



In distribution and marketing, gen AI programs can enhance "***next-product-to-buy***" and "churn" models by leveraging spoken and written customer interactions at scale, features that are especially relevant for asset managers in a retail/B2B4C context. For example, on the banking side JP Morgan Chase has begun using gen AI tools to analyze securities and design bespoke portfolios. Gen AI programs can also support relationship managers by helping ensure that client communications are produced efficiently and delivered with the frequency that best suits each customer's needs, and Morgan Stanley uses gen AI to provide relationship managers with real-time information. There is considerable scope to expand the uptake of gen AI applications across the distribution and marketing function, and new tools are being created to automate new-client outreach, provide custom onboarding services, and enhance self-service client interactions.

In investment management, portfolio managers can leverage gen AI's sophisticated generative capacity and newly added analytical functions to produce ***investor reports*** based on autonomously developed insights. The capacity to synthesise vast amounts of unstructured data and create automated summaries can enable gen AI programmes to increase investor productivity by performing cognitive legwork on behalf of a human analyst, while the deepening integration of machine learning now enables commercial gen AI applications to reveal patterns that no human analyst would recognize. The technology is especially adept at enriching standard sources of information, such as quarterly and annual reports, with nontraditional qualitative data, such as the social media posts of specific companies. Gen AI programs can also tailor the presentation of insights to reach specific audiences or suit individual client preferences. However, gen AI's current productivity potential derives mainly from automating and enhancing routine processes, and its capacity to generate alpha directly remains uncertain.

In risk and compliance, gen AI applications can improve automated ***trade reconciliation*** by integrating additional text and other unstructured data, monitoring risk indicators in real time, and mass-automating compliance checks. Gen AI can play an especially useful role in ESG compliance by summarizing and documenting sustainability performance and matching risk indicators against established parameters. The goal is to handle ESG data in an intuitive fashion and gen AI programs can help by isolating relevant information across a wide range of contexts and consolidating it into a single easy-to-understand output. For the moment, however, regulatory compliance and other policy-related use cases still require human supervision to verify both the reliability of the sources and the accuracy of the outputs produced.

In investment operations, a specialized gen AI assistant can streamline ***internal corporate operations***, automating some processes and enhancing others. For example, a programme trained on corporate rules and procedures can handle requests for support that would normally be the responsibility of mid-office staff. Rather than identifying a qualified colleague and asking them for help, an employee who has a question about, say, compliance-related reporting requirements would submit that query to a gen AI assistant. Unlike a standard Boolean search, which would attempt to direct the user to the relevant policies in a fixed database, the gen AI assistant could instantly generate a response that creatively applies those policies to the situation at hand. In addition to developing bespoke applications, major players are already using off-the-shelf gen AI programmes to produce written and visual back-office documentation, including meeting minutes, proposals, and formal letters, allowing human employees to spend more time on value-adding tasks. While these capabilities are not unique to asset management, improving the efficiency of internal operations can give asset managers a valuable edge in a highly time- and cost-sensitive market.

While effectively integrating gen AI can offer asset managers a crucial advantage, the risks are as important as the rewards.

Leveraging gen AI's potential requires a keen understanding of its risks and limitations, only a few of which are discussed here. First and foremost, users must never forget that gen AI programs are not truly "intelligent" in the human sense. They realistically simulate cognition by drawing on a large pool of information and formulating outputs based on their probability, but they do not "think" in the way a human mind does. For example, Gen AI models lack the native ability to assess and compare arguments, either on a qualitative or quantitative basis. While the latest commercial applications have begun integrating traditional algorithms that allow them to perform basic calculations and make simple comparisons, gen AI outputs are still liable to contain obvious errors (known in the field as "hallucinations") that can have serious repercussions if they are not caught by human oversight. Consequently, commercially available gen AI productivity programs cannot yet be relied upon to autonomously produce and disseminate client-facing communications or perform compliance tasks without supervision.

A second, related constraint is that the quality of the outputs produced by gen AI correlates closely with the quality of the data on which the model has been trained. A program trained on inaccurate or biased information will reproduce those inaccuracies and biases. Skilled human analysts must still independently verify the factual correctness and impartiality of the training data, and technicians must continually upgrade the gen AI software to improve output quality.

A third limitation involves gen AI's inability to manage sensitive information without additional safeguards or to exercise independent judgement about the use of intellectual property. A gen AI program that has access to proprietary information may produce outputs that incorporate confidential data or that reproduce published work without proper authorization or attribution, creating potential liabilities. Similarly, confidential information typically cannot be input into commercial gen AI applications without being compromised, either by direct exposure to the staff that operate the model or because the program may draw on the information it receives and reproduce it for other users. These and other risks around the safe handling of sensitive data underscore the continued necessity of human oversight.

Finally, the so-called "black box" problem poses an especially serious risk for asset managers. Gen AI programs have the capacity to create outputs that are correct yet inexplicable. In other words, a program may identify patterns, predict outcomes, or reach conclusions without either the program itself or its human operator being able to describe exactly how it arrived at its results. This issue is not new – algorithmic trading programs have long struggled with explainability – but gen AI massively expands the range of situations in which a system may produce content without being able to "show its work". Because asset managers are frequently called on to describe their reasoning, defend their assessments, and explain their investment decisions, both to their clients and potentially to regulators, asset managers must not delegate executive functions to gen AI without adequate safeguards in place.

Gen AI will alter firms in complex ways, but managerial acumen will allow new leaders to stand out.

By automating labor-intensive tasks and streamlining internal corporate processes, gen AI has the capacity to blunt the advantages that scale offers to large incumbent firms. Small firms and startups can use gen AI to research market trends, assess changing customer sentiments, track the movements of competitors, and enhance the efficiency of back-office operations, enabling them to compete on price with larger firms. Gen AI could also allow independent asset managers to market their services directly to end customers by creating highly personalized yet efficient communications, eliminating a crucial barrier to entry into a key market segment. For example, independent asset managers who currently focus on third-party banking or other distribution channels could partner with dedicated technology firms to use gen AI-enabled hyper-personalized marketing to reach end clients directly.

Nevertheless, the major players in asset management have multiple strengths that could enable them to use gen AI to maintain and even enhance their edge. Well-established firms tend to have access to greater pools of proprietary information, and given an appropriate IT infrastructure and robust data-governance arrangements these resources could be used to build and train more effective gen AI applications. In addition, established incumbents could monitor high-risk experimentation among small firms and startups, then attempt to acquire or form partnerships with those that prove most successful, minimizing their own risk exposure. Some firms may also be better positioned to attempt to build a truly revolutionary dedicated gen AI model for an envisioned high-value use case, such as a pure investment alpha-seeking application. Creating a wholly new purpose-built gen AI model is extremely costly and difficult, and large firms that are more able to bear these risks would be more likely to reap the associated rewards.

In the absence of a transformative innovation, the most successful firms, both large and small, will be those that maximize value by continually integrating each new iteration of gen AI into their business models safely and with minimal friction. Developing the capability to identify, assess, pilot and, if promising, scale a GenAI application will become an essential differentiator. The seamless uptake of gen AI applications and platforms will require firms to develop an enabling IT architecture while cultivating the workforce skills necessary to identify promising technologies and apply them creatively to novel use cases. The main challenge will not be to identify and adopt the best gen AI applications, but to develop the workforce capabilities and organizational culture necessary to use those applications effectively. Firms will likely need to implement comprehensive change-management initiatives that train existing staff to leverage gen AI productivity tools while onboarding new talent with the unique set of IT and financial-services skills necessary to incorporate the technology into the firm's core functions while mitigating the risks involved.

The value of gen AI does not derive primarily from the quality of a given program or application, but from the ability of firms to integrate the technology into their business models.

Asset managers looking to leverage the potential of gen AI should begin by developing a clear perspective on how the technology can add value to their operations. An initial assessment should focus on identifying opportunities to enrich portfolio management with AI-generated insights, create tailored distribution and marketing strategies, streamline internal corporate processes, and automate compliance checks and other routine functions while maintaining an adequate degree of human oversight. Estimates of potential value should account for disparities between what an application is technically capable of accomplishing and what it can realistically achieve in the context of the firm's existing capabilities and infrastructure.

Comprehensive risk analysis is crucial to manage the challenges and limitations of any frontier technology. The capabilities of gen AI – particularly its ability to simulate reason and even display the appearance of personality – can lead unwary adopters to place too much trust in programs that remain deeply fallible. Pre-adoption assessments should carefully consider the risks intrinsic to gen AI, such as its tendency to generate obvious errors ("hallucination") or its propensity to produce inexplicable results (the "black box" effect), as well as specific risks stemming from its application to asset management, including threats to the integrity of proprietary information or potential liabilities arising from inadequately supervised compliance processes.

The quality of a firm's human resources will play a decisive role in maximizing the benefits of gen AI while minimizing the associated risks. The competition for talent will only intensify as gen AI applications become increasingly mainstream. Firms will need specialists capable of establishing the technical prerequisites for adopting gen AI at scale, which include both an adequate pool of high-quality structured data and the information architecture necessary to handle unstructured data. Sophisticated gen AI technical acumen combined with a practical knowledge of asset management is likely to be a particularly sought-after skillset and one that will be critical to address the full spectrum of risks. To build their talent base, firms could establish a dedicated recruiting strategy and onboarding procedures for gen AI specialists, and new hiring could be complemented by internal training programs designed to equip existing staff with the knowledge and skills necessary to safely utilize gen AI applications. After expanding and upskilling their human resources and building out their IT infrastructure, firms will need to implement an effective change-management initiative to ensure that the new technology is adopted consistently and utilized effectively across the firm.

2. Role of Asset Managers in Society and the Economy

2.1. A distinct industry

Asset managers possess unique qualities that differentiate them from commercial banks, insurers and other institutional investors. These characteristics allow them to fulfil a distinct and crucial role within the financial ecosystem.

- **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**: Regulated by specific guidelines, asset managers are obliged to act in the best interests of their clients and invest according to predetermined rules and principles. As such, they owe fiduciary duties to their clients, including responsibilities to exercise reasonable care, disclose conflicts of interest and act in good faith. Providing essential information to aid informed decision-making and reporting regularly on investment performance are part of their obligations vis-à-vis their investors.

- **Limited Balance Sheet Risk**: Unlike banks, asset managers do not provide credit to individuals or corporations, nor do they engage in custodial or related services. They do not act as counterparties in derivatives, financing or securities transactions. Specific constraints govern their use of leverage and borrowed money, and they must maintain sufficient regulatory capital, all of which fall under the oversight of relevant national authorities. This results in a minimal asset-liability mismatch, with the balance sheets of asset managers being significantly smaller than those of banks or 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. This ensures that clients' assets are safeguarded against a liquidation or failure of an asset manager, as their assets are held separately from those of the firm.

2.2. Serving the needs of investors

Asset managers offer clients access to a diverse array of investment products and solutions, each with different risk profiles. Typically, a fund distributor (often a bank advisor in continental Europe), a financial adviser or the retail investors themselves will customise combinations of these products to attain their desired risk/return balance.

For institutional investors, professionals such as consultants or the investment staff at a pension fund propose specific allocations between various financial instruments, asset classes, industries and geographical locations. They take into account the specific future liabilities of the investor, encompassing different time frames, levels and types of risk tolerance, necessary returns and liquidity requirements.

Providing risk-adjusted returns

Asset managers aim to achieve positive real returns on the assets they manage, while taking into account the risk profile and objectives of their clients. To illustrate the return opportunities offered by investment funds and other capital market instruments, we compared, in the upcoming second edition of **EFAMA's report on Household Participation in Capital Markets**, the expected value - at the end of 2022 - of EUR 10,000 invested at the end of 2012 in a hypothetical retail fund portfolio composed of equities (50%) and bonds (50%) with the value of this amount held in a bank deposit. Taking into account all costs, as well as the impact of inflation, the purchasing power of the fund portfolio reached EUR 12,805 by the end of 2022, whereas the real value of the bank deposit fell to EUR 8,526. This means that, despite the sharp falls in global financial markets over 2022, the opportunity cost of holding EUR 10,000 in bank deposits rather than in equity and bond funds can be estimated at EUR 4,279.

Mitigating investment risk

Asset managers mitigate overall investment risk by managing portfolios consisting of a range of 'risky' securities. The importance of diversification as an investment method has its roots in the work of Nobel Prize laureate Harry Markowitz. He formulated the idea that constructing a portfolio with multiple assets can yield higher returns without an increased level of risk.

To help make optimal decisions, asset managers depend on research, professional databases and specialised software packages. These tools assist the tracking of developments within those industries, countries and regions where they invest. The objective is to filter out poor investment prospects and identify potentially advantageous ones.

Reducing transaction costs

The capacity of asset managers to trade in large blocks of securities enables them to reduce transaction costs. As monitoring activities come at a cost, asset managers can leverage economies of scale, a benefit that households and certain other investors would struggle to attain.

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 obligations in the event that difficulties in financial markets occur.

2.3. Engaging with investee companies

Asset managers play a significant role as stewards of the companies they invest in, aiming to maintain and advance the long-term value of these investee companies on behalf of investors. This responsibility is often referred to as 'active ownership' or 'engagement'. Asset managers use their influence to guide the companies - and sometimes governments - represented in their portfolios toward generating sustained value for shareholders and bondholders.

Asset managers rely on two main levers to fulfil their stewardship objectives: 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 take part in general meetings and use their votes on behalf of their clients.

In Annex 1, we present concrete examples of recent engagement and voting activities from a core group of EFAMA corporate members (their logos below). These illustrate how asset managers can influence the boards and management teams of investee companies, challenge their business models and ultimately hold them to account.

abrdn

Allianz Global Investors

Amundi Asset Management

AXA Investment Managers

BlackRock

BNP Paribas Asset Management

Candriam – A New York Life Investments Company

Capital Group

DWS

Federated Hermes

Generali Investments

J.P.Morgan Asset Management

Natixis Investment Managers

Neuberger Berman

Ninety One

Ostrum Asset Management

Pictet Asset Management

Schroders

T.Rowe Price

2.4. Funding contribution of European asset managers

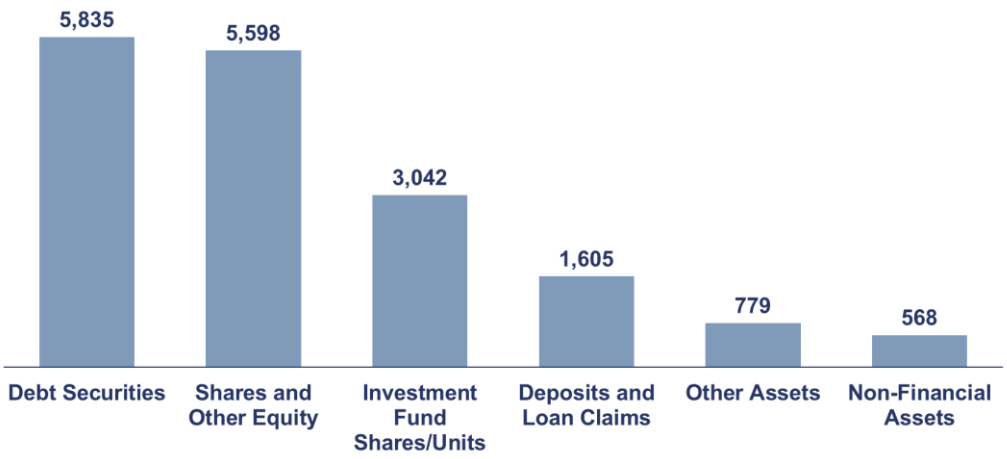
Arguably the most important role of asset managers is to channel savings toward investments in the real economy. They allocate capital from savers and investors towards governments and companies, thus enabling governments to invest in diverse growth projects and facilitating efficient companies to contribute to developing the economy. They do so by providing equity capital in both primary (IPOs and private placements) and secondary markets, as well as through debt financing to companies and governments. In this way, asset managers assist these entities in meeting their short-term funding needs and long-term capital requirements.

This section presents 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. We have focused on the euro area and show both the outstanding amounts and the transactions of investment funds. We have used data from the ECB to calculate the level of financing provided by investment funds domiciled in the euro area.

Investment fund assets

Euro area investment funds held a total of EUR 15.9 trillion of assets at the end of 2022. The two biggest asset classes held in their portfolios were debt securities and shares and other equity, with EUR 5.8 trillion and EUR 5.6 trillion, respectively. In the category of shares and other equity, listed shares represented approximately EUR 4.6 trillion.

EXHIBIT 2.1
Total assets in portfolios of euro area investment funds at the end of 2022
EUR billions



Source: EFAMA's calculation based on the ECB data

In the charts below, we can see the evolution of holdings of the two biggest asset classes of euro area investment funds – debt securities and listed shares.

EXHIBIT 2.2
Total holdings of debt securities by euro area investment funds
EUR billions

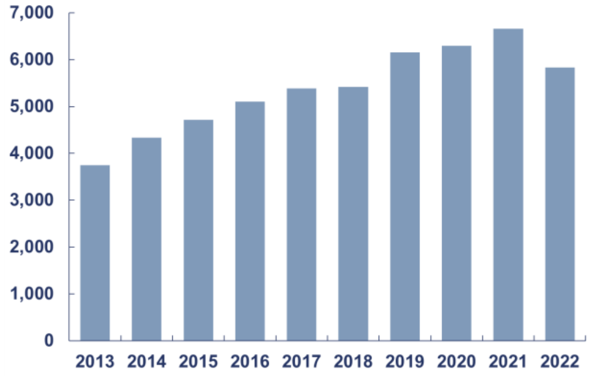
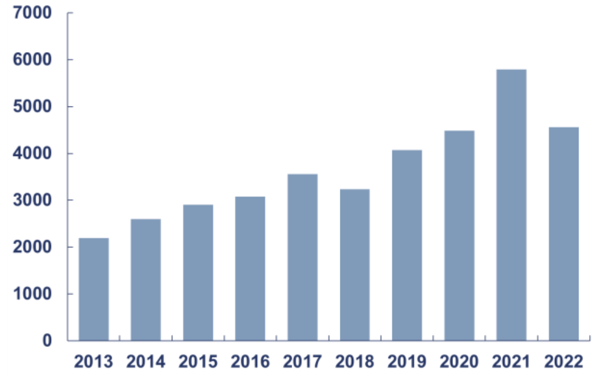


EXHIBIT 2.3
Total holdings of listed shares by euro area investment funds
EUR billions



Source: EFAMA's calculation based on ECB data

We see a sustained growth in both categories, with a slowdown in both 2018 and again in 2022, following the market downturn sparked by the war in Ukraine, the rise in inflation and the ensuing sharp tightening of monetary policy. Overall, the holdings of debt securities grew by 56% between 2013-2022, from roughly EUR 3.7 trillion to 5.8 trillion, whereas the holdings of listed shares increased by 107%, from EUR 2.2 trillion to EUR 4.6 trillion.

Funding contribution of investment funds

Investment fund managers seek attractive returns and portfolio diversification for their clients, and in so doing invest in securities and shares issued by governments and companies operating locally or globally.

Exhibits 2.4 and 2.5 show the levels of debt securities and listed shares issued in the euro area and owned by differing categories of domestic investors, as well as by foreign investors.

Euro area investment funds held EUR 2.7 trillion of debt securities issued within the euro area at the end of 2022. Of these, sovereign debt securities accounted for the highest amount (EUR 866 billion) followed by debt issued by non-financial corporations (EUR 488 billion).[vii]

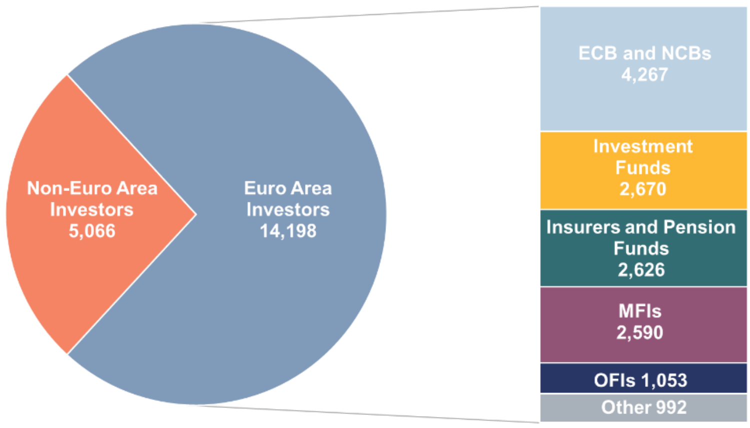
Euro area investment funds also held EUR 1.1 trillion of the shares issued in the euro area, of which EUR 894 billion were shares issued by non-financial corporations.[viii]

It can also be seen that foreign investors are also holding a sizeable proportion of the debt securities and listed shares issued in the euro area, thereby complementing the funding provided by investment funds.

EXHIBIT 2.4

Ownership of debt securities issued in the euro area at the end of 2022

EUR billions

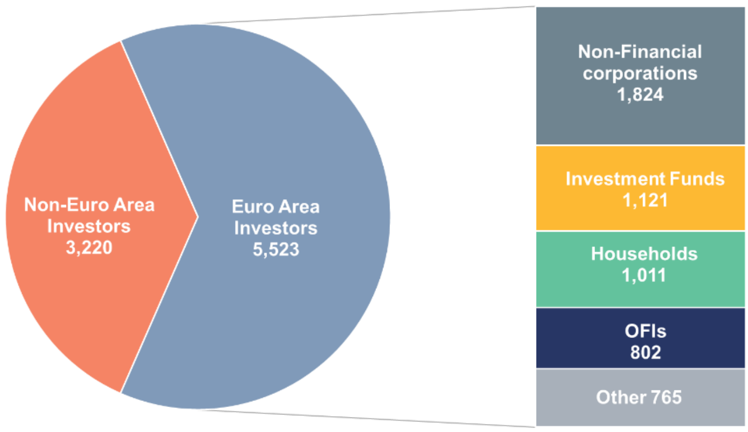


Source: EFAMA's calculation based on the ECB data

EXHIBIT 2.5

Ownership of listed shares issued in the euro area at the end of 2022

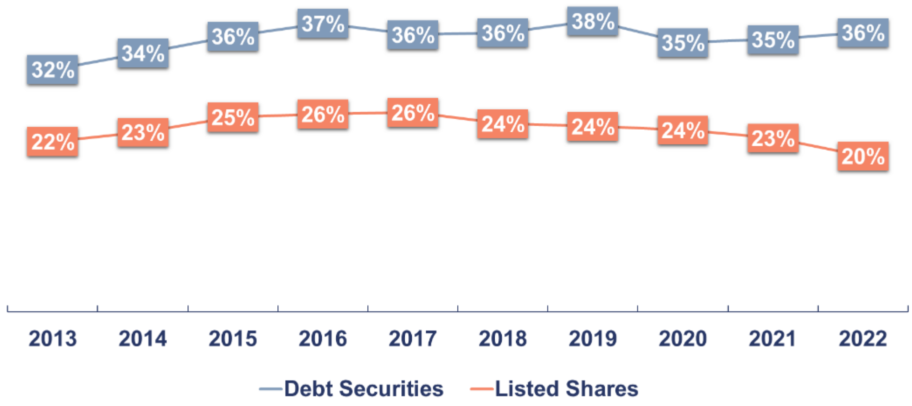
EUR billions



Source: EFAMA's calculation based on the ECB data

The euro area debt securities and listed shares held by euro area investment funds amounted to 36% and 20%, respectively, of the total amount of euro area debt securities and listed shares issued by non-financial corporations and held by investors domiciled in the euro area at the end of 2022. These percentages give an indication of the importance of the contribution of euro area investment funds to the financing of the euro area economy.

EXHIBIT 2.6
Share of euro area investment funds in the total amount of securities issued by domestic non-financial corporations and held by investors domiciled in the euro area
percent



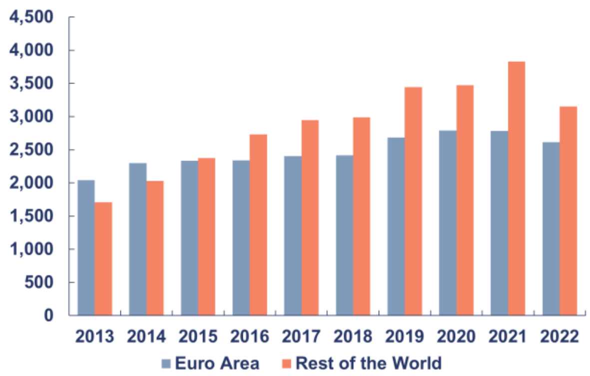
Source: EFAMA's calculation based on the ECB data

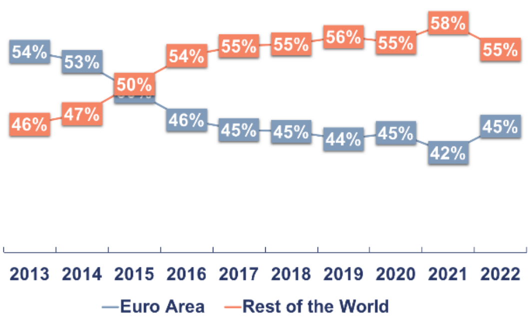
Funding contribution of investment funds outside of the euro area

Not only do euro area asset managers fund the euro area economy, but they also contribute to the economic activity in the rest of the world. By managing their clients' portfolios, they enable investors to allocate their financial resources across the world.

Exhibits 2.7 and 2.8 show the evolution of the outstanding amounts of debt securities and listed shares held by euro area investment funds, issued both inside and outside the euro area, as well as their relative shares.

EXHIBIT 2.7
Outstanding amounts and proportions of debt securities held by euro area domiciled investment funds and issued inside and outside of the euro area
EUR billions, percent





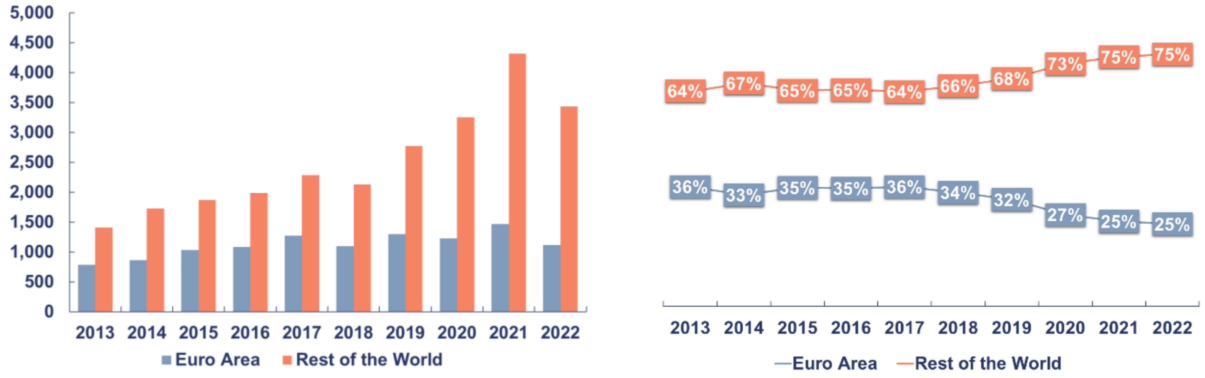
Source: EFAMA's calculation based on the ECB data

Since 2015, euro area investment funds have held a higher proportion of debt issued outside the euro area than domestically, and the trend continues. At the end of 2022, the share of debt securities issued within the euro area amounted to EUR 2.7 trillion, representing 45% of the total of debt securities held by euro area investment funds. Debt securities issued in the United States and held by investment funds amounted to EUR 1.2 trillion.

EXHIBIT 2.8

Outstanding amounts and proportions of listed shares held by euro area domiciled investment funds and issued inside and outside of the euro area

EUR billions, percent



Source: EFAMA's calculation based on the ECB data

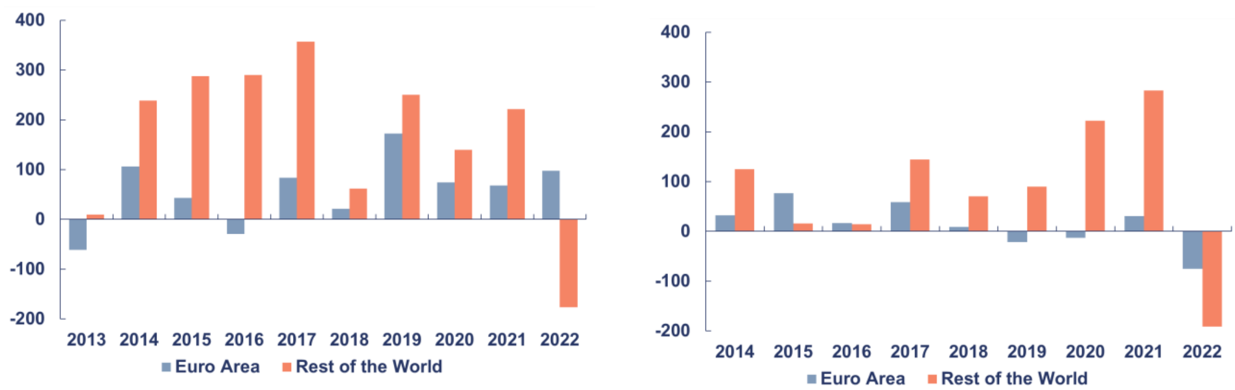
Euro area investment funds also held a significantly higher proportion of listed shares issued outside of, rather than within, the euro area at the end of 2022, i.e., 75% compared to 25%. This overall trend of investing considerably more outside of the euro area than domestically has been observable throughout the last decade.

Exhibit 2.9 reports the net purchases of debt securities and listed shares by euro area investment funds. We observe higher net purchases of debt securities issued outside of the euro area than domestically throughout the last 10 years. The exception was 2022, when euro area investment funds continued to purchase debt securities issued in the euro area (EUR 98 billion), while they sold a net equivalent of EUR 177 billion of debt securities issued outside of the euro area.

EXHIBIT 2.9

Euro area investment funds' net purchases of debt securities (left) and listed shares (right) issued in the euro area and the rest of the world

EUR billions



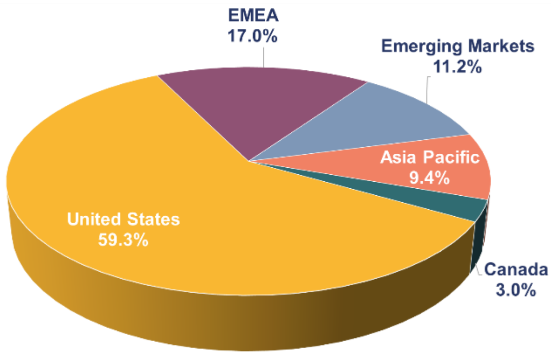
Source: EFAMA's calculation based on the ECB data

During the last decade, euro area investment funds also invested more in listed shares issued outside the euro area in all years, except in 2015. In 2022, they disinvested larger levels of listed shares issued outside of the euro area.

This trend may be explained in part by the growing share of global equity fund assets in the UCITS market, from 64% at the end of 2013 to 69% at the end of 2022. As those funds in general follow a benchmark against which they compare their performance, their asset allocation is strongly influenced by the composition of the benchmark. As can be seen in Exhibit 2.10, the share of the United States in the MSCI ACWI Investable Market Index is significantly higher than that of other countries. Moreover, the share of US companies increased by 11.6 percentage points between end March 2013 and end March 2023.

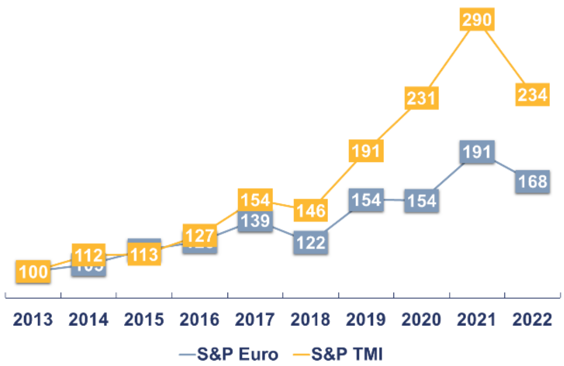
Several factors contributed to the increased share of US companies in the world equity index: strong economic growth, the leading role of US technology companies, and the relative performance of US equities relative to other global regions, which may have impacted investor preferences. By way of illustration, Exhibit 2.11 confirms that the S&P Total Market Index (comprising all stocks in the United States) had a better performance than the S&P Euro Index (reflecting the stocks in the euro area) in 2014-2022.

EXHIBIT 2.10
MSCI ACWI IMI - Country breakdown



Source: EFAMA's calculation based on the MSCI data

EXHIBIT 2.11
Indexed S&P Euro versus S&P TMI - Total returns
Base year 2013 (value = 100)



Source: EFAMA's calculation based on S&P Dow Jones Indices

Data, Data, Data
The EFAMA perspective on consolidated tape
Author: Susan Yavari

In the fall of 2023, almost two years after the European Commission published its proposal for a review of the MiFID directive, the legislative process came to an end and a new text was agreed. The initiative, of course, has as its key objective to bolster the Capital Market Union by improving access to market data, reforming market structure and finding a way to regulate the growing market practice of PFOF. Access to trading data is critical for all market participants, but even more so in a highly fragmented market like Europe's where between traditional exchanges, MTFs and SIs, execution venues number in their hundreds.

Unsurprising then that the asset management industry kept a sharp focus on the reforms that would deliver a consolidated tape and strengthen the legal framework around market data costs. For the latter we think of Article 13 MiFID and the principle of market data provided on a 'Reasonable Commercial Basis'. So, did the reforms deliver in the end? The ultimate test is probably a few years away, with revised ESMA guidance and the launch of consolidated tapes on market data for European trading venues. But we would still venture to say yes, we are in a much stronger position as a result of the review. With only a few qualifiers, the new provisions for the establishment of a CT and the strengthened article 13 should address Europe's transparency and access to data challenge.

On Article 13, the new rules empower ESMA to define RCB as the cost of producing and disseminating the data, with a reasonable margin for the data provider. Data fees must be connected to this calculus. Furthermore, ESMA can request to review cost data and it will publish new standards on cost disclosures and transparency on pricing policies. We also expect an old provision that allowed data providers to charge for data according to the value it represents to the user, to be overturned. All of these changes should make the market for data fairer and more equitable and should prevent the major yearly price hikes of the past which were purely driven not by any input or cost inflation for the providers, but simply because as quasi-monopolists they could extract any price from the market.

Incidentally, the consolidated tape, when it sees the light of day will be held to the same standards as far as the fair pricing of the tape. But in talking about pricing, we get ahead of ourselves. One of the key discussion points in the two-year long negotiations revolved around the content of the equities tape. Should the data be delivered in real-time? Should ETF data be bundled with Equities data? Should pre-trade data be included alongside post-trade data? The answer to these questions was a firm yes for data users. In order for the equities tape to succeed it had to contain meaningful data, which is why EFAMA pushed for an ambitious tape. In the final deal we do get pre-trade equities/ETF data, however it is only one level of quote, European best bid and offer and the venue will be anonymized. We can do better, and hopefully the Exchanges will come to realise that what is good for market participants is good for them. There is a review planned for June 2026 in which some of the features of the Equities CT can be modified. Another key aspect still to be determined is a robust governance framework around the provider of the tape, to ensure fair pricing, adaptation of the tape to market demand, and quality of the data.

What is under no doubt is that the consolidated tape will provide a major boost for European and global investors trading on European exchanges. The full picture of European prices and liquidity will be made available to investors, providing that confidence to trade and invest in our markets. This will finally put Europe on a par with the United States in terms of transparency and accessibility of data to drive investor interest.

3. Clients of the European Asset Management Industry

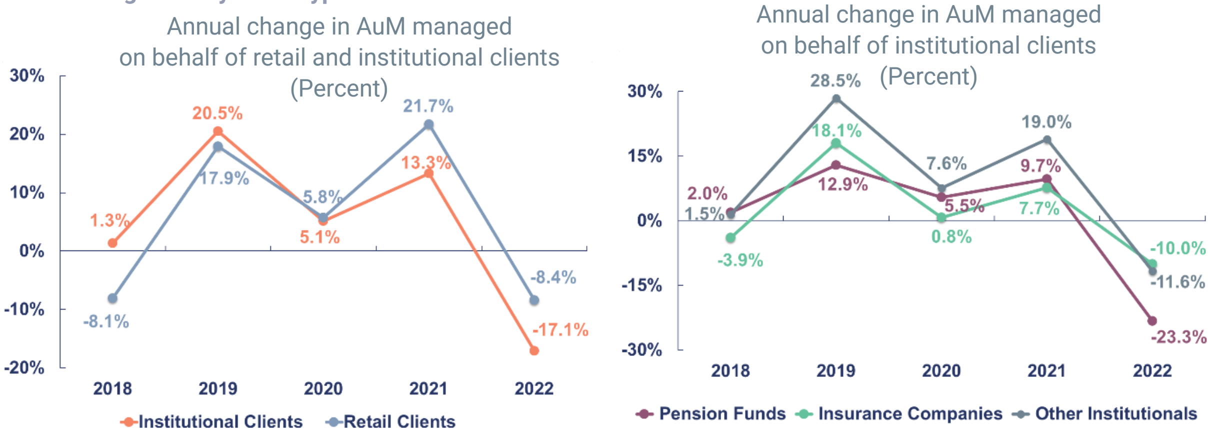
3.1. Clients at the European level

Asset managers serve two main types of clients: retail and institutional. Retail clients are individual investors, primarily regular household investors but also include high-net-worth individuals (HNWIs). All other clients are institutional, the main types of which are pension funds, insurance companies and other institutions such as charities, foundations, holding companies and large corporations.

Institutional clients dominate the asset management industry. This is because they manage large amounts of financial assets and often outsource the management of all, or a significant portion, of their assets to external asset managers. Following three consecutive years of asset growth, in particular in 2019 and 2021, the assets managed on behalf of both retail clients and institutional clients declined in 2022, by 8.4% and 17.1%, respectively.

EXHIBIT 3.1

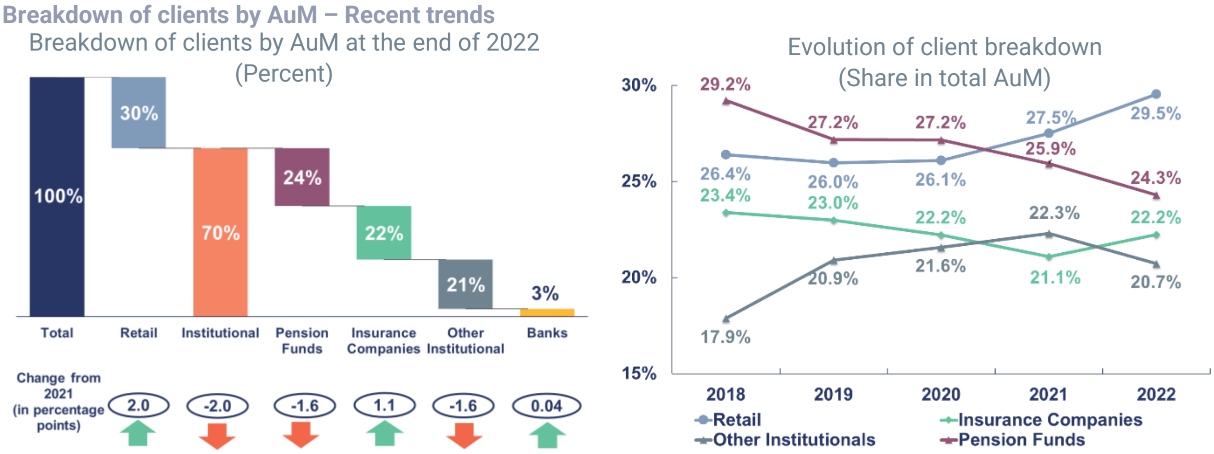
AuM asset growth by client type – Recent trends



The stronger increase in the AuM managed for retail clients in 2021 - which was followed by a smaller decline in 2022 - led to a significant increase in the share of retail clients in total AuM, from 26% in 2020 to almost 30% in 2022.

EXHIBIT 3.2

Breakdown of clients by AuM – Recent trends



The substantial difference in the growth of assets managed for retail clients in 2021-2022 is consistent with the significant amounts of new money invested by European households in capital market instruments over these two years. Indeed, retail investors bought record amounts of investment funds in 2021 and continued to purchase funds in 2022.[ix]

Throughout 2020-2022, several factors explain this renewed retail appetite for funds and other capital market instruments.

- The rebound of stock markets a few months after the start of the pandemic. This followed the determined policy actions by central banks and governments to cushion the economic blow, the huge amount of savings at the start of the pandemic, the sentiment that the downturn would be of short duration and the media coverage of meme stocks. These were some of the factors that encouraged many retail investors to invest in capital market instruments, particularly in listed shares in 2020, and in investment funds in 2021.

- The surge in inflation in Europe, in an environment where banks were slow to increase interest rates on saving accounts, also encouraged savers to shift some of their deposits to capital market instruments, in order to preserve purchasing power.

- The rise of easy-to-use online investment platforms and information channels empowered retail investors - particularly younger investors - to participate in the markets in a relatively simple, cost-effective manner. In France, the proportion of younger people among retail investors reached record levels in 2023, with 38.5% of new equity investors under 35 and an unprecedented 14.1% of new investors under the age of 25.[x]

Despite ongoing volatility in the stock markets and a slowdown in inflation, European retail investors appear to continue investing net new money into funds in 2023.[xi]

The share of pension funds peaked in 2018, mainly due to the robust expansion of the sector in the UK because of the introduction of an automatic pension enrolment scheme in 2012. Subsequently, as this programme matured, the share of pension funds in total AuM gradually declined, falling to 24.3% in 2022. This was mainly due to the significant decline in the valuations of bonds managed on behalf of UK pension funds.[xii]

The share of insurance companies steadily declined during 2019-2021. This was a consequence of two factors; the prolonged low interest rate environment, which rendered traditional life insurance contracts less attractive, and the Solvency II rules, which led to a lower level of exposure to equity compared to pension funds. As a result, insurers benefited less from the strong performance of stock markets until the end 2021. In 2022, the share of insurers rose to 22.2%, as they suffered less from the market downturn than pension funds and other institutional investors.

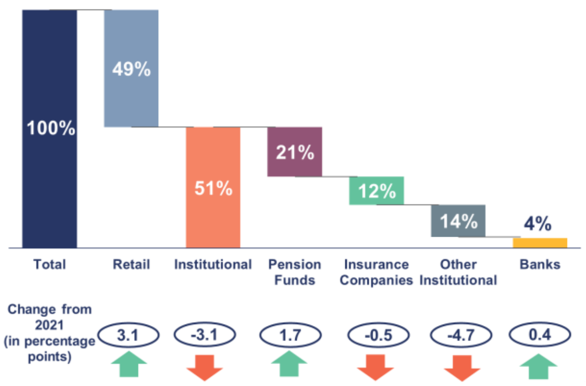
The share of other institutional investors increased gradually from 2018-2021, mainly because of stronger-than-average growth in their assets.[xiii]

Investment funds and discretionary mandates are typically geared toward different types of clients. In the investment fund market, retail clients are the main client. However, certain institutional clients, specifically pension funds and - to a lesser extent - insurers and other institutional clients, also invest a sizable proportion of their portfolios into investment funds.

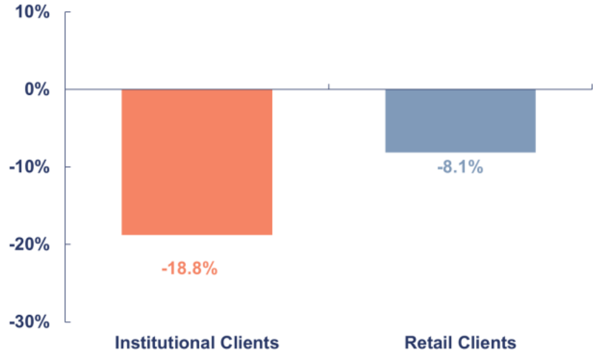
EXHIBIT 3.3

Breakdown of clients by AuM – IF vs. DM

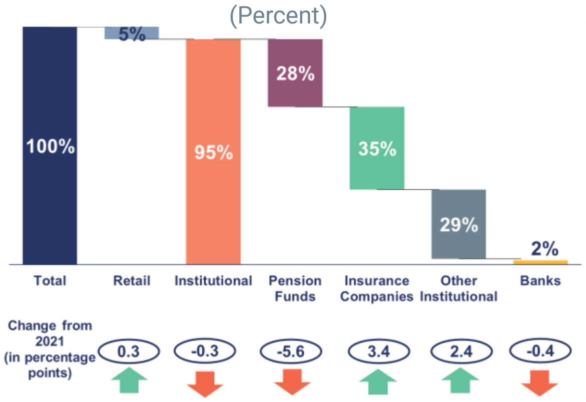
Breakdown of investment fund clients by AuM at the end of 2022
(Percent)



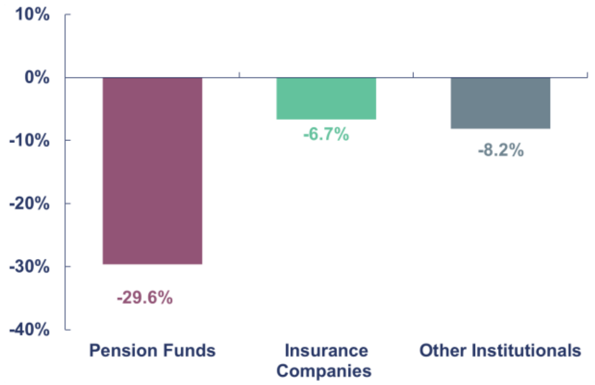
Change in 2022 in AuM managed on behalf of investment fund clients
(Percent)



Breakdown of discretionary mandate clients by AuM at the end of 2022
(Percent)



Change in 2022 in AuM managed on behalf of the main discretionary mandate clients
(Percent)



These charts include figures for only a subset of countries. Data on the following countries are included: Austria (IF only), Bulgaria, Czech Republic, Denmark, France, Germany (*IF data based on client types of open-ended Spezialfonds domiciled in Germany*), Greece, Hungary, Italy, Poland (IF only), Portugal, Romania, Slovenia, Spain, Switzerland, Turkey and the United Kingdom.

The share of retail clients grew by 3.1 percentage points in 2022, mainly because AuM managed on behalf of retail investors declined significantly less than those managed for institutional investors (a fall of 8% compared to 18%).[xiv]

In the discretionary mandate market, institutional clients dominate with a market share of about 95%. This primacy is largely due to the inherent nature of mandates, which typically involve substantial minimum investment amounts, making them much less accessible to retail investors. In addition, mandates cater to the intricate investment needs of clients, offering specialised solutions including asset-liability management, liability-driven investments and the segregation of alpha- and beta-investment strategies. It is mainly large investors - in terms of investable assets - that require such specific investment requirements.

Nevertheless, the emergence in recent years of robo-advisory services and online investment platforms has expanded opportunities for retail clients to engage in the markets through discretionary mandates.

This is evident in the increase in the retail investor share observed in 2022. The sharp drop in pension fund AuM (down 29.6%) was mainly due to a drop in mandates managed on behalf of UK pension funds, as explained earlier in this section.

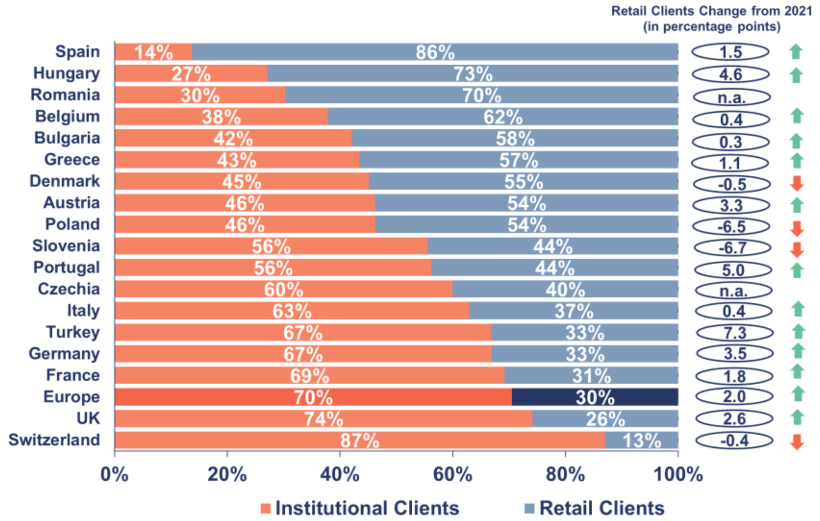
3.2. Clients at country level

When examining the breakdown of the clientele of asset managers throughout Europe, notable differences are apparent between countries. These disparities are shaped by factors such as the structure of national pension systems, the role of insurance products in retirement savings, the involvement of banks in retail investment product distribution and the cross-border activities of asset managers, along with their capacity to attract capital from international investors.[xv]

EXHIBIT 3.4

AuM by type of client at the end of 2022 – country-level data

Share in total AuM



Note: Spanish data does not include comprehensive figures on mandates, only on discretionary portfolio management.

Looking at the evolution of the share of retail clients since end-2021, we can see that this increased in 12 countries and declined only in four. This indicates that the renewed retail appetite for funds in 2022 at a European level has not been driven by a shift in a single large country, but rather is broad-based across the bulk of European countries.

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

- In the **UK**, pension funds remain the largest individual client group of asset managers in terms of AuM, although their share declined from 40% in 2021 to 34% in 2022.[xvi]

- Asset managers in **France** mainly serve the insurance industry, in both the mandate and fund markets. Investment funds are used widely in French workplace pension schemes. In addition, money market funds play an important role in cash management for many French corporations.

- 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.

- In **Switzerland**, asset managers predominantly serve institutional clients in both the mandate and fund segments. Notably, bank clients constitute 11% of the Swiss market, a significantly higher proportion than in other European countries, where such clients are negligible. However, this is not surprising given the overall size of the Swiss banking sector.

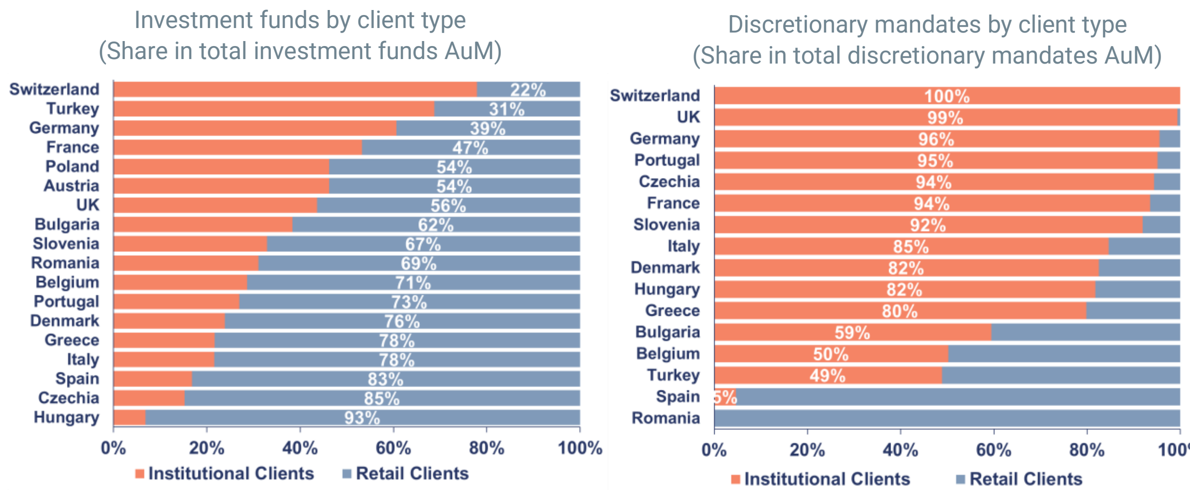
- Asset managers in **Italy** mainly focus on offering mandates, with insurance companies as the main clients. Conversely, funds are predominantly oriented towards the retail market.

- In the **Netherlands** and **Denmark**, with their large second-pillar pension systems, pension funds are the industry's main clients. In the Netherlands in recent years, pension funds have been shifting from fund wrappers to more discretionary mandates, because of the more advantageous capital requirements available under the new IFR/IFD prudential rules.

- In **Spain**, funds enjoy significantly greater popularity than mandates. Funds managed by Spanish asset managers are chiefly directed at retail investors. Spanish data on mandates only covers discretionary portfolio management and therefore will be predominantly focused on retail clients.

EXHIBIT 3.5

Investment funds and discretionary mandates by client type at the end of 2022 – Country-level data



Note: Spanish data does not include comprehensive figures on mandates, only on discretionary portfolio management.

3.3. Domestic and foreign clients

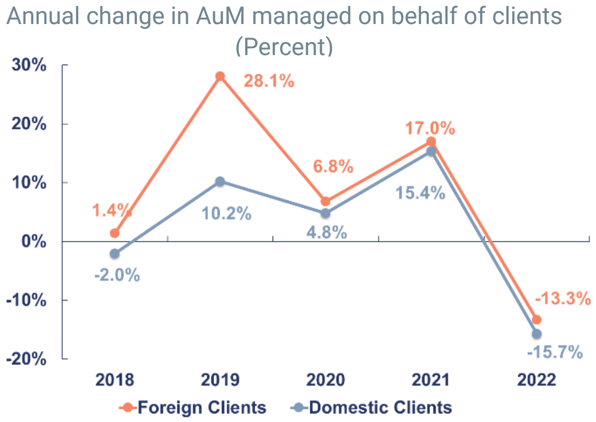
AuM managed for domestic clients represented 67.9% of the total at the end of 2022, down from 72.3% in 2018. This decline mirrors the increasing significance of foreign clients among the clientele of European asset managers. These developments were driven by consistently higher growth of AuM managed on behalf of foreign clients compared to domestic clients. These trends are in line with one of the key goals of the Capital Markets Union (CMU), which is to further integrate national capital markets into a genuine single European market.

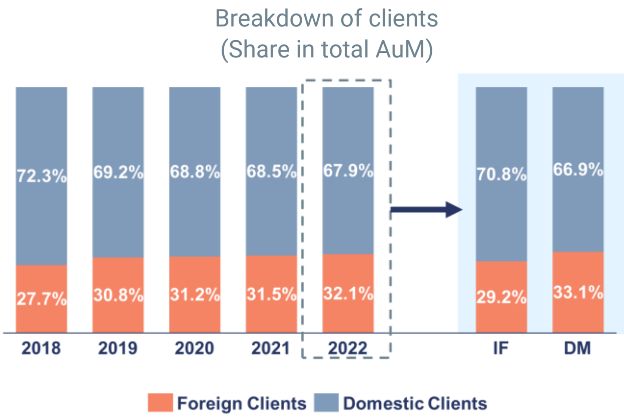
Examining the foreign client proportions within the fund and mandate markets separately, the share of foreign clients is slightly higher in the mandate market than in the fund market (33.1% compared with 29.2%). This is primarily due to the high percentage of European mandates being managed in the UK, where the asset management sector has more international clients.[xvii]

Another contributing factor is the fact that 95% of the mandate assets are managed on behalf of institutional clients. These can typically explore cross-border options when seeking asset management services more easily than retail clients.

EXHIBIT 3.6

Domestic and foreign Clients – Recent trends



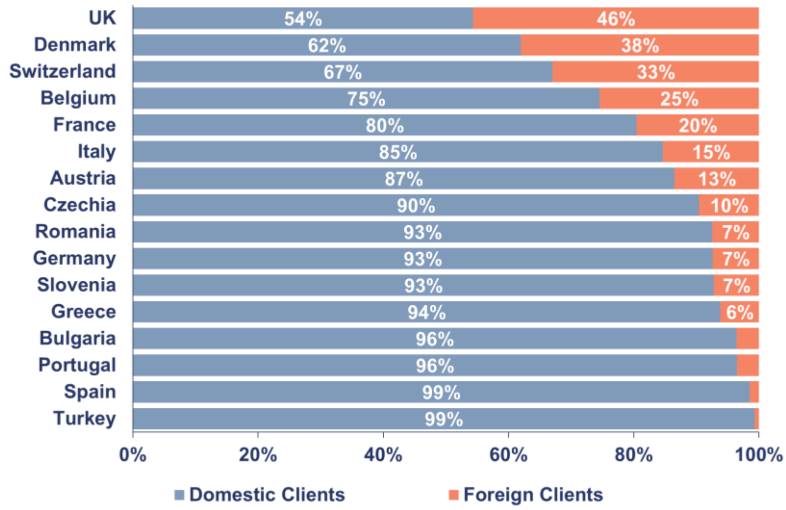


Drilling down into the country data, the share of AuM being managed on behalf of foreign clients was the highest in the UK. At the end of 2022, it stood at 46%, compared to 40% in 2017. This substantial percentage underscores the position of London as a pivotal international hub, serving as the operational centre from which global asset management companies actively manage their assets.

EXHIBIT 3.7

Domestic and foreign Clients – Country-level data

Share in total AuM



However, it was not only in the UK that the asset management sector became more international. In several European countries, the share of foreign clients has gradually increased in recent years. By way of illustration, in France, the share of foreign clients climbed from 15% in 2020 to close to 20% in 2022. A similar trend is also apparent in European countries such as Belgium, Denmark, Portugal and Slovenia.

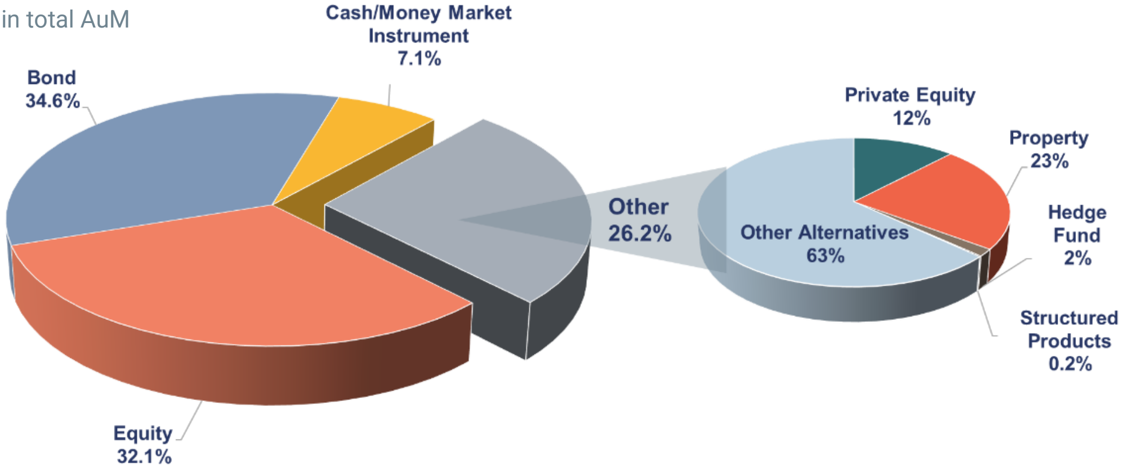
4. Asset Allocation in Europe

4.1. Investment portfolios

The asset allocation of investment portfolios mirrors the guidelines defined by asset owners in discretionary mandates and the diverse investment objectives pursued by investment funds. At the end of 2022, bond assets accounted for 34.6% of the assets managed in Europe, compared with 32.1% for equity assets and 7.1% for money market and cash equivalents. The remainder of the portfolios (26.2%) are made up of 'other' assets.

Other assets encompass a wide range of different products, such as private equity, hedge funds, property and other types of assets such as securitised debt, infrastructure or commodities. What all of these have in common is that these so-called 'alternative' assets tend to be less liquid. According to our estimates, 23% of these are invested in real estate and 12% in private equity, with hedge funds accounting for a further 2%. The remaining 63% cover other types of alternative investment strategies.

EXHIBIT 4.1
Asset allocation at the end of 2022
Share in total AuM



Bonds have always been the leading asset in the portfolios of European asset managers. This reflects the importance of institutional clients, who generally treat bonds as safe instruments for preserving capital, generating predictable income streams and meeting regular payment obligations vis-a-vis their end investors. This was further reinforced by the implementation of Solvency II regulatory constraints for insurers.

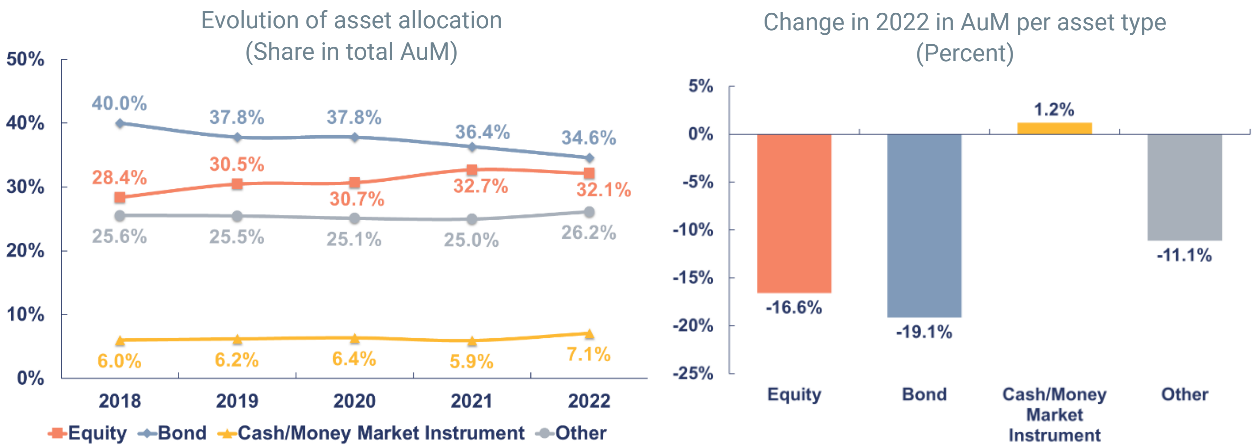
However, the share of bonds in overall asset allocations has gradually declined since 2018. This decline was particularly strong in 2022, as rising inflation and the turn of the interest rate cycle hit fixed-income values. In nominal terms, bond AuM dropped by more than 19% over 2022.

Mirroring this, the share of equities in the asset allocation of asset managers increased steadily to a high of 32.7% at the end of 2021, driven by the overall strong performance of stock markets over that period. Despite the sharp fall in stock prices in 2022, the share of equity assets was only slightly lower in 2022.

As a result of the decline in the valuation of stocks and bonds, the cautious approach taken by asset managers in 2022 and the increasing demand for liquidity in a highly volatile market environment, the shares of cash/money market instruments and other assets increased accordingly. Cash/money market instruments were the only asset class to register an actual increase in nominal AuM in 2022 (1.2%).

EXHIBIT 4.2

Asset allocation – Recent trends



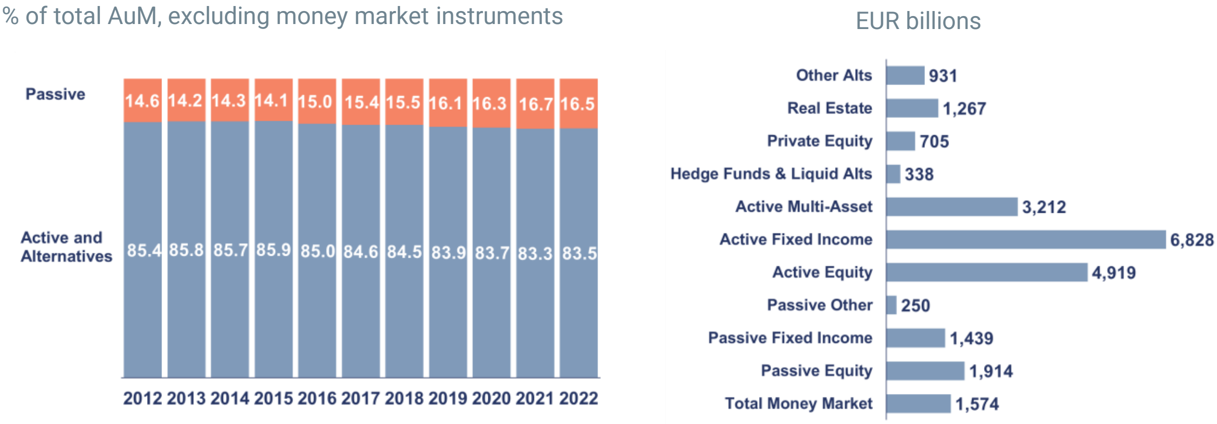
It is likely that the share of bonds will increase again in the coming years as inflationary pressures ease and the end of monetary tightening comes into sight. Recent increases in the yields of government and corporate bonds mean that there is less need for pension funds and insurers to move into higher-returning but less-liquid and riskier assets.

Another important trend in the asset managers' allocation choices is the gradual rise in the share of passive asset management, particularly between 2016-2021. This has coincided with the rapid growth in exchange-traded funds (ETFs), which are largely passive, index-tracking vehicles.[xviii] The steady decline of the fees of passive investment strategies to extremely low levels[xix] is the main driver behind this evolution.

EXHIBIT 4.3

Western European AuM by investment style and asset class

% of total AuM, excluding money market instruments



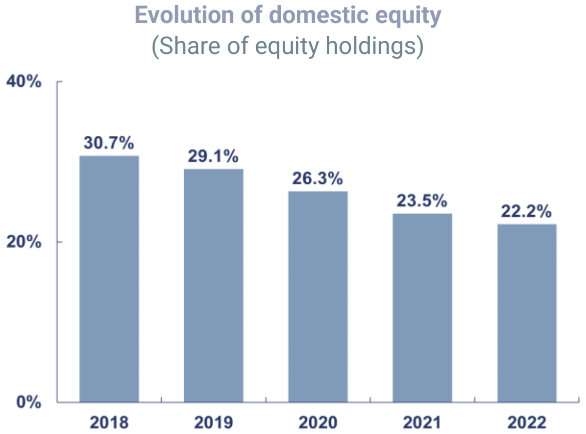
Source: McKinsey Performance Lens Global Growth Cube

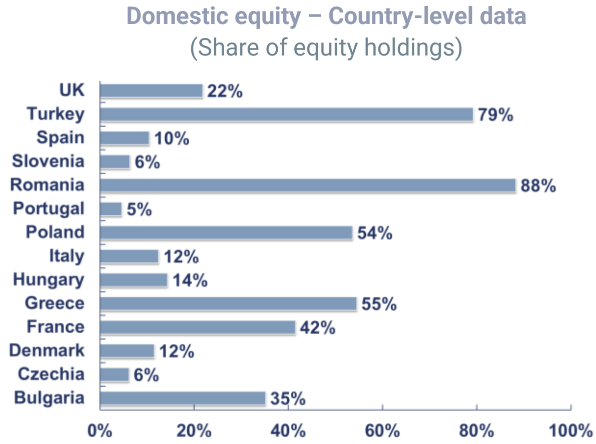
Domestic equity holdings of European asset managers have experienced a gradual decline, from close to 31% in 2018 to approximately 22% at the end of 2022.

The share of domestic equity does vary significantly between asset managers in Europe and tends to be higher in smaller countries. There are three reasons for this. First, asset managers in smaller countries tend to have a competitive advantage in managing local stocks whereas global asset managers may not necessarily be interested in investing resources in managing stocks of smaller companies because of the relatively lower demand for stocks issued in smaller countries. Second, a degree of 'home bias' can fuel demand for local stocks and encourage local asset managers to manage domestic equity funds in some countries. Third, other issues - such as regulatory constraints and exchange rate risks - can also have an impact.

EXHIBIT 4.4

Asset allocation in domestic equity – Recent trends and country-level data

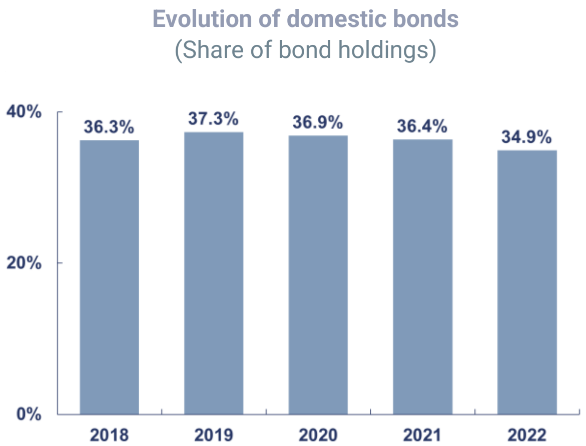


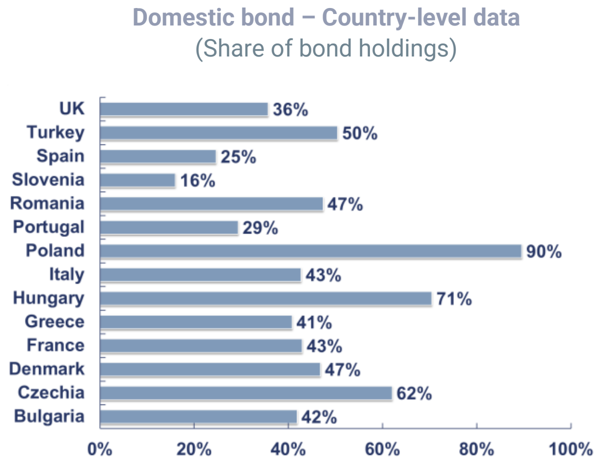


Asset managers tend to hold a higher percentage in domestic bonds than they do in domestic equity. However, the share of domestic bonds held by European asset managers has gradually declined since 2019, albeit at a slower pace than in the equity holdings. Across countries, there is wide variation in the share of local bonds, for reasons similar to those explaining the share of domestic equity.

EXHIBIT 4.5

Asset allocation in domestic bond – Recent trends and country-level data





European Alternative Investment 2023

A perspective by Cerulli Associates

The Cerulli Report, 'European Alternative Investments 2023 – Helping Investors Diversify'[xx], explores the European alternative investment landscape, covering institutional investors and private banks and examining the opportunities for selling illiquid investments to retail clients further down the wealth curve.

The report draws on Cerulli's interviews throughout the year, as well as 38 dedicated interviews exploring the European alternative investment landscape with institutional investors, wealth managers and private banks and alternative asset managers. The research was also supported by two proprietary surveys, one of European private banks and wealth managers and one of European institutional investors. A total of 153 private banks and wealth managers across the UK, Switzerland, Germany, Italy and France completed Cerulli's European private bank and wealth manager survey, conducted in January 2023. A total of 207 European pension funds and insurance companies across the UK, Switzerland, Germany, Italy, France, the Nordics and the Netherlands completed Cerulli's European institutional investor survey, conducted between December 2022 and January 2023.

The section below provides a high-level overview of recent trends in the private wealth allocations to private markets in Europe.

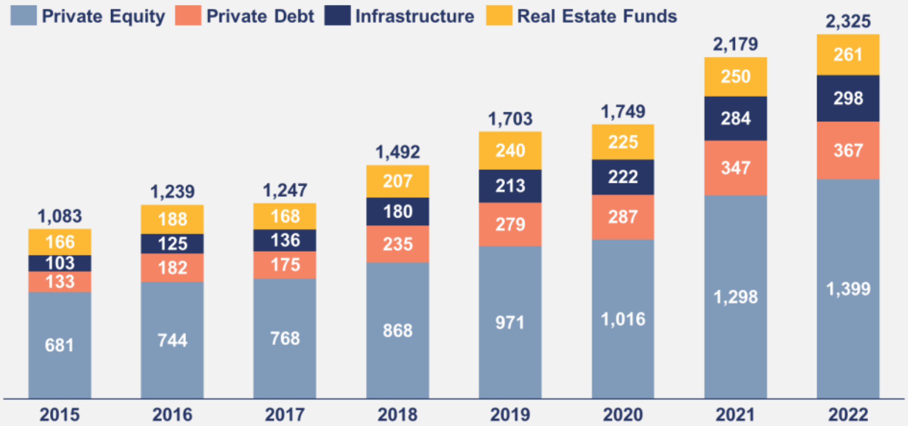
1. Assets under management at the end of 2022

Asset managers headquartered in Europe saw their private market assets grow to EUR 2.3 trillion in 2022.[xxi] Private equity continued to represent a large share (60%) of total assets. Despite a significant drop in fundraising activity in Europe, the private equity asset class as a whole continued to grow in Europe in 2022, albeit at a slower pace than previously. Europe-based private equity managers saw their AuM rise to around EUR 1.4 trillion as of the end of 2022, which represented 7.8% growth during the year compared to 27.8% growth in 2021. Venture capital managers attracted the most assets and their market share increased from 14.8% in 2015 to 23.2% in 2022; buyout funds attracted the least capital in 2022 and saw their AuM decline by 0.1%.

Figure 1

Private assets under management, 2015-2022

EUR billions



Source: Pitchbook

The growth of private debt AuM slowed in 2022. Europe-based private debt managers recorded a modest 5.9% increase in their assets in 2022, a significant decline from the 21% growth rate in 2021. European infrastructure assets have nearly tripled since 2015, with opportunistic and value-add strategies growing at the fastest rates. Core infrastructure represents around half (46%) of total infrastructure assets.

European real estate funds held EUR 261 billion in AuM as of the end of 2022, with opportunistic strategies representing the largest segment of this asset class (46%).

2. Perspectives on the owners of private assets

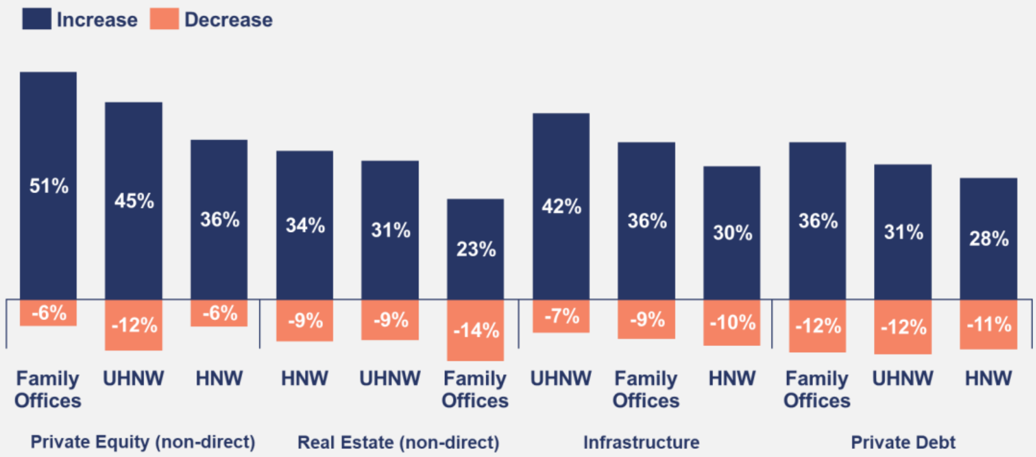
Institutional investors remain the major allocators to private assets in Europe. In contrast, European high-net-worth (HNW) and ultra-high-net-worth (UHNW) investors are still underexposed to private asset classes. However, this is expected to change. Even a few percentage point increases in HNW and UHNW investors' allocations to private assets will lead to a significant increase in the asset pool available for private investment managers.

Private equity and infrastructure will be the asset classes most sought by UHNW investors over the next three to five years, Cerulli's survey of private banks and wealth managers found. Around 45% said their UHNW clients' allocations to private equity and infrastructure will increase; only 31% expect their UHNW clients' allocations to real estate and private debt to increase. Private debt will remain the least attractive asset class for these investors.

HNW investors' allocations to private assets are also expected to grow over the next three to five years, albeit at a more moderate pace than those of UHNW investors and family offices. Private equity will be the asset class most sought by HNW investors, Cerulli's survey of private banks and wealth managers found. More than a third (36%) of respondents said that their HNW clients' exposure to private equity will increase over the next three to five years; some 51% said that their family office clients' allocations to private equity will increase over the same period.

Figure 2

Anticipated asset allocation changes to private assets over the next 12–24 months by investor type, 2023



Source: Cerulli Associates

Despite HNW and UHNW investors' growing appetite for private assets, several challenges need to be addressed to speed up the democratisation of private assets. Nearly half of the private banks and wealth managers Cerulli surveyed said that lack of liquidity, high fees and clients' risk aversion are the leading concerns preventing them from increasing private investments within their clients' portfolios.

Although none of these concerns will go away anytime soon, Cerulli believes that product innovation, more permissive regulation, client education and new technologies—especially tech platforms—will help to address some of them over the next three to five years.

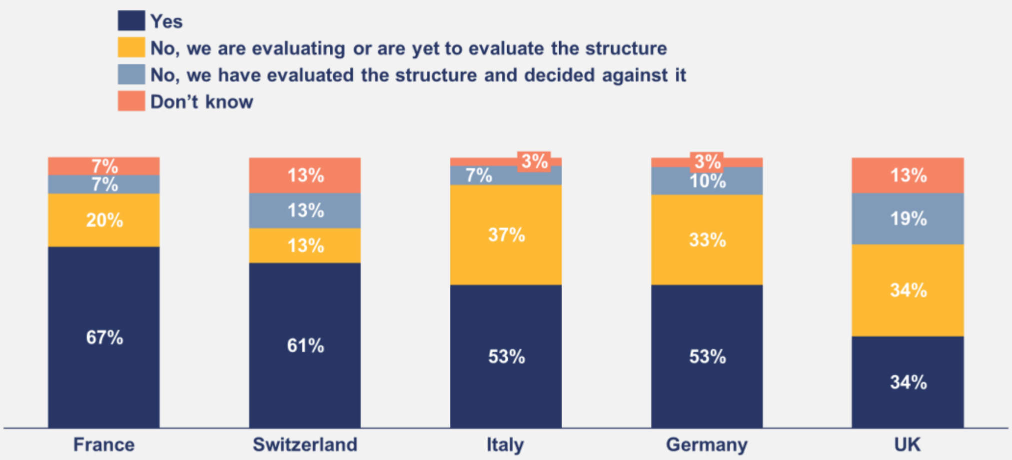
Figure 3
Private banks and wealth managers:
Main barriers to further increasing private investments within clients' portfolios, 2023

Source: Cerulli Associates | Analyst Note: Respondents were asked what the main barriers to further increasing private investments within their clients' portfolios are.

3. Product innovation

Many different investment vehicles provide exposure to private assets, but most product innovation is happening in the semi-liquid and ELTIF space.

Figure 4
Private banks and wealth managers: Views on investing in or offering ELTIFs, 2023



Source: Cerulli Associates | Analyst Note: Respondents were asked if their firms invest in or plan to offer ELTIFs to their clients.

Semi-liquid funds typically provide some liquidity through multiple tools, including credit facilities or cash balances to fund capital calls. They are becoming more popular among wealth managers and individual investors. Cerulli believes that those semi-liquid products yet to come to the market will need to be relevant, to provide diversification benefits, and to have a strong focus on sustainability. In addition, Cerulli sees increasing demand for hybrid semi-liquid products. Nearly half (49%) of the private banks and wealth managers Cerulli surveyed prefer multi-asset private market products.

The ELTIF is another area that represents significant opportunities for asset managers targeting private wealth channels. ELTIFs are attracting increasing interest from private banks and wealth managers in France, Switzerland and Italy. Two-thirds (67%) of the French private banks and wealth managers Cerulli surveyed already invest in ELTIFs, the highest proportion in Europe. In contrast, private banks and wealth managers in the UK show less appetite for ELTIFs, with only 34% of UK respondents investing in or offering to invest in ELTIFs for their clients; they tend to favour semi-liquid funds and investment funds.

4. The future of platforms

Although HNW investors offer significant opportunities for private banks and wealth managers, servicing such clients and adapting products to address their needs creates certain operational challenges. Partnering with technology-driven distribution platforms could be a way to overcome these challenges. More than a quarter (27%) of the private banks and wealth managers Cerulli surveyed said that partnering with distribution platforms is a high priority for them for the next one to two years.

Private banks and wealth managers typically use platforms for middle- and back-office functions. They benefit from the speedy investor onboarding, online paperless subscriptions, seamless capital calls and distribution, as well as reporting and administration services offered by such platforms. Working with platforms and using their technology enables private banks and wealth managers to deliver private market products more efficiently and at scale.

The services offered by platforms are more appealing to mid-tier private banks and wealth managers, yet even some large multinational private banks that typically have the in-house expertise to build their own private asset offerings or access a broad range of asset managers are also keen to use platforms.

Cerulli believes that private banks' and wealth managers' increasing use of distribution platforms will provide more opportunities for asset managers to access private wealth channels, too. Targeting private wealth channels requires significant effort, but by using such platforms, managers could reduce operational costs as well as distribution effort and resources. Recent years have seen a rapid increase in the number of new distribution platforms launched in Europe, so managers will need to decide which platforms to partner with in the long term and which will be most trusted by private banks and their clients.

In terms of future developments, Cerulli expects some platforms to reduce their minimum investments. At the moment, minimum investments are still relatively high, meaning that the funds are inaccessible for lower-wealth clients, especially mass affluent investors. The minimum investment size of US $50,000 to US$ 100,0000 means that investors who want to access private asset products need to have at least US$ 1 million of wealth. However, tokenisation could be a way to reduce minimum investments to make private assets more accessible to mass retail investors.

5. The future of tokenised assets

Tokenisation - the process of converting private asset holdings into tradable digital securities - is a highly promising development in the market. It will allow private wealth and mass affluent investors to access private assets at significantly lower minimums; it will also open secondary market opportunities for these investors once an investment has been made. The total size of tokenised assets could reach US$16.1 trillion by 2030—equivalent to 10% of global GDP, according to the Boston Consulting Group.

Asia is leading the way when it comes to private market tokenisation, whereas Europe is lagging: no private assets funds have yet been tokenised in the region, but Cerulli believes it will not be long until we will see the first funds tokenised in Europe. Many managers are considering tokenising their funds, though some will take a wait-and-see approach before announcing their efforts to make their funds available on the blockchain, the technology that functions as a decentralised ledger for financial transactions.

In Asia, most tokenised funds are distributed via private banks and wealth managers and only family offices tend to come direct to asset managers for access to tokenised funds. This is expected to be the case in Europe, too, once tokenisation takes off. Cerulli's research indicates that most private banks already have digital asset teams and are looking into this topic. However, large multinational banks may be more hesitant to introduce digital assets to their clients, many of whom are between 50 and 60 years old and are not really interested in "innovative" solutions. In contrast, local private banks are more innovative and more likely to be interested in tokenised funds, although there are not many such banks. Overall, it may take some time to convince private banks and wealth managers in Europe that tokenised funds are a great way to access private assets at lower investment tickets.

4.2. Asset allocation of funds and mandates

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

At the end of 2022, equity represented 40.5% of investment fund assets. This share grew steadily in 2019-2021, as stock markets performed well, only to fall in 2022 as global stock prices declined. The share of bonds showed the reverse trend, dropping until 2021 and stabilising in 2022, despite the drop in bond valuations. Shares of cash and money market instruments increased marginally in 2022, despite a significant drop in nominal cash holdings over the year. The decline in the nominal value of cash during 2022 was most likely the result of funds selling their most-liquid assets to meet redemption requests in periods of market stress.

Mandates have an asset allocation that is much more biased towards bonds, as pension funds and insurers favour fixed-income assets. The share of bonds, however, fell drastically in 2022 as a result of the fall in the valuation of bonds. Over the same period, the share of equities and cash/money market instruments increased significantly.

EXHIBIT 4.6

Asset allocation in investment funds – recent trends

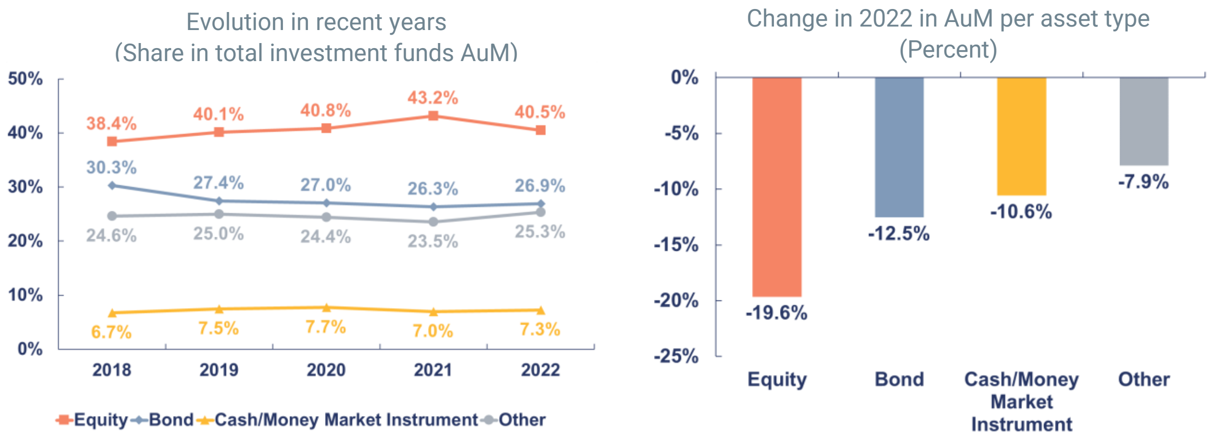
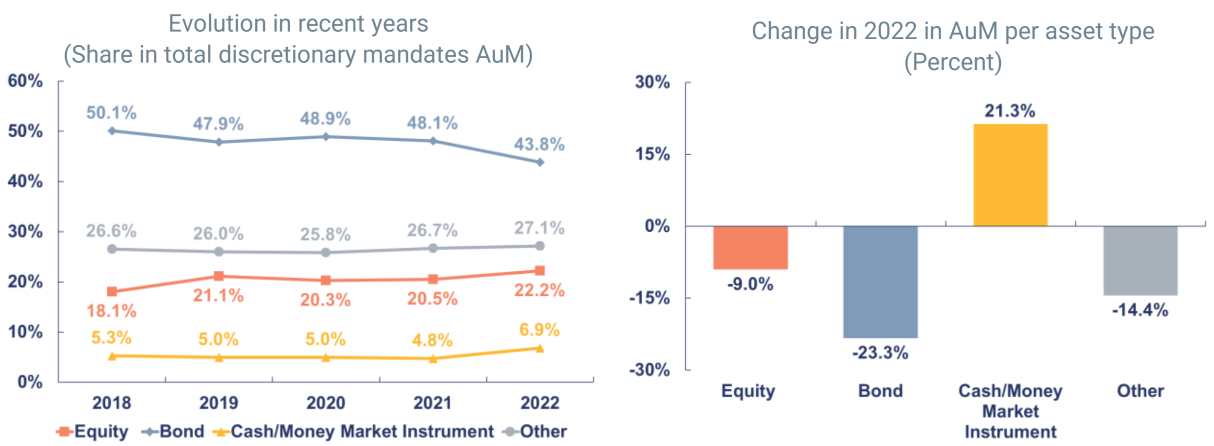


EXHIBIT 4.7

Asset allocation in discretionary mandates - recent trends



4.3. ESG assets

Integrating Environmental, Social and Governance (ESG) factors into their asset allocation has become a key consideration for European asset managers. This is a broad process, which could involve investing in assets that address climate change challenges or that promote water and energy efficiency, human rights, equal opportunities, board diversity or any other goals that contribute to the transition to a more sustainable world.

Sustainable investing by asset managers has been gathering momentum in Europe, despite the lack of a uniform, European-wide definition of what constitutes a sustainable investment. Currently, around 50% of the total assets managed in Europe applied some sort of ESG investment approach (60% in mandates and 42% in investment funds). This difference can again be explained by the fact that institutional investors - the main clients of mandates - often make stringent ESG demands for the management of their assets.

At the regulatory level, the introduction of the Sustainable Finance Disclosure Regulation (SFDR) in March 2021 had a major impact on the asset management industry. The Regulation 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 SFDR means that asset managers need to make specific sustainability-related disclosures across their product range.

- **SFDR Article 6** requires all fund managers to make disclosures on the integration of sustainability risks and their likely impacts on the returns of the financial products they make available.
- **SFDR Article 8** requires funds promoting sustainability characteristics to specify, in pre-contractual disclosures, how they will promote environmental or social characteristics - or a combination of both - and how the companies in which they invest follow good governance practices.
- **SFDR Article 9** requires funds with a sustainability objective to specify, in pre-contractual disclosures, how they will attain this objective and whether an index has been designated as a reference benchmark.

Although it was not the regulators' intention to create product labels, SFDR Articles have, de facto, split the fund universe into three categories: Article 6 funds, which integrate sustainability risks, Article 8 funds, which promote sustainability characteristics, and Article 9 funds, which have a sustainability objective.

At end-2022, 29% of SFDR Article 8 funds were managed in France, followed by the Netherlands (17%), Germany (15%) and Sweden (12%).

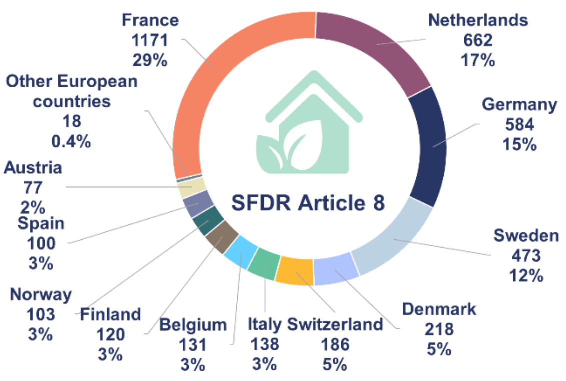
The management of SFDR Article 9 funds is even more concentrated, with around 44% being managed in France and 25% in Switzerland.[xxiii]

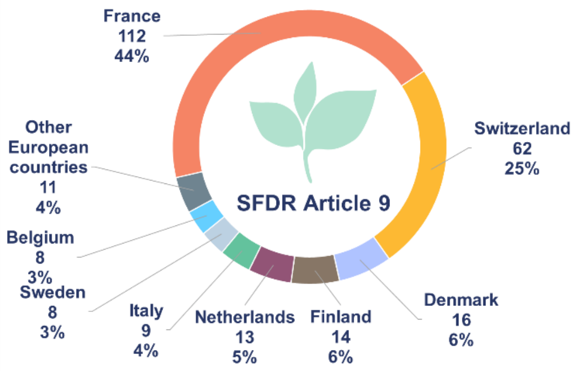
There are several reasons for the differences between countries, most notably differing levels of client demand and varying maturity levels of ESG fund markets.

EXHIBIT 4.8 [xxiv]

SFDR Article 8 and 9 funds - Country-level data

EUR billions, percent of total, at the end of 2022





Note: EFAMA estimations

Looking at Exhibits 4.8, 4.9 and 4.10, we can make the following observations:

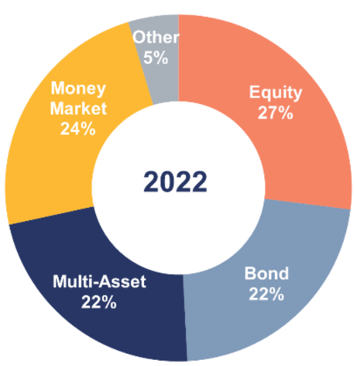
- Fund managers in France lead in both the Article 8 and Article 9 fund markets. They managed 29% of Article 8 fund assets and 44% of Article 9 fund assets at the end of 2022.
- In the market for Article 8 funds, the Netherlands was ranked second, reflecting the prominence of pension funds in the Dutch market. Germany and Sweden were in third and fourth place, respectively.
- In the market for Article 9 funds, Switzerland was second, which can be explained by the high market share of a single large asset manager that specialises in thematic Article 9 funds.

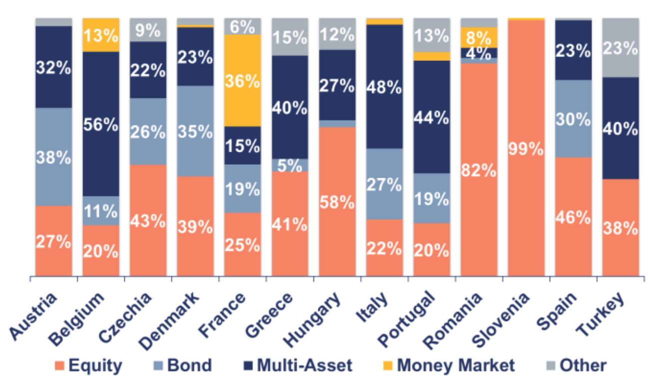
The market shares of equity, money market, bond and multi-asset funds in the Article 8 fund market are relatively close. Article 8 MMFs are almost exclusively concentrated in France, while the various categories of long-term funds are more evenly distributed across European countries.

EXHIBIT 4.9

SFDR Article 8 fund market: Breakdown by fund type - country-level data

Percent of total Article 8 fund net assets, at the end of 2022





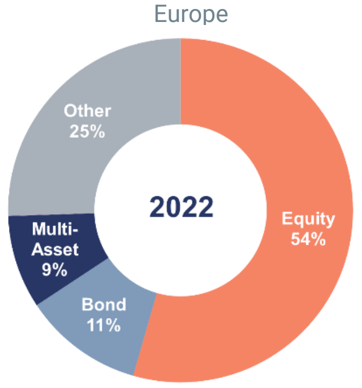
These charts include figures for only a subset of countries.

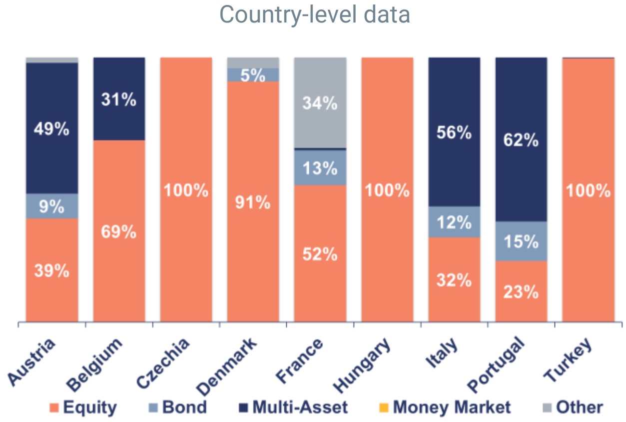
The Article 9 fund market has always been heavily focussed on equity funds, with these funds representing 54% of assets at the end of 2022. Other funds, which in this context are mostly real estate funds, accounted for 25%. Bond and multi-asset funds followed, with market shares of 11% and 9%, respectively.

EXHIBIT 4.10

SFDR Article 9 fund market: Breakdown by fund type - country-level data

Percent of total Article 9 fund net assets at the end of 2022





These charts include figures for only a subset of countries.

It is important to stress that SFDR markets have already undergone significant changes since 2021, as policymakers and regulators have sought to harmonise guidance and provide more clarity over key aspects of the Regulation. The most recent - and notable - shift took place in the second half of 2022, as a significant amount of Article 9 funds were reclassified to Article 8.[xxv]

As fund managers continue to adapt to new policy guidance, clearer definitions and better ESG data, it seems highly likely that the Article 8 and Article 9 fund markets will remain in flux over the next few years.

5. Industry Organisation

5.1. Asset management companies

Approximately 4,500 asset management companies were active in Europe in 2022. The table below shows the total number of firms in each European country.

The UK, France and Germany have the highest numbers 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 of these two countries in the cross-border distribution of UCITS and AIFs, as well as the regulatory requirement that fund houses maintain a management company in each country where they have funds domiciled. The same, albeit 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 rather in the groups' asset management centres.

EXHIBIT 5.1
Number of asset management companies [1]

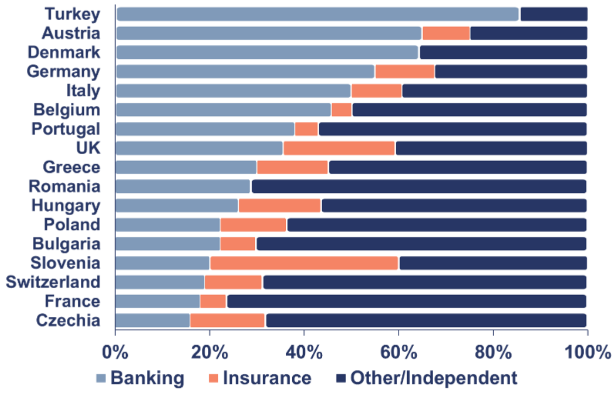
Country	2022	Country	2022
Austria	20	Luxembourg	234
Belgium	64	Malta	94
Bulgaria	29	Netherlands	110
Croatia	22	Norway	30
Cyprus	207	Poland	57
Czech Republic	27	Portugal	64
Denmark	55	Romania	22
Finland	20	Slovakia	11
France	702	Slovenia	5
Germany	466	Spain	123
Greece	30	Sweden	92
Hungary	23	Switzerland	326
Ireland	372	Turkey	56
Italy	239	United Kingdom	1,000
Liechtenstein	19	**Europe**	**4,519**

[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 estimate.

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

Exhibit 5.2 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 5.2
Number of asset management companies by parent group categories at the end of 2022

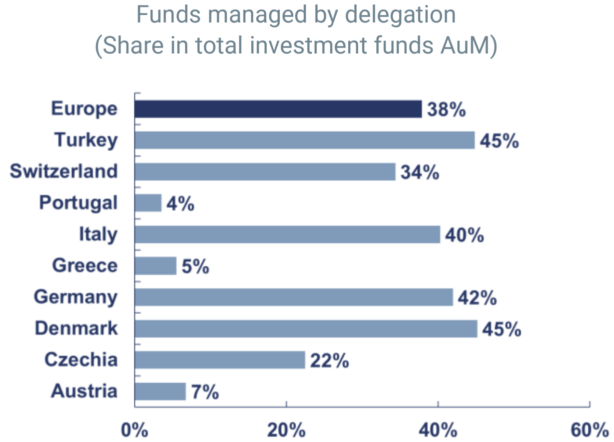


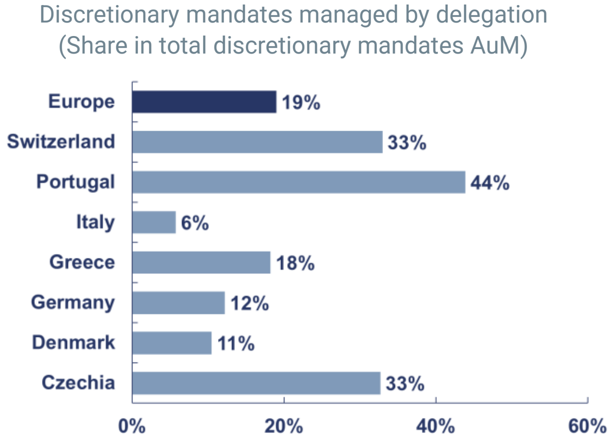
5.2. Delegation

Delegation is a current practice in the European asset management industry. At its core, delegation involves fund/asset managers outsourcing the day-to-day management of all or part of their assets to another asset manager, whilst maintaining their fiduciary responsibility vis-à-vis the end investors. The company benefiting from the delegation can be a related party - i.e., a company belonging to the same parent group - or an unrelated third party.

At end-2022, about 38% of investment fund assets managed in the countries shown in Exhibit 5.3 were managed by delegation; this percentage has remained substantially unchanged in recent years. The level of delegation can vary substantially between countries, depending on how the domestic fund industry is structured and the main clients involved. Discretionary mandates can also be managed via delegation, as companies outsource the day-to-day management of mandate assets whilst maintaining their role as administrator or financial advisor of the end investors. The share of mandate AuM managed by delegation is significantly lower than that for funds.

EXHIBIT 5.3
Delegation of investment funds and discretionary mandates at the end of 2022 – country-level data





These charts include figures for only a subset of countries. Data on the following countries are included: Austria (IF only), Czech Republic, Denmark, Germany, Greece, Italy, Portugal, Switzerland and Turkey (IF only).

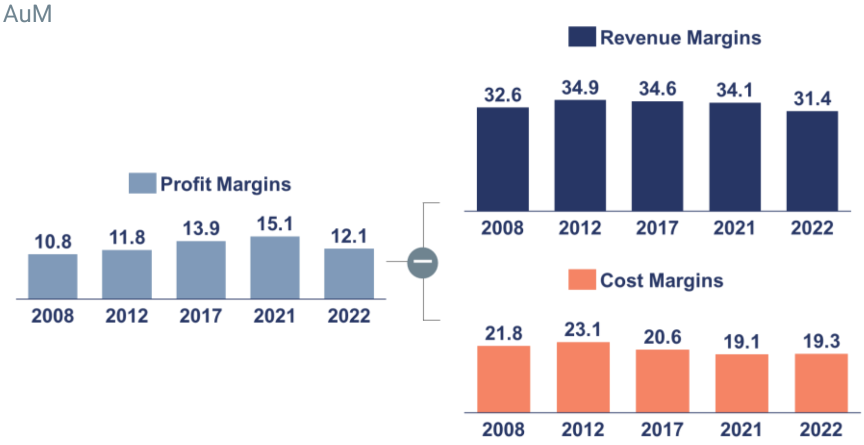
5.3. Revenues and costs

Industry operating profit margins (calculated as pre-tax operating profits divided by revenues) gradually recovered from the dip observed during the global financial crisis in 2008, peaking at 15.1% in 2021. This growth resulted from a combination of rising revenue margins along with a fall in operating costs as a percentage of total AuM, which, in turn, was driven by strong market performance.

The profit margin dropped significantly in 2022, from 15.1% to 12.1%, due to a sharp fall in the revenue margin on the back of the overall decline in financial markets.

Despite a decline in relative cost margins since 2012, absolute costs have been rising, driven by operations and technology costs as well as those for management and overheads. The rise in technology costs was principally driven by application, data centre and market data expenses.

EXHIBIT 5.4
Western European asset net revenue and cost
Bps of average AuM



Source: McKinsey Performance Lens Global Asset Management Survey

EXHIBIT 5.5
Cost distribution, third-party asset managers in Western Europe
EUR billions

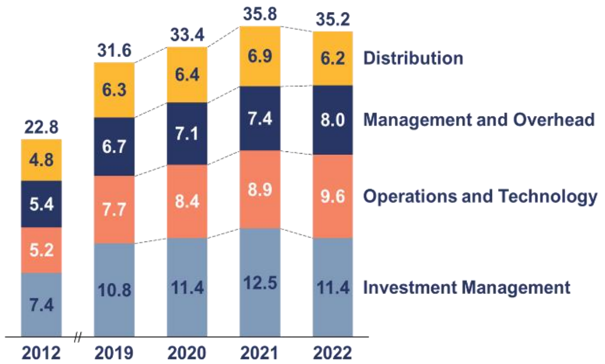
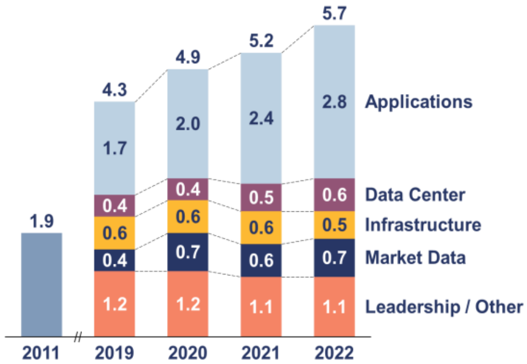


EXHIBIT 5.6
European AM technology function spend, third-party asset managers
EUR billions



Source: McKinsey Performance Lens Global Asset Management Survey

5.4. Employment

Another crucial gauge of the asset management industry's impact is the level of direct employment it generates. Drawing on data provided by EFAMA members, our estimates reveal that approximately 123,000 individuals are directly employed by the asset management sector throughout Europe. The bulk of these jobs are concentrated in the main asset management centres.

EXHIBIT 5.7
Direct employment in European asset management companies in 2022

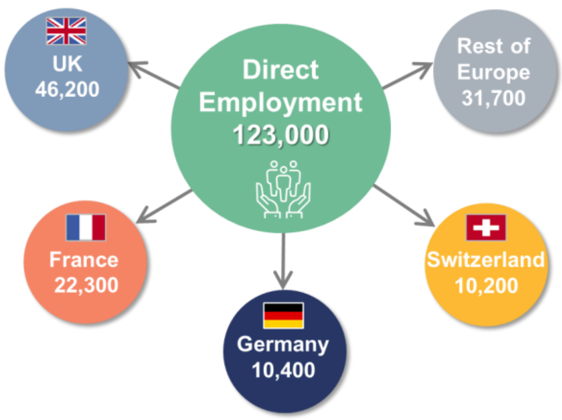
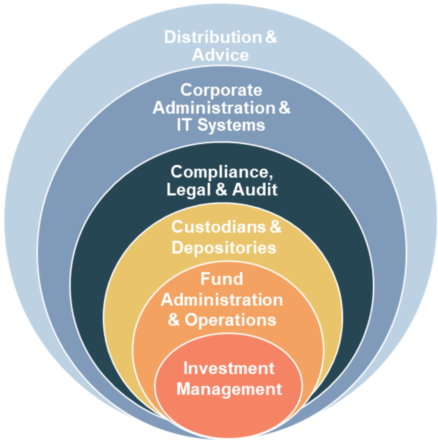


EXHIBIT 5.8
Asset management and related services



When estimating the employment generated by the asset management industry, one should consider the indirect employment linked to fund distribution, which remains mostly handled by banks and financial advisors. Moreover, ancillary services and supporting functions, encompassing areas such as accounting, auditing, custodianship, IT, legal services, marketing, research and FinTech should also be considered.

Taking into account those services and functions, the French asset management association (AFG) has calculated that each direct role within the asset management sector engenders an equivalent of approximately 4.6 full-time jobs in related services.[xxvi] By extrapolating this ratio, we can estimate that European asset managers - together with all the companies that provide services to the asset management industry - collectively contribute to creating some 680,000 full-time equivalent jobs.

EXHIBIT 5.9
Total employment in the European asset management industry in 2022

[1] Full-time equivalent jobs.

Annex 1: Voting and Engagement Activities in Asset Management

Examples from EFAMA Corporate Members

Asset managers engage with investee companies to encourage better governance and improve their environmental and social performance. Given the growing importance of ESG factors in their business model, asset managers are in the vanguard of the transition to a more sustainable economy. To illustrate their role, this section provides concrete examples of recent voting and engagement activities undertaken by European asset managers to influence the boards and management teams of investee companies, to challenge their business models and ultimately to hold them to account.

Environmental Concerns

Allianz Global Investors

In 2023 Allianz Global Investors (AllianzGI) started pre-announcing voting intentions around sustainability themes that are important to us. This is part of our engagement approach with an ESG sustainability orientation. AllianzGI wants to increase its influence on investee companies and be more proactive in public, representing clients' interests to investee companies with significant exposure.

In May we announced that we would support a resolution at the Chevron Annual General Meeting urging the company to extend its climate action plan to cover Scope 3 greenhouse gas (GHG) emissions. AllianzGI believes that the setting of Scope 3 targets, when material, is an important element of climate strategies. Whilst companies have control over their direct emissions, they can have some influence throughout their value chain and that is especially true for large companies such as Chevron. In addition, earlier in the year, we announced our support for a resolution at the Starbucks AGM requesting the company to conduct a third-party compliance assessment of its human rights policy, specifically around the freedom of association for its workforce.

Amundi

Amundi actively engages with issuers to promote a sustainable, low-carbon economy and we believe that active dialogue can drive these outcomes. We engage in varied dialogues, tailored to each issuer’s practices, balancing ambition with pragmatism. We truly believe that boards should be accountable of the quality of the transition towards a low carbon sustainable business model as well as the top management be incentivised on it. As this transition is key for our economy and the value of our investments, and as a responsible shareholder, our voting policy incorporates those demands.

This philosophy is reflected in one of our continued engagements since 2021 with Martin Marietta. As this US based issuer was lagging its peers regarding its climate strategy and the momentum of improvement was low, we decided to file a climate related resolution as an escalation. After our climate shareholder proposal reached a 32.8% approval rate in the 2023 AGM, we asked to open again the dialogue to discuss their progress on climate disclosure and strategy. The company has since made substantial progress in a short amount of time. Notably, they started to report to CDP, continued decreasing coal usage for production and committed to submit a SBTi targets in the next two years. This is part of our large climate engagement campaign.

Amundi is also committed to engage with 1000 additional companies by 2025 on their climate strategy and started with 418 new issuers in 2022.

AXA Investment Managers

As one of the world's largest oil and gas integrated companies, US-based Chevron is part of our climate issues engagement focus list, as we view its energy transition strategy as less demanding relative to its main peers. We have observed what we believe to be a reluctance to commit to net zero for its downstream activities, and a lack of ambition in intensity emission reduction targets for 2016-2028 energy sales, which we think sets the company behind the industry leaders.

As we consider these ambitions insufficient, we have used several escalation techniques since 2021. First, by supporting a shareholder proposal submitted by Dutch campaign group Follow This at the 2021 annual general meeting (AGM), then by voting against the re-election of the board Chair and members of the Sustainability Committee at the 2022 AGM. Although discussions have taken place with the company's sustainability teams, and notable progress has occurred (including the recent publication of a methane report), we believe that Chevron's evolution in its climate strategy does not match the pace of the climate urgency. Therefore, in order to push Chevron to further enhance its energy transition ambition, we made the decision to co-file, together with a group of investors, a climate resolution, which was submitted at the company's 2023 AGM.

BlackRock

As an asset manager, BlackRock's approach to material sustainability and climate-related risks and the opportunities presented by the low-carbon transition is based on our fundamental role as a fiduciary to our clients. Public disclosures allow investors to evaluate how a company considers climate-related risks and opportunities material to their business model and to track progress against management's stated goals. We encourage disclosures aligned with the reporting framework developed by the Task Force on Climate-related Financial Disclosures (TCFD). We look to boards to oversee management's approach to addressing material climate risk in the company's business model and may signal concerns about board oversight in our voting on director elections when, in our assessment, the board is not acting in shareholders' interests. For example, at BKW AG's May 2023 annual general meeting (AGM), BlackRock Investment Stewardship did not support the election of the board chair due to continued concerns about their lack of climate-related disclosure. We have previously engaged with the Swiss energy and infrastructure company to encourage TCFD-aligned disclosures, raising similar concerns at BKW AG's 2022 and 2021 AGMs.

Capital Group

Climate change is a material risk and opportunity in our mining sector investment framework. Issuers with high exposure to energy-intensive downstream processing and large production capabilities have higher operational emissions, which can impact the sustainability of multiples and earnings streams with the introduction of carbon pricing in relevant jurisdictions. Mining companies that offer a product with lower carbon footprints may see increasing customer demand.

Over the years, Capital Group has engaged with Vale on various issues ranging from board independence to governance structures to remediation of historical dam issues. In December 2022, two of our equity investment analysts and the ESG analyst covering metals and mining continued our ongoing engagement with the company with a focus on understanding how Vale is seeking to manage climate-related risks and reduce operational emissions.

Through the engagement, we learned that to meet Vale's 2030 emission reduction target, the company has been focused on increasing its renewable energy consumption. The company is now sourcing 89% of its electricity from renewable sources which has contributed to a reduction of its Scope 2 emissions. To address its Scope 1 emissions, Vale is evaluating a range of technological options to reduce emissions from its fleet, railways, and pelletising activities. Vale is also planning to increase the production of pellets and briquettes, which may lead to a short-term increase in its Scope 1 and 2 emissions but should help reduce its Scope 3 emissions. The company also highlighted challenges to implementation — particularly with electrification at its mines — and the infrastructure and transmission required.

Our investment analysts and ESG analysts came away with a better understanding of Vale's key emissions reduction levers to reach its 2030 targets (electrification, switch to renewables, fleet), strengthening our conviction that managing climate risks and opportunities are a strategic priority. We plan to monitor how Vale's pellet production targets will impact its operational and customer emissions. In future conversations, we will also seek an update on how Vale is tackling the electrification challenges at its sites.

DWS

DWS voted against the election of some Directors at the 2022 AGM because the Company failed to respond to our net zero thematic engagement request. After we sent our post-season letter explaining our voting decisions the Company responded to our engagement request.

We discussed the Company's current decarbonisation targets and their validation with SBTi (Science Based Targets initiative). The Company is working on the re-submission of the 2030 targets for SBTi approval to be aligned with a 1.5°C pathway. Additionally, the Company is planning to include scope 3 in the reduction targets and provide more transparency on absolute emissions.

The Company has not yet committed to an overall net zero ambition by 2050, they confirmed that this is being discussed internally. The Company informed us that they are working on a decarbonisation strategy and will include more information in the next reporting cycle, most likely in the ESG report by 2024. In addition to decarbonisation, we also discussed water usage and recycling.

We will follow up with the Company on their further plans regarding SBTi approval for their emission reduction targets for scope 1 & 2, disclosure of scope 3 targets and reporting on their decarbonisation strategy.

Federated Hermes

In a meeting with management in 2021, we first asked Marathon Oil to disclose its Scope 3 emissions from use of products sold as part of a broader list of recommendations pertaining to climate change. The following year, we progressed our engagement by visiting the company's offices where it shared with us its updated Scope 1 and 2 targets, and said it was considering our request for disclosure of its Scope 3 emissions from use of products sold.

Ahead of the 2022 AGM, we wrote to the company to convey our vote recommendations. Although the company demonstrated high levels of responsiveness to our engagement and had announced enhanced targets to reduce emissions intensity, methane intensity and routine flaring, we recommended voting against directors due to our desire for further action; in particular, establishing net-zero commitments at least covering Scopes 1 and 2, and disclosing a Scope 3 emissions baseline.

Released in 2022, the company's 2021 Sustainability Report disclosed its estimated Scope 3 emissions from use of products sold. The company said it reported this data for the sake of transparency, but believes it is not material information for shareholders and that its usefulness for individual company comparison or performance is compromised by a number of considerations. We disagreed with this materiality assessment but thanked the company for enhancing disclosure.

J.P. Morgan Asset Management

We were concerned when a report by environmental groups identified the oil and gas producer EOG Resources as one of the largest methane emitters in the US based on satellite surveillance readings. The findings were contrary to the progress described in the company's published reports stating that their methane emissions intensity rate has decreased 85% since 2017, with flaring down by half.

The 2022 Inflation Reduction Act in the United States has introduced a methane fee of up to $1,500 per ton on emissions from oil and gas producers, pipeline operators and others, making excessive methane an increasingly material risk for companies.

We engaged EOG to address these concerns which presented both reputational and transition risks. EOG noted that the report ranked producers on an absolute basis, which penalises EOG as a large producer. They also noted that the methodology relied on extrapolation of data from flyovers that might capture intermittent emissions.

Notwithstanding the limitations of such methodologies, management acknowledged the scrutiny the industry and large publicly owned companies are under and shared their efforts to take action. EOG indicated that it has begun implementing a continuous methane monitoring system called iSense that replaces monthly Leak Detection and Repair (LDAR) monitoring in 90% of their Permian facilities.

EOG indicated that it will roll out iSense to the rest of the company in 2023. EOG has also announced a commitment to be net zero on a Scopes 1 and 2 emissions basis by 2040. This will be achieved by a combination of reductions, carbon capture/storage and high-quality offsets for what cannot be reduced. The company emphasised the importance of corporate culture for achieving emissions reductions. They feel the organisation has embraced emissions reductions on a bottoms-up basis, noting that what can be measured can be improved.

EOG provide emissions data to their customers, including Cheniere, with whom they have a partnership to provide gas for liquefaction that means EOG receives an LNG-linked price. When asked about the commercial opportunity for producing sustainably sourced natural gas, they explained that if LNG producers required a sustainability-related certification from their suppliers, it would be to EOG's advantage.

Natixis Investment Managers

Elis is an established multi-service provider offering textile, hygiene, and facility service solutions. Through our affiliate Thematics Asset Management, our engagement with Elis focuses on climate transition strategy and transparency with the aim to encourage the company to set a science-based decarbonisation target and adopt a credible climate transition plan. Prior to engagement, our internal assessment showed that Elis' current temperature alignment was >5C and that while it had started to provide disclosure on its carbon emission and climate governance, there were existing gaps and areas for improvements to align with international frameworks.

We initiated the engagement in September 2021. The company articulated its commitment towards decarbonisation and to the implementation of climate transition actions. We monitored the company's progress versus target in 2022 and conducted a follow-up engagement call with the company in January 2023. In March 2022, Elis signed the Science-based Targets Initiatives, formally committing to a process of reducing its emissions in line with the Paris agreements and contributing to keep the temperature increase below 1.5°C compared to preindustrial levels. In terms of climate transition, Elis has initiated the following:

- fleet decarbonisation;
- start the use of biofuel-ran alternative vehicles in some markets;
- in-house engineering team actively testing solutions to improve the environmental footprint of its laundries; and
- use of materials with increased lifespan and higher degree of resource efficiency.

Neuberger Berman

We engaged with Arkema SA (AKE) on setting ambitious emissions reduction targets and seeking validation through the SBTi for all scopes. AKE is a French manufacturing company that markets a wide range of chemicals, including industrial chemicals and performance products including acrylics, polymethyl methacrylate, hydrogen peroxide, technical polymers, specialty chemicals and functional additives.

Our diligence process included multiple meetings with the management team, including the Investor Relations team. AKE initially faced challenges in setting effective carbon reduction targets due to its growing asset base. This led us to believe AKE had an opportunity to strengthen its management of carbon emissions and we engaged with the issuer on setting more ambitious reduction targets. Additionally, we encouraged the issuer to include its Scope 3 targets within its SBTi validation no later than mid-2023. We focused on the issuer's carbon management due to the financially material nature of emissions to the chemicals sector. We also advised the issuer to set targets for switching to renewable electricity so that its Scope 2 targets may be SBTi-validated.

In May 2023, AKE informed us that they have set more ambitious reduction targets for Scope 1, 2 and 3 emissions, and that these targets have been validated by the SBTi as scientifically aligned with a 1.5°C trajectory by 2030. AKE plans to implement its decarbonisation strategy via achievement of higher energy efficiency across its main facilities, and by consuming a greater share of low-carbon steam and electricity at its facilities.

We will continue to monitor AKE's progress toward its new emissions reduction targets, as well as toward increasing renewable sources in its energy mix to ensure it will meet its 2030 targets.

Ninety One

At the start of 2022, Ninety One developed a framework for assessing the transition plans of our top emitting companies, of which Samsung Electronics is one. Our assessment showed that Samsung did not have a net-zero commitment or strategy, with no interim targets for Scope 1, 2 or 3 emissions. We opened discussions with company by writing a letter, setting out our critical engagement points: commit to net zero by 2050, adopt transparent, ambitious, achievable targets, and develop a transition plan that is 1.5○C or Paris aligned.

The company responded positively to this letter, and since that time we have held regular meetings with Samsung's leadership and Sustainability team. Significant progress has been made with the company publishing their new environmental strategy in September 2022 which set out net zero scope 1 and 2 targets for their operations.

However, Samsung still needs to set credible mid-term targets for their semiconductor manufacturing division as this accounts for the majority of emissions, and to include scope 3 emissions in their net-zero targets. The company faces external challenges as they are constrained by Korean energy policy, therefore we monitor the company's own engagement with policymakers and other stakeholders. We continue to engage with Samsung to encourage further progress towards net-zero.

Pictet Asset Management

Baker Hughes, a US based energy technology company, was one of the first in its industry to make a net zero commitment. However, carbon management efforts had been limited to Scope 1 and 2 emissions – leaving out Scope 3 emissions, which represent the vast majority of the company's carbon footprint.

We met with the CFO and presented our engagement objectives, which were well received. We were pleased to be invited to the company's annual meeting in January 2023 as a key shareholder partner. Progress towards the initial engagement objectives has exceeded our expectations.

The company expanded its Scope 3 emissions reporting, and confirmed it is proactively collaborating with suppliers, customers, and other stakeholders to assess pathways for reducing their emissions. On energy transition solutions, the company announced a 60% increase in R&D investment in this segment and set aspirational targets for the potential size of the business going forward.

Schroders

In 2022, we began to engage with Ecora Resources, a UK-listed small cap royalty and streaming company, which provides capital to the mining sector across diversified commodities, encouraging them to set emissions reduction targets for scopes 1, 2 and 3. The company had found it challenging to measure their downstream scope 3 emissions due to a lack of reporting from counterparties. The UK small and mid-cap team, together with sustainable investment colleagues engaged with the company across a range of climate issues including offsets, their ESG screening process, sustainability targets in remuneration and in particular setting science-based targets.

We introduced the company to the Science-Based Target initiative's (SBTi) small and medium-sized enterprise (SME) framework, which allows smaller companies with 500 employees or less to set targets, using a set of predefined target options, and aren't required to set specific scope 3 goals. As a company with only 14 employees, this option would allow Ecora to overcome capacity constraints, whilst allowing it to set an industry-standard science-based target. In March 2023, we were pleased to see that Ecora Resources had set a near term goal, which had been validated by the SBTi. The company has committed to reducing scope 1 and scope 2 emissions by 46%, by 2030, from a 2019 base year, and to measure and reduce its scope 3 emissions through engagement with its operating partners. In addition, the company has committed to maintaining carbon neutrality with regard to their scope 1, 2 and upstream scope 3 emissions.

T. Rowe Price

Alibaba asked T. Rowe Price for feedback on the company's newly released decarbonisation targets and its materiality analysis. We also used the engagement as an opportunity to communicate our views on corporate governance and proxy voting.

We are seeing a notable step change in Alibaba's accountability and focus on ESG topics. During the engagement, Alibaba provided an overview of current progress since our last ESG meeting. We noted that Alibaba had addressed two of our requests: the enlistment of an ESG consultant to support them with ESG disclosure and strategy and the publication of a group carbon neutrality report with carbon footprint data and several goals. These included scope 1 and scope 2 carbon neutrality and a 50% reduction in scope 3 carbon intensity. The company has also proposed a set of material ESG factors from which to base its ESG strategy.

We provided feedback on these, broadly agreeing with the list of factors but also highlighting some additional key performance indicators for Alibaba to consider. Moreover, Alibaba has set up more concrete governance structures with board and executive oversight to progress the ESG topic.

Social Concerns

abrdn

Within the mining industry, there have been unacceptable workplace behaviours, illustrated by incidences of sexual harassment and assault in Australia and elsewhere in the world.

Over the last two years, we've engaged with our largest mining holdings to understand what actions they are taking to mitigate these issues and to encourage improvements. Using our deep understanding of mining companies and positive engagement, we put forward suggestions on how to tackle these problems, such as applying the same rigour of existing health and safety regimes to psychological safety. We also worked with the International Council on Mining and Metals (ICMM), to drive industry change and support its members to make positive change.

Following this positive engagement, we produced a statement detailing the different steps these companies should take to tackle issues around employee wellbeing. Numerous companies and the ICMM endorsed this statement and agreed to improve their practices. We believe that taking action to support employee wellbeing is aligned with positive steps already being taken in the industry and will further help to improve workplace behaviours and protect employees. Further, it will help to protect the value of our investments by avoiding the operational, reputation and legal fallout that often accompanies poor performance.

AXA Investment Managers

AXA IM Japanese credit team, together with the responsible investment team – already involved in various diversity-related initiatives such as the 30% Club France, drew up a questionnaire of more than 40 questions covering issues such as work-life balance and sexual harassment, as well as requesting disclosure on the governance of diversity, equality and inclusion (DEI) issues and data on female representation in the workforce and on the board. AXA IM Japan's Core Investment team, benefitting we believe from the local presence of the team and established relationships with companies, then reached out to 39 Japanese companies, resulting in 35 communications being carried out. These meetings enabled us to clearly communicate the key indicators we are focusing on, and those where we would like to see increased disclosure. Most companies were receptive, willing to improve their DEI practices and board diversity, and keen for further discussions.

These meetings also enabled us to make the following observations:

- The ratio of female hires has been increasing over the past 10 years. However, there is still insufficient representation of female managers
- With the revision of the Corporate Governance Code, the diversity of directors' experience and skills has progressed with an increase in the ratio of outside directors and the disclosure of skill metrics. However, not many companies commit to numerical targets for female directors. The difficulty in securing female independent directors and the effectiveness of succession plans for internal appointments, i.e. taking time to train successors internally, are ongoing issues.

Considering these observations, we decided to join a working group created by the Asian Corporate Governance Association (ACGA) to discuss the issue of gender diversity on Japanese listed company boards. AXA IM Japan's Head of Core Investments Kazuyuki Kitajima co-signed ACGA's open letter, issuing a series of recommendations to boost the level of female representation at board and top management level.

BNP Paribas Asset Management

Improving board diversity is one of the three key goals outlined in our Global Sustainability Strategy (GSS). Diverse boards have been shown to increase the likelihood that companies generate higher value creation over the long term. As set out in our voting policy, for Europe, North America, Australia, South Africa and New Zealand, we now expect a minimum threshold of 35% female board membership, and in Latin America, Asia, Middle East and Africa (ex. South Africa) our threshold is 20%. The objective of our voting policy and related engagement is to push for a gradual increase of gender diversity at the board level, aiming to reach 40% globally in 2025.

In early 2023, we selected and engaged with 38 companies whose performance is not in line with our policy and to which we have significant financial exposure. We sent letters during the first quarter of 2023, outlining our expectations and asking these companies to meet our gender diversity thresholds. During the second quarter, we engaged with the companies. By the end of that quarter, 11 companies had met or adopted changes in line with our voting policy, allowing us to support board elections (or at least not sanction any items based on gender diversity). In addition, 8 companies met one of our policy exceptions, including recent significant progress on this agenda.

Candriam

Improving health and wellness for all is a key sustainability challenge, with regulatory measures and consumer trends pushing for greater access to healthy dietary choices. Yet, the packaged food industry has been relatively slow to improve its products and reporting.

Unilever is one of the five largest packaged food manufacturers globally and as such plays a role in establishing norms and best practices for the industry. In fact, Unilever has been a first mover in nutrition transparency. However, the company used its own Nutrient Profiling Model (NPM). Candriam was concerned that this NPM does not offer the information needed to independently track progress against government-endorsed standards and regulations. We addressed this through our engagement activities.

Since 2018, Candriam has been a member of an Access to Nutrition Initiative (ATNI) working group, and has been engaging with Unilever to improve the company's practices and transparency on nutrition. We have also engaged one-on-one with Unilever since 2019, on sugar in food products. In 2021, we joined with the Healthy Markets investor coalition, led by ShareAction, in filing a shareholder resolution on nutritional goals and transparency scheduled for the 2022 AGM.

In March 2022, Unilever announced its decision to publicly report the performance of its global product portfolio against six government-endorsed NPMs, as well as its own Highest Nutritional Standards, in both volume and revenue terms. It was the first global food company to make such a commitment.

Two other top-five global food companies have since followed. In November 2022, Nestlé, the world's largest food company by revenues, publicly pledged transparency on nutrition, with specific use of the widely-accepted ATNI methodology and reporting on selected product portfolios in 14 countries under government-endorsed methodologies. In March 2023, Danone revised its nutritional targets and nutrition reporting, albeit only in the UK and Ireland. Danone also committed that 90% of sales by volume will be rated as "healthy" under the Health Star system used by ATNI.

We continue to engage individually and collaboratively with the leading packaged food companies to improve transparency and practices.

Federated Hermes

We started engaging with Credicorp on gender-focused finance in 2021, motivated by data showing the low level of financial inclusion of women in Peru. At that time, the company had one product directed to women, but with limited opportunities for growth in scope and scale. In various engagements with the sustainability team, senior management and board members from 2021 to 2023, we encouraged Credicorp to explore the business opportunity of targeting the market segment of unbanked women, women with no access to financial services, by developing innovative products and by providing making more intensive use of technology to establish new distribution channels.

In a meeting with the CEO and the chief innovation officer in 2023, we reviewed the progress achieved by Credicorp's subsidiaries in developing and distributing financial products focused on the unbanked women segment. We were pleased with the performance of the mobile banking app Yape, which has been instrumental in promoting financial inclusion among women. On Yape, 49% of users, who were previously not part of the banking system before, are women. At Credicorp microfinance subsidiary Mibanco, 50.6% of clients are women and 56% of the microloans were taken by women in 2022. We were encouraged by management's action to change the corporate culture, recognising that promoting financial inclusion of women in Peru is not just a matter of funding or technology, but also of culture.

J.P. Morgan Asset Management

Female labour force participation rate remains low in India at roughly 20%, according to the National Statistical Office's Periodic Labour Force Survey. For Kotak Mahindra Bank, its female employees accounted for nearly a quarter of its bank workforce in 2020. While it is proud of the workforce gender diversity of 27% in 2021 being higher than the average female labour force participation rate, in our view, the company still needs to take steps to improve in this area to access broader pools of talent.

We met with the bank in August 2021 to discuss its approach to human capital management. We asked about the purpose and strategy of its newly established diversity and inclusion council led by the Group President of Consumer Bank. Explaining the importance of diversity, equity and inclusion as one of our stewardship priorities, we encouraged it to consider disclosing workforce female representation targets in its next reporting cycle to facilitate our analysis. After the meeting, we also shared a global bank's diversity and inclusion website as an example to communicate its diversity, equity and inclusion efforts to provide greater transparency to investors and other external stakeholders and shared a global peer's diversity and inclusion website as an example.

After our suggestions, the bank included an expanded section on diversity and inclusion in its latest annual report 2021-2022. It details existing gender diversity programs, as well as new policies which include its "New Mother Benefit Policy" which provides financial benefits to mothers returning to work. The expanded disclosures also included both age and diversity data by seniority for the overall workforce and for new joiners, as well as gender pay ratio by seniority. Females represented 12% of senior managers.

We also note its year-on-year increase in female gender representation as a proportion of its overall workforce to 27% in FY22 from 24% in FY20. In addition, the company announced its ambition to increase female gender representation in the overall workforce to at least one third. This reflects that diversity, equity and inclusion remains an important objective for the bank.

While we welcome the progress the bank made as well as its revised gender target, which is more ambitious than some other Indian private sector banks, we asked it to put in place a timeline to track progress in our recent meeting with the bank in November 2022.

Ostrum Asset Management

As part of the 30% Club France Investor Group coalition, Ostrum AM has been the leading engager with Safran, which is a major French industrial and technological group operating in the aeronautics, space and defence fields. The 30% Club France Investor Group coalition, of which Ostrum AM is a founding member, is a collaborative engagement initiative bringing together asset managers to encourage SBF 120 companies to promote gender equality at all levels of their organisation.

Safran has responded positively to our lobbying and proactively facilitates the promotion of women to management roles within the company, as well as equal pay by gender. It encourages women to move into positions of responsibility and has adopted a proactive approach based on management indicators:

- 75% of retirees are replaced by women with an equal level of qualification;
- It works to develop talent pools and skills for women by putting in place training courses, mentoring programs and job induction support schemes;
- It has also set aside a budget to reduce and close pay gaps by increasing women's salaries

Safran is one of the SBF 120 companies showcased in the 30% Club France Investor Group's 2022 annual report for best practices in terms of female pay policy management and gender pay reduction.

Pictet Asset Management

The management recommended voting against a shareholder resolution on Apple’s report on concealment clauses. We considered that a vote for this proposal is warranted because more information on the impact that the company's standard arbitration provision has on Apple's employees may bring information to light that could result in improved recruitment, development and retention and could help the company prepare for pending federal legislation on the matter. 50% of shareholders supported the resolution. Later in the year, Apple agreed to remove concealment clauses from employee contracts, both for full-time employees, as well as for contract workers across its global operations.

Schroders

In the first quarter of 2023, we spoke to five UK companies to understand their efforts in addressing the cost of living. We focused the discussions on worker pay, wider benefits, employee engagement and voice and executive pay. From the conversations, we learnt that companies are aware of the impact of the cost of living and need to consider the wider workforce when determining CEO pay. Most retailers cited that increasing base pay is often the most frequent feedback they hear through employee engagement mechanisms, one retailer incentivised employee training and development by allowing workers to ‘earn as they learn’, increasing base pay once workers completed training modules.

Examples of objectives we set with companies as part of our continued engagement on this topic are disclosing employee turnover and retention metrics and bringing company pension contributions further in line with peers, and towards market leading offerings. We also wrote to all of our investee holdings, ahead of the 2023 AGM season, outlining our voting policy updates and engagement priorities for the year. Within this, we highlighted our desire that any salary increases for executives should be at a lower rate than those of the wider workforce, as well as an expectation that the total compensation package should also reflect the hardship many employees and other stakeholders are experiencing.

Governance Issues

abrdn

Centrica is the owner of British Gas and is a member of the FTSE100. In 2020 the company granted a Long-Term Incentive (LTI) share award to executives. While the normal award limit was 300% of salary, awards were granted at 250% of salary which was consistent with 2019 grants.

We were of the view that full awards would not have been appropriate in the context of performance. As a result of market-wide decline in share prices due to the Covid-19 pandemic, the number of shares granted was higher than previous years. It was therefore our expectation that, in the event of a recovery, the Remuneration Committee would use discretion to reduce the vested shares at the end of the performance period in December 2022 to avoid 'windfall gains'. At the time of vesting, the performance shares were worth £2.6m (over 300% of salary). We were of the view that there were windfall gains and were disappointed that the LTI was not reduced.

In addition to concerns regarding the vested LTI, we noted that the Remuneration Committee awarded the CEO a generous annual bonus of £1.42m for 2022. We did not think this award was reflective of the impact of forced prepayment installations on vulnerable customers during the ongoing cost of living crisis and the current ongoing probe by Ofgem. We were concerned that the Remuneration Committee's decisions were harmful to the reputation of the company and failed to reflect the experience of vulnerable customers.

Prior to voting at the AGM, we engaged with the company to discuss the remuneration outcomes, decision making process and to query whether the Remuneration Committee was considering using any discretion to adjust awards. We were advised that no part of the bonus or vested LTI would be adjusted or waived. While the company provided further commentary on the outcomes, we were of the view that a vote against the Remuneration Report was warranted.

In advance of the AGM, we disclosed our voting intentions and rationale to the company, and we also disclosed this information publicly. At the AGM, the Remuneration Report was approved with 93%.

Candriam

Kingspan Group provides insulation and building envelope solutions. From its founding in 1971 to today, Kingspan has transformed from a family enterprise into a world leader in a sector that plays a key role in the global energy transition.

On this journey from a family-owned business to the standards expected of a listed company, Candriam has been engaging with Kingspan on a number of governance matters such as those related to transparency and to the effectiveness of Board oversight. In fact, at Candriam we believe that sound corporate governance practices typically result in a company culture based on a strong regard for risk management and compliance, ultimately delivering long-term shareholder value.

In 2021 and 2022, we intensified our engagement with Kingspan, armed with additional issues highlighted by the Grenfell Tower public inquiry (Kingspan's K15 insulation products had been used to substitute others from a different manufacturer, and accounted for about 5% of the insulation boards in Grenfell Tower). We focused on issues pertaining to the skills matrix and diversity of the Board of Directors, the external workload of the Chairman of the Audit & Compliance Committee and the independence of the Nominations Committee.

Candriam made its voice heard on the issues outlined above through both dialogue with the company and by exercising voting rights, and also joined forces with Kingspan's largest shareholders to engage together.

We are satisfied that Candriam's engagement efforts, helped by those of many other shareholders, have yielded concrete results in line with our overall objectives. For example, there are no more company executives serving on the Nominations Committee, and both the Board of Directors and Nominations Committee are now more than 50% independent. The overboarding issues of the Chairman of the Audit & Compliance Committee have been addressed. Diversity of expertise and gender at Board level has been improved.

While we achieved most of our medium-term engagement objectives, we continue our engagement with the company. For example, we are monitoring Kingspan's commitment to its "Planet Passionate" programme and its remuneration policy.

DWS

The Company became a constituent of the DAX40 in September 2021. In 2021, they had a failed remuneration policy vote, which DWS did not support. We engaged prior to the 2022 AGM in order to communicate our governance expectations, which are particularly important for DAX40 companies.

Previously, the Company did include performance indicators regarding the annual bonus. We clearly articulated our expectation that the annual bonus should be measured against performance with a one-year time horizon set according to broker consensus forecasts. Furthermore, we highlighted that the non-financial metrics with the long-term incentive plan (LTIP) could be increased in their weighting to bring the Company in line with DAX40 peers.

The Company's 2021 remuneration policy included a provision allowing the granting of discretionary special bonuses. DWS views this critically, however, in a few cases we may consider this if the amount is adequately capped and designed to only compensate for forfeited compensation at a previous employer.

The company responded to shareholder criticism of the failed remuneration policy in 2021 and the revised various aspects. They removed the ability to grant one-time special bonuses. Although the KPIs used for the annual bonus and LTIP are based on similar criteria, the Company introduced performance targets for the bonus. The revised remuneration system received our support at the 2022 AGM.

Federated Hermes

Following Rio Tinto's blasting operations in May 2020 which destroyed Juukan Gorge in Western Australia, we met face-to-face with the board chair. In the meeting, he acknowledged the board-level shortcomings, and updated us on the company's actions since the incident and subsequent board report. Our engagement focused on the role of the board in overseeing social performance and cultural heritage management. We asked that disclosures include robust data on the status of relations with traditional owners and for greater disclosure on how the governance structure oversees the risks and the resulting changes made by the company. In further meetings in 2021 and 2022, we encouraged that reporting accurately reflected the views of traditional owner groups through aggregated feedback.

Over the period 2021-23, we noted improvements in the strengthened role of the sustainability committee of the board. This included implementing a board review of cultural heritage management, reviewing the community and social performance (CSP) governance and assurance model, monitoring the implementation of heritage management, including CEO and board escalation routes, and the development of 2022-26 CSP targets. We also noted that oversight by the company's internal and external auditors had improved, as well as the introduction of an Indigenous Advisory Group that will advise management and the board.

Generali Insurance Asset Management

In the recent Joint Statement of Generali Insurance Asset Management (and other investors) with Bayer issued in September 2023, Bayer acknowledged the impact that Generali Insurance Asset Management engagement had on Bayer's behaviour. Indeed, GIAM has been engaging Bayer for several years on controversial topics like product stewardship, regulatory approval process, environmental impact of their product, lobbying, ESG criteria in M&A. When reaching trust and agreement with Bayer on a realistic path, we gathered a coalition of investors with more than EUR 4.6 trillion Assets under Management to accelerate changes we had triggered inside the company. GIAM thinks that such recognition of impact is one of the best ways to demonstrate engagement additionality and fight against engagement greenwashing.

Below are some key learnings to highlight:

- GIAM was able to transform a confrontation with a controversial issuer into a collaboration: from denial in 2018, towards acknowledgements in 2020, collaboration in 2021, massive delivery in the 2022 sustainability report and finally recognition of impact in 2023.
- Bayer recognises specific additionality of GIAM identified on very sensitive topics: 'disclosure on ghost writing', 'conducting a consolidated lobbying report', 'integration of ESG in M&A in the Bayer regulations'.
- Bayer clearly recognises investor's impact: "The engagement supported us to rethink our disclosures and processes [and] required a joint effort within the organisation".
- A massive effort was required on both sides: Creating detailed expectations via an intense preparation by an internal GIAM task force. Negotiating 40+ detailed expectations, overcoming irreconcilable positions with innovative solutions. Gather a group of investors with EUR 4.6 trillion AuM. Six months of negotiation on the Joint Statement.
- GIAM is not giving a "blank cheque": "We expect Bayer to issue soon its consolidated lobbying report. We encourage Bayer to pursue its efforts […]".
- Bayer attributing success & efforts among investors of the coalition: "we would like to emphasise the work and readiness of Generali Insurance Asset Management who has taken a notable role…".

J.P. Morgan Asset Management

We engaged with Alibaba Group on its board structure. We have identified board independence and diversity, and evidence to demonstrate board effectiveness and accountability to investors as key areas for improvement given the combined CEO and chair position, the less than 50% board independence level and the influence of Alibaba Partnership which is a unique governance structure that Alibaba puts in place and has the power to nominate executive board directors.

We have been raising our concerns about the overall board independence and diversity with the company in the past years. In September 2020, we wrote an email to the chief financial officer to communicate our corporate governance expectations in terms of board independence and diversity. In August 2021, we had a meeting with the investor relations and legal counsel on a number of ESG issues including corporate governance, the reporting frequency of material ESG issues, human capital management, and data privacy. This year, we further expressed our objectives in a letter to the chair/CEO, asking for at least majority board independence, additional gender diversity, an appointment of a lead independent director, disclosure of the nomination criteria and the selection process of independent directors, and conducting a board evaluation which has been the Hong Kong Stock Exchange Corporate Governance Code's recommended best practice since 2012. The Code focuses on board members' attention on their roles and duties and identifies areas for improvement.

In August 2022, the company appointed two new independent directors, while another seasoned independent director decided not to seek re-election after serving on the board for seven years. The overall board independence and gender diversity on the board improved to 55% and 27% from 50% and 20% (as of AGM 2021), respectively. We welcome the progress on board refreshments and gender diversity. We will continue to ask for engagement opportunities with independent directors to discuss strategic topics including capital allocation and human capital management. We will also continue to seek its opinion on the board evaluation practice.

Ninety One

The ability to file resolutions is an important right of shareholders, and there has been an increase in the number appearing on meeting agendas in recent years, often resulting in positive developments. As the requirements of these resolutions vary significantly, Ninety One review votes on a case-by-case basis, after considering the materiality of the issue, whether the requirements are clear and reasonable as well as whether the company is actively making progress or has made a commitment to address the issue.

At the ExxonMobil AGM in May this year, 12 shareholder resolutions were proposed, 9 of which were on environmental issues, 2 on governance issues and 1 social. We considered all of these on an individual basis, and voted in favour of 4 of these resolutions and against management's recommendation; 1. Improved methane emission disclosure 2. Disclosure on carbon capture and storage projects 3. Adopt a medium-term scope 3 GHG reduction target 4. More granular disclosure on GHG emissions by asset, taking into account the impact of divestment. We chose not to support the further 8 resolutions because we believe that these items are either already being addressed or are not appropriate for the current environment.

Although none of the supported resolutions were passed by a majority of shareholders, a significant proportion did vote in favour (the highest being 36% in favour of the methane-related resolution). Exxon is a signatory to the Aiming for Zero Methane Emissions Initiative announced last week by the Oil and Gas Climate Initiative (OCGI) and, along with 11 other signatories, will strive to reach near zero methane emissions from operated oil and gas assets by 2030. We continue to engage with the company on this and the other issues highlighted, and use our voting power to lend weight to the discussions where progress is not made and to hold the company to account if their commitments are not met.

Pictet Asset Management

In 2022, we voted against the final longstanding member of the board of Tetra Tech Inc., a US consulting and engineering services company, who had served for 34 years.

At the same time, we engaged with the company to increase the diversity of the board and better align it with its customer base. Ongoing engagement and proxy voting activity have led to continued change including a tenure limit put into company policy alongside further board renewal, including the director we voted against stepping down.

This measured programme of renewal has delivered on the outcomes we sought back in 2021, when the engagement began.

Schroders

In late 2019, Schroders was contacted by representatives of a prominent media company that specialised in publications and conferences, of which some of our funds were a shareholder, about an acquisition of a business operating in risk and compliance analytics. As shareholders, numerous aspects of the proposed deal concerned us. Firstly, we viewed it as a significant deviation from the core business. Secondly, it was a large transaction requiring a significant equity raise to part fund it. As a result of our concerns, we wrote a formal letter to the company expressing reservations about the acquisition and that we would vote against it, were it put forward for a shareholder vote. The company took on board our concerns and did not proceed with the acquisition in 2019.

Had the deal gone ahead, with no in-person conferences taking place during the pandemic, the profitability of parts of the core business would have faced significant strain and the balance sheet would have been in a vulnerable position.

Fast forward to 2022, the company was acquired for a significant share price by a group of private equity investors. The engagement also highlighted the importance of good governance when making informed capital allocation decisions. This delivered a good outcome for our clients as the company was acquired at a significant premium to the share price at the time, a level that in our view represented fair value for shareholders.

T. Rowe Price

Imperial Brands, one of the world's largest tobacco companies, was identified for engagement during the UK board diversity screening exercise, following the publication of the final Hampton-Alexander review.

Previously there was a long-serving female CEO, and unusually there is both a female chair and a female senior independent director. However, the board was only 20% female after the February 2021 AGM saw the appointment of three new male non-executives and the new male CEO. We engaged with the company to understand how the company planned to address the issue of board gender balance after the 2021 AGM. Two new female non-executive directors were appointed to the board at the 2022 AGM, bringing the board to 40% female. We voted in support of their appointment, and all other items.

Annex 2: Statistical Data

A.1: European AuM, by geographical breakdown, at the end of 2022
(EUR billions and percent)

Country	AuM	% Δ in 2022 [1]	Market Share	AuM / GDP
UK	9,923	-17%	35.7%	332%
France	4,589	-9%	16.5%	174%
Switzerland	2,852	-11%	10.3%	372%
Germany	2,748	-22%	9.9%	71%
Netherlands	1,841	-12%	6.6%	195%
Italy	1,418	-13%	5.1%	74%
Denmark	492	-19%	1.8%	131%
Spain [2]	449	-6%	1.6%	34%
Belgium	365	-12%	1.3%	66%
Austria [3]	177	3%	0.6%	40%
Poland [4]	57	-13%	0.2%	9%
Czech Republic	52	n.a.	0.2%	19%
Portugal	42	-10%	0.2%	18%
Turkey	36	30%	0.1%	5%
Hungary	32	3%	0.1%	19%
Greece	16	-1%	0.1%	8%
Slovenia	7	4%	<0.1%	11%
Romania	6	n.a.	<0.1%	2%
Bulgaria	2	-1%	<0.1%	2%
Other	2,667	n.a	9.6%	n.a.
Europe	**27,771**	**-14%**	**100%**	**134%**

[1] End-2022 AuM compared to end-2021 AuM.
[2] Spanish data do not include comprehensive figures on mandates, only on discretionary portfolio management.
[3] Austrian data include investment fund assets only.
[4] Polish data includes investment fund assets only.

A.2: Investment fund assets, by geographical breakdown of AuM, at the end of 2022
(EUR billions and percent)

Country	AuM	% Δ in 2022 [1]	Market Share	AuM / GDP
UK	4,493	-16%	28.7%	150%
France	2,890	-6%	18.4%	109%
Germany	2,252	-20%	14.4%	58%
Switzerland	1,679	-13%	10.7%	219%
Netherlands	773	-25%	4.9%	82%
Italy	488	-10%	3.1%	26%
Spain	341	-8%	2.2%	26%
Denmark	314	-17%	2.0%	84%
Belgium	209	-15%	1.3%	38%
Austria	177	3%	1.1%	40%
Poland	57	-13%	0.4%	9%
Turkey	32	30%	0.2%	5%
Portugal	24	-3%	0.2%	10%
Hungary	23	10%	0.1%	14%
Czech Republic	22	n.a.	0.1%	8%
Greece	10	-1%	0.1%	5%
Romania	6	n.a.	<0.1%	2%
Slovenia	4	-9%	<0.1%	7%
Bulgaria	1	-1%	<0.1%	1%
Other	1,884	n.a	12.0%	n.a.
Europe	**15,679**	**-14%**	**100%**	**76%**

[1] End 2022 AuM compared to end 2021 AuM

A.3: Discretionary mandates, by geographical breakdown of AuM, at the end of 2022

(EUR billions and percent)

Country	AuM	% Δ in 2022 [1]	Market Share	AuM / GDP
UK	5,430	-18%	44.9%	182%
France	1,700	-14%	14.1%	64%
Switzerland	1,173	-6%	9.7%	153%
Netherlands	1,068	2%	8.8%	113%
Italy	930	-14%	7.7%	49%
Germany	496	-27%	4.1%	13%
Denmark	178	-22%	1.5%	47%
Belgium [2]	156	-8%	1.3%	28%
Spain [3]	108	-2%	0.9%	8%
Czech Republic	30	n.a.	0.3%	11%
Portugal	18	-18%	0.1%	8%
Hungary	9	-12%	0.1%	5%
Greece	6	0%	0.1%	3%
Turkey	4	34%	<0.1%	0.6%
Slovenia	2	34%	<0.1%	4%
Bulgaria	0	-1%	<0.1%	0%
Romania	0.1	n.a.	<0.1%	0%
Other	783	-1%	6%	n.a.
Europe	**12,091**	**-14%**	**100%**	**58%**

[1] End 2022 AuM compared to end 2021 AuM.
[2] Belgian data include unit-linked insurance products and pension funds.
[3] Spanish data do not include comprehensive figures on mandates, only on discretionary portfolio management.

A.4: Investment fund assets at the end of 2022

(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	4,493	29%	1,758	9.2%
France	2,890	18%	2,096	11.0%
Germany	2,252	14%	2,591	13.6%
Switzerland	1,679	11%	757	4.0%
Netherlands	773	5%	773	4.0%
Italy	488	3%	341	1.8%
Spain	341	2%	323	1.7%
Denmark	314	2%	282	1.5%
Belgium	209	1%	183	1.0%
Austria	177	1%	199	1.0%
Poland	57	0.4%	57	0.3%
Turkey	32	0.2%	48	0.3%
Portugal	24	0.2%	29	0.2%
Hungary	23	0.1%	23	0.1%
Czech Republic	22	0.1%	21	0.1%
Greece	10	0.1%	13	0.1%
Romania	6	<0.1%	8	<0.1%
Slovenia	4	<0.1%	4	<0.1%
Bulgaria	1	<0.1%	1	<0.1%
Other	1,884	12.0%	9,581	50%
Europe	**15,679**	**100%**	**19,090**	**100%**

A.5: Debt securities issued in the euro area and shares owned by euro area investment funds
(At the end of 2022, EUR billions and percent)

Issuer	Total Securities Issued	Total Held by Euro Area Investors	Securities Held by Euro Area IFs	Share of Euro Area IFs among Euro Area Investors
General Government	9,938	7,838	866	11%
MFIs	4,442	2,529	705	28%
Non-Financial Corporations	1,489	1,344	488	36%
Other	3,395	2,488	610	25%
Total	**19,264**	**14,199**	**2,670**	**18%**

Source: EFAMA's calculation based on ECB data

A.6: Listed shares issued in the euro area and shares owned by euro area investment funds
(At the end of 2022, EUR billions and percent)

Issuers	Total Listed Shares Issued	Total Held by Euro Area Investors	Listed Shares Held by Euro Area IFs	Share of Euro Area IFs among Euro Area Investors
General Government	---	---	---	---
MFIs	526	371	103	28%
Non-Financial Corporations	6,859	4,410	894	20%
Other	1,358	742	123	17%
Total	**8,743**	**5,523**	**1,121**	**20%**

Source: EFAMA's calculation based on ECB data

A.7: AuM by type of client and country at the end of 2022
(Share in total AuM)

	Institutional Clients					Retail Clients
Country	Pension Funds	Insurers	Banks	Other Inst.	Total Institutional	Total Retail
Austria	8%	12%	3%	23%	46%	54%
Belgium	8%	6%	5%	19%	38%	62%
Bulgaria	18%	13%	4%	7%	42%	58%
Czech Republic	34%	19%	3%	4%	60%	40%
Denmark	24%	4%	2%	15%	45%	55%
France	10%	47%	4%	9%	69%	31%
Germany	17%	28%	7%	15%	67%	33%
Greece	27%	12%	1%	3%	43%	57%
Hungary	14%	10%	0%	3%	27%	73%
Italy	5%	45%	1%	12%	63%	37%
Poland	0%	4%	0%	43%	46%	54%
Portugal	16%	17%	4%	19%	56%	44%
Romania	1%	2%	3%	24%	30%	70%
Slovenia	6%	47%	0%	3%	56%	44%
Spain	1%	2%	0%	10%	14%	86%
Switzerland	36%	14%	11%	26%	87%	13%
Turkey	39%	1%	12%	14%	67%	33%
UK	34%	12%	0%	28%	74%	26%
Europe	**24.3%**	**22.2%**	**3.2%**	**20.7%**	**70.5%**	**29.5%**

A.8: Breakdown of investment fund clients by AuM at the end of 2022
(Share in total AuM)

	Institutional Clients					Retail Clients
Country	Pension Funds	Insurers	Banks	Other Inst.	Total Institutional	Total Retail
Austria	8%	12%	3%	23%	46%	54%
Belgium	n.a.	n.a.	n.a.	n.a.	29%	71%
Bulgaria	21%	4%	5%	8%	38%	62%
Czech Republic	0%	3%	8%	4%	15%	85%
Denmark	13%	1%	2%	8%	24%	76%
France	9%	24%	6%	15%	53%	47%
Germany [1]	21%	17%	8%	15%	61%	39%
Greece	9%	7%	1%	5%	22%	78%
Hungary	2%	2%	0%	3%	7%	93%
Italy	2%	11%	3%	5%	22%	78%
Poland	0%	4%	0%	43%	46%	54%
Portugal	4%	2%	7%	14%	27%	73%
Romania	1%	2%	3%	24%	31%	69%
Slovenia	1%	28%	0%	4%	33%	67%
Spain	1%	3%	0%	12%	17%	83%
Switzerland	32%	12%	10%	23%	78%	22%
Turkey	43%	0%	13%	13%	69%	31%
UK	29%	4%	0%	10%	44%	56%
Europe	**20.7%**	**11.8%**	**4.3%**	**13.5%**	**50.8%**	**49.2%**

[1] German data for institutional clients are based on the clients of open-ended Spezialfonds domiciled in Germany.

A.9: Breakdown of discretionary mandate clients by AuM at the end of 2022
(Share in total AuM)

	Institutional Clients					Retail Clients
Country	Pension Funds	Insurers	Banks	Other Inst.	Total Institutional	Total Retail
Belgium	n.a.	n.a.	n.a.	n.a.	50%	50%
Bulgaria	0%	55%	0%	5%	59%	41%
Czech Republic	60%	31%	0%	3%	94%	6%
Denmark	45%	9%	2%	26%	82%	18%
France	11%	81%	1%	1%	94%	6%
Germany	2%	76%	1%	15%	96%	4%
Greece	57%	20%	1%	1%	80%	20%
Hungary	48%	29%	0%	5%	82%	18%
Italy	7%	63%	0%	15%	85%	15%
Portugal	31%	37%	1%	26%	95%	5%
Romania	0%	0%	0%	0%	0%	100%
Slovenia	14%	77%	0%	1%	92%	8%
Spain [1]	0%	0%	0%	5%	5%	95%
Switzerland	41%	16%	13%	30%	100%	0%
Turkey	4%	11%	4%	30%	49%	51%
UK	38%	19%	0%	43%	99%	1%
Europe	**28.4%**	**34.9%**	**1.7%**	**29.0%**	**94.8%**	**5.2%**

[1] Spanish data do not include comprehensive figures on mandates, only on discretionary portfolio management.

A.10: Asset allocation by country at the end of 2022

(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	18%	29%	0%	53%	n.a.	n.a.	n.a.	n.a.	18%	29%	0%	53%
Belgium	50%	37%	8%	5%	28%	59%	5%	8%	41%	46%	7%	6%
Bulgaria	57%	24%	6%	13%	29%	66%	4%	1%	52%	32%	5%	11%
Czech Republic	19%	30%	14%	37%	11%	71%	9%	9%	15%	52%	12%	22%
Denmark	43%	39%	1%	17%	25%	39%	0%	36%	36%	39%	1%	24%
France	24%	18%	24%	33%	10%	76%	5%	8%	18%	44%	15%	22%
Germany	25%	31%	5%	39%	9%	62%	6%	24%	22%	36%	5%	36%
Greece	27%	37%	7%	30%	33%	49%	14%	5%	29%	41%	9%	20%
Hungary	15%	28%	33%	23%	27%	52%	11%	10%	19%	34%	27%	20%
Italy	28%	43%	9%	21%	20%	76%	3%	0%	23%	65%	5%	7%
Poland	11%	31%	0%	58%	n.a.	n.a.	n.a.	n.a.	11%	31%	0%	58%
Portugal	20%	26%	6%	48%	11%	70%	4%	16%	16%	45%	5%	34%
Romania	44%	12%	34%	10%	54%	27%	9%	10%	45%	12%	33%	10%
Slovenia	71%	17%	7%	6%	12%	83%	1%	4%	48%	42%	5%	5%
Spain	30%	62%	6%	2%	30%	62%	6%	2%	30%	62%	6%	2%
Switzerland	28%	23%	4%	45%	28%	23%	4%	45%	28%	23%	4%	45%
Turkey	18%	36%	17%	29%	1%	12%	25%	62%	16%	33%	18%	33%
UK [1]	63%	24%	3%	10%	25%	31%	9%	34%	42%	28%	6%	23%
Europe	**40.5%**	**26.9%**	**7.3%**	**25.3%**	**22.2%**	**43.8%**	**6.9%**	**27.1%**	**32.1%**	**34.6%**	**7.1%**	**26.2%**

[1] UK data on investment funds include assets managed in the UK on behalf of foreign-domiciled funds, for which an accurate asset allocation breakdown is not available. Therefore, EFAMA has made estimates for the purposes of this table.

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[i] As explained in the introduction, this report is primarily based on end-2022 data received from EFAMA member associations. The AuM at the end of Q3 2023 have been estimated on the basis of the growth in investment fund assets over January - September 2023.

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 annex 2 contains further information on the AuM per country.

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

[iv] Table A.4 in annex 2 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 annex 2 contains further information on discretionary mandate assets per country.

[vi] For more information on the clients of the asset management industry, see Section 3.

[vii] See tables A.5 and A.6 in annex 2.

[viii] Private and public corporate enterprises producing goods or providing non-financial services, proving the relevant role of asset managers in the economy.

[ix] See upcoming EFAMA's Household Participation in Capital Markets (2024).

[x] See AMF (2023). 'Close to 40% of new equity investors are under 35'.

[xi] See EFAMA (2023) 'European Quarterly Statistical Releases'.

[xii] See The IA (2023), page 48, 'Investment Management Survey 2022-2023'.

[xiii] The sizeable increase in the percentage of other institutional clients between 2018-2019 is also a consequence of a change in data reporting in Germany.

[xiv] The share of retail clients in the total investment fund assets managed in Europe (49%) is significantly higher than the share of investment fund assets owned by retail investment as reported in EFAMA Fact Book[xiv] on the basis of ECB data. This can be explained by two factors. First, the investment fund data presented in this report relates to the ultimate clients of investment funds, whereas the ECB data on fund ownership has the point of view of the initial direct owner of the fund. For this reason, a relatively high share of fund ownership reported - according to the ECB - concerns funds that are owned by other investment funds (24% at end-2022). Second, the Netherlands, a country with a large institutional fund market, is not covered in Exhibit 4.2, which skews the share of retail clients. On the other hand, the combined share of insurers and pension funds is roughly equivalent (33% compared to 34%).

[xv] Tables A.7, A.8 and A9 in annex 2 contain further data on the AuM by type of client and per country.

[xvi] See endnote xiii.

[xvii] See The IA (2023) page 21 'Investment Management Survey 2022-2023'.

[xviii] See EFAMA Market Insights #13: 'UCITS ETFs: A growing market in volatile times'.

[xix] See EFAMA (2023), Box 7: Costs of UCITS funds, page 65, 'Fact Book 2023'.

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

[xxi] Source: Pitchbook.

[xxii] Table A.10 in annex 2 contains data on the asset allocation of investment funds and discretionary mandates per country at end 2022.

[xxiii] SFDR Article 8 and 9 funds are also being managed in other countries, predominantly the UK but also in countries outside of Europe. Unfortunately, comprehensive data on the management of SFDR Article 8 and 9 funds in those countries are not available.

[xxiv] Data on Article 8 and Article 9 funds domiciled in the Netherlands, Germany (extrapolated figures), Sweden, Finland and Norway is used as a proxy for Article 8 and 9 funds managed in those countries. In the case of Switzerland, the funds covered are funds domiciled in the EU and managed in Switzerland.

[xxv] See EFAMA Market Insights #12: 'The SFDR Fund market – State of play'.

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

European Fund and Asset Management Association

About EFAMA

EFAMA is the voice of the European investment management industry, which manages over EUR 28.6 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.

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