Cerulli Quantitative Update

European Distribution Dynamics 2012

CERULLI ASSOCIATES
Global Analytics

Overview

Accessing the right sort of distribution by mutual fund managers has always been difficult, and it is getting more so, and more expensive. Distributors, be they IFA networks in the United Kingdom, or banks on the Continent, are choosing to work with fewer managers. Brand is increasingly important and the bulk of the mutual fund flows are concentrated among a handful of mutual fund firms. Fund managers who wish to enter the market or maintain their market-share will need to understand the changing dynamics and adapt their strategies.

This annual report provides in-depth analysis of the state of mutual fund distribution across key markets in Europe. Distribution analysis is our strength and we bring 20 years of global research experience to this topic. Cerulli asks key questions to leading asset managers and distributors, and supports its findings with data analysis obtained through its strict research processes. *Unique proprietary research elements and analyses include:*

- 260 pages and 169 exhibits
- 30 executive interviews
- Proprietary survey findings of asset managers representing 40% of European cross border AUM
- Retrocession fee analysis
- Distribution split between captive and third-party channels
- Distribution breakdown in each market
- Market analysis by asset class, AUM, NNF

What's New in 2012?

- In-depth fee and margin analysis
- Coverage of Eastern Europe, including country rankings by asset-gathering opportunity
- Focused discussion on implications of regulatory issues
- Granular country-level analysis and recommendations

Answer These and Other Critical Questions:

1. How feasible is a pan-European distribution strategy for mutual funds in the current tough economic and financial environment across Europe?
2. What does the future hold for asset managers with respect to mutual fund fees in Europe?
3. What are the key issues that global and European asset managers must consider as they build out their regional strategies?
4. Which distribution channels offer the greatest opportunity for fund managers?
5. How important is brand relative to other business drivers in Europe?
6. What percentage of French funds are locally domiciled?
7. Which German mutual funds make the top ten list?
8. How well has the Italian FoF sector done?
9. Which Spanish fund managers comprise the top-10?
10. What are the trends for fund launches in the United Kingdom?

260 pages, 181 exhibits

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Methodology

European Distribution Dynamics expands on a theme that Cerulli has analyzed at various points in time over the past decade, and regularly through articles in both *The Cerulli Edge—Global Edition* and *The Cerulli Edge—Europe Edition* research publications. This in-depth analysis of the state of mutual fund distribution across the main European asset management markets covers, among other things, European fund market size, structure, and characteristics and examines the distribution channels used by mutual fund managers in Europe. In addition to analysis of the five main European mutual fund markets and the cross-border asset management industry, this report also examines changes to the regulatory landscape and the implications for the industry.

In the second iteration of this report, Cerulli seeks to answer a number of questions, including: Distribution—which channel is the most prominent? Which is the fastest growing? And which has the lowest barrier to entry? This will be analyzed not just across countries but also on a cross-border basis as the Ucits brand gathers greater momentum and assets. Fees and revenues are also a big feature in the report as expansion and consolidation plans will increasingly be driven by products and countries that offer the best revenue-cost ratio (often short-term) for distribution. Managers interested in understanding how the gatekeeping process functions will gain insights from this report, which looks at the key make-or-break factors that fund selectors in major European markets look for.

Cerulli has assembled actionable information in two forms in ***European Distribution Dynamics***. These are:

- *Qualitative information* and analysis that readers of this report can consult to gain a thorough understanding of European fund distribution, its variation by country, and its likely future development—in particular distribution channel accessibility and regulatory supervision within the regions
- *Quantitative analysis* of the addressable market broken down by region and country. This is derived from a combination of public information and proprietary data analysis.

Cerulli Associates is one of a few international research firms to conduct regular surveys and in-depth interviews with asset managers, distributors, and regulators in more than 40 asset management markets around the world.

Information in this report was obtained from public and non-confidential sources, proprietary interviews with asset managers, fund distributors, independent financial advisors, and survey work. Cerulli believes that the data herein is reliable and has made every reasonable effort to verify statistics presented; however, Cerulli does not guarantee its accuracy or completeness. All data in this report is calculated and presented in euros, British pounds, or U.S. dollars, which allows for comparative analysis. Exchange rates from **December 2011** have been used.

Cerulli has benefited from the co-operation of a number of industry associations and regulatory bodies across Europe, and is especially grateful for assistance from the following:

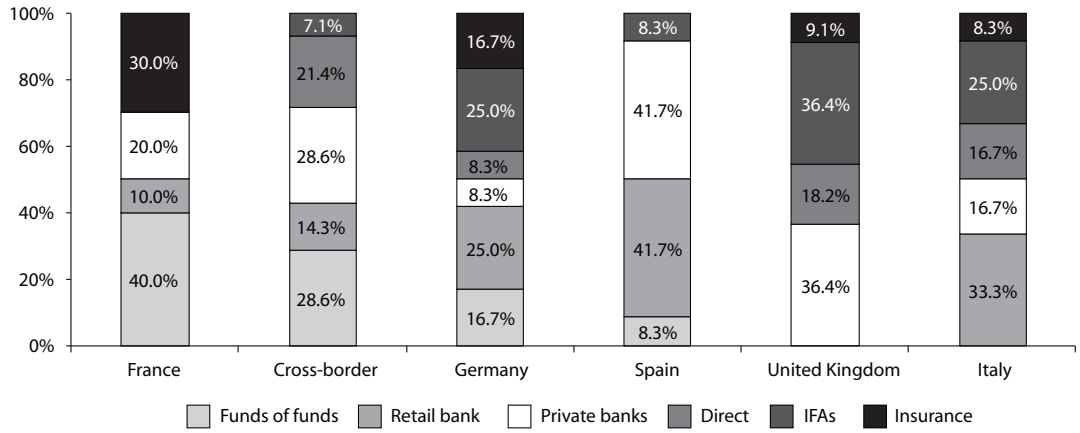
- European Commission – Eurostat, Luxembourg
- Association Française de Gestion Financière, Paris
- European Central Bank, Frankfurt
- Financial Services Authority, London
- European Fund and Asset Management Association, Brussels
- International Monetary Fund, Washington
- Private Pension System Supervisory Commission, Bucharest
- European Court of Justice, Luxembourg
- Bundesanstalt für Finanzdienstleistungsaufsicht, Frankfurt
- Associazione Nazionale delle Società di Collocamento di Prodotti Finanziari e di Servizi di Investimento, Rome
- Investment Management Association, London
- Bundesverband Investment und Asset Management, Frankfurt

SAMPLE SECTION
from

CERULLI QUANTITATIVE UPDATE:
EUROPEAN DISTRIBUTION DYNAMICS 2012

bond issues, convertibles, and promissory notes. Private banks are shunting wealthy clients into cash over shorter periods, under the guise of protecting their capital. Both are expensive options and unlikely to be in investors' long-term interests. 2012 will be another *annus horribilis* for pan-European fund sales—captive, independent, or otherwise.

EXHIBIT 2.01: European Cross-border Managers' Views on Distribution Channels by Growth Potential, 2011



Source: Cerulli Associates

Retail banks
Mass market, sales target-driven, mostly country/regional operations with strong client cross-sell.

Pros: Potential big, regular inflows if matched by sufficient marketing support from bank and fund manufacturer.
Cons: Overwhelmingly geared to captive manufacturing. Subject to marketing priority, most big distribution deals already signed.

Rumors that banks are ripping up third-party fund distribution contracts are misplaced. There have been isolated incidents but the fact is that existing contracts are simply worthless in the current climate. Banks are not selling funds—their own or anyone else's.

Admittedly, banks have another issue. If they can't sell their asset management arms, they might as well make them work harder. At least own-brand products keep retrocessions in-house and the bank gets the annual management charge and trail fee too.

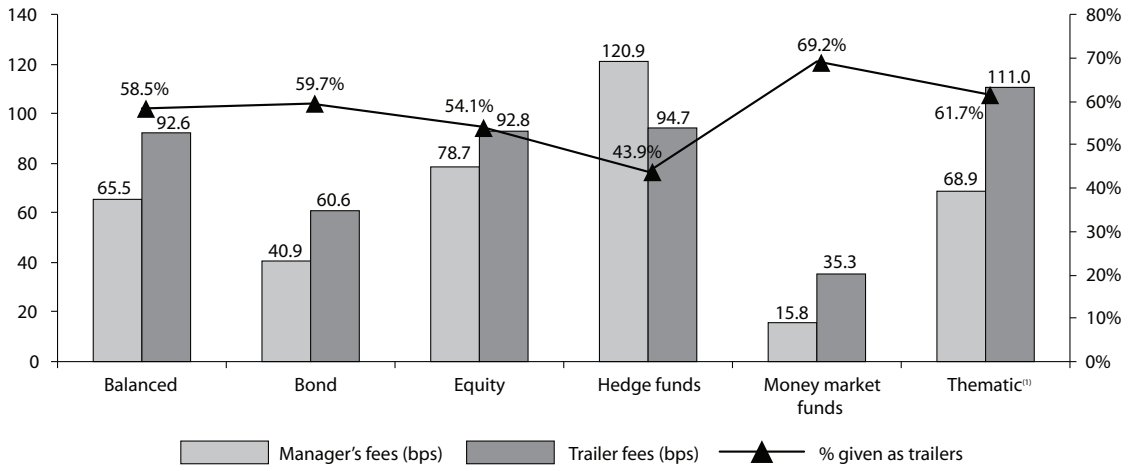
tax barriers are largely imaginary and disappearing in any case. Unless newly launched or attracting assets, the viability of any fund of less than €20 million is questionable. Those up to €50 million should be merged into other vehicles wherever possible. As funds of less than €20 million represent nearly 40% of all funds by number, fund groups have plenty of scope.

Distribution

If one could capture the stubbornness of a donkey in financial form, European retail distribution would be the result. The fragmented nature of European distribution should offer fund groups the chance to shop around for distributors willing to take a smaller cut from fund fees. Fat chance, say fund managers.

Last year, EFAMA—the European fund industry's trade association—undertook a sample study of fund fees. It surveyed 17 of the association's members with combined total assets of more than €1 trillion. For all its discrepancies, EFAMA's report concludes that European fund managers get to keep around 45% to 56% of their TERs. Insurance distributors have the biggest clout and keep 55% through retrocessions (see **Chapter 7: Regional Overview** for more details). Our own proprietary survey shows trailer fees range from 44% on hedge funds to more than 60% on money market and thematic funds. Both sets of numbers should be treated with care. We disagree with EFAMA's stripping out of "mega sized" U.S. houses (American Funds, Fidelity, and Vanguard) to close the gap between the two continents.

EXHIBIT 5.01: Cerulli Survey Respondents' Average Cross-border Management Fee Sharing Between Managers and Distributors by Fund Type, 2011



Note: (1) Thematic funds include infrastructure, commodities, and energy.
Source: Cerulli Associates

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