

1. Executive summary

- New launches drive a significant proportion of mutual fund sales; the number of funds has increased by 70% over the past ten years; percentage management fees do not fall as assets rise. Coupled with the impact of the financial crisis, these findings suggest that there is now an opportunity for the European funds industry to begin the **move from 'product push' to 'client value'**.
- Launching new funds has been a significant feature of the European industry for the last decade, with over 2,500 mutual funds launched each year. Even with the recent increase in fund closures, **the impetus to launch new funds remains strong** and a fundamental part of the business model for many organisations — one partly encouraged by the historical focus of European regulators.
- The financial crisis provides the perfect opportunity to demonstrate that **investors' interests lie at the heart of the mutual fund structure**. One of the obstacles to this is the sheer number of funds that roll off the production line: there is around one mutual fund for every 1,000 active investors. The resulting emphasis placed on distribution (the ability to reach these investors) has been inevitable. Differences in sales patterns between key fund markets shed light on the ways in which funds are distributed, notably the roles of retirement plans in the US and of IFAs in the UK.
- The **appeal of launching new funds** was clearly shown in 2007 and 2008: while new fund launches attracted positive net sales of over €120bn in both years, the level of redemptions from existing, or 'backlist', funds grew from €200bn to €500bn.
- The **relative sales of new fund launches and backlist funds differ greatly between banks and 'pure' asset managers**. Over the past seven years, banks saw net sales of new launches average €92bn, while backlist funds suffered average annual redemptions of €68bn. The equivalent figures for asset managers are much more evenly balanced, with backlist funds attracting a greater proportion of net sales than new launches each year from 2002 to 2007.
- The **emphasis on new fund launches, but without a consistent trend of closures, has led to a proliferation of products** in the industry. The number of small funds remains disproportionately high with the median fund size standing at €25m, although this pattern is not consistent across the industry, for example, the median size of funds for the largest cross-border groups is €56m.

- Fund size is important in the way that this relates to the annual fees that investors bear, however, an assessment of **economies of scale** in the industry reveals that the relationship between the two is not as straightforward as might first appear.
- Particularly when looking at funds' management fees, insights from the US are useful. In Europe, management fees generally include annual distribution fees, both of which are not linked to fund assets when costs are passed on to investors. **This limits the extent to which any fund rationalisation will benefit investors through reduced TERs.**
- Just as the launching of funds and the assessment of a fund's profitability remains an individual business decision, so fund **companies cannot be expected to reduce their management fees through altruism rather than self-interest.** This report aims to shed new light on aspects that may help some in the industry to square this circle.

For a copy of the full report, please contact:

Ed Moisson, Head of Consulting, Lipper FMI
ed.moisson@thomsonreuters.com