German Investment Funds Association

Snapshot Portfolio Management

PORTFOLIO MANAGEMENT IN GERMANY AT A GLANCE

Germany is one of the most important portfolio management locations in Europe – delegation to third parties very common

Portfolio management, the implementation of a fund's investment policy on a day-to-day basis, forms the core of the asset management industry. It is the key to matching the money of millions of private savers and institutional investors with the capital needs of companies and governments. The decisions of fund managers enable investment in growth and innovation. They also help to channel capital flows into the sustainable transformation of the economy.

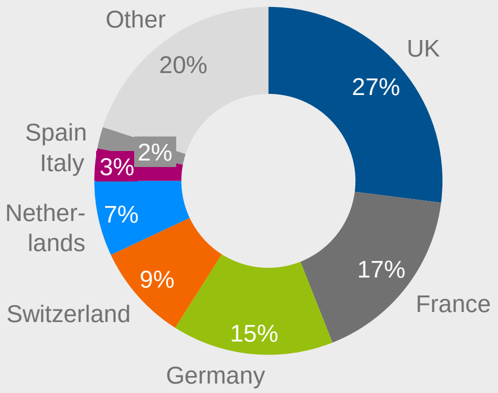
Germany is traditionally one of the most important locations for portfolio management in Europe. At the end of 2021, domestic providers were responsible for investment decisions concerning funds with total assets of more than EUR 2,800 billion. About one

Investment fund assets managed in Germany in EUR billion

Year-end data

Snapshot Portfolio Management

Fund management locations in Europe



As of 31 December 2020
Source: EFAMA

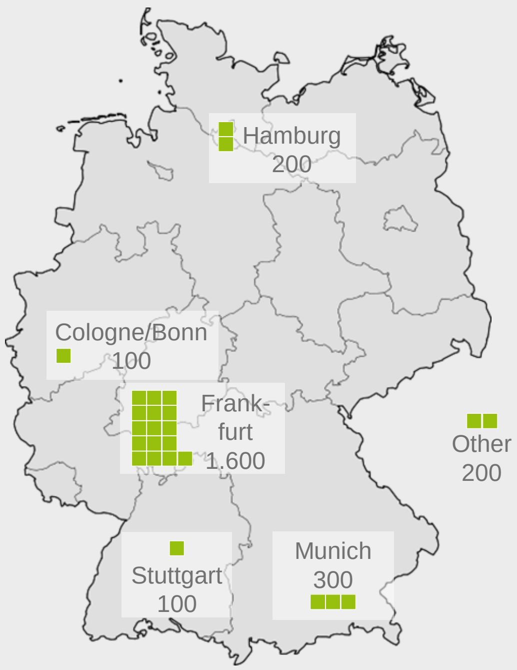
half of this was accounted for by retail funds and the other half by Spezialfonds for institutional clients (such as pension funds and insurance companies). Spezialfonds have increased their market share from 48 percent to 54 percent over the last ten years. Open-ended property funds, including both retail funds and Spezialfonds, are a unique feature of the German market. In this segment, asset managers are responsible for portfolios with net fund assets of over EUR 200 billion. Closed-end securities and property funds account for a small but growing share of the market with around EUR 12 billion at the end of 2021.

The portfolio management market has grown strongly in recent years against the backdrop of rising stock market prices and exceptionally good net inflows. Across all product types, assets managed in Germany rose by almost 11 percent last year alone. Over the past ten years, the average increase was over 8 percent. This means that the volume had more than doubled from around 1,300 billion euros since the end of 2011.

In a European comparison, Germany is in third place behind the UK (27 percent) and France (17 percent) with a market share of around 15 percent. Switzerland (9 percent) and the Netherlands (7 percent) are also important portfolio management locations. These five countries together account for three quarters of the total volume in Europe. In Luxembourg and Ireland, on the other hand, where most European funds are launched, the implementation of the investment policy rarely takes place. The same applies to the distribution-oriented fund markets in Italy and Spain. The German market share has remained almost constant since 2015, while the UK has gained three percentage points and France and the Netherlands have each lost one percentage point.

According to a BVI survey from 2021, around 2,500 people are employed in portfolio management in Germany. The dominant location is the Frankfurt metropolitan area: about two-thirds of all fund management employees work here. Frankfurt benefits from an established ecosystem of fund companies, professionals, and specialised service providers, for example data or IT providers. In addition, many parent companies from the banking sector are based in Frankfurt and the Rhine-Main region. In other German areas there are several smaller asset management centres, each with a long-standing tradition. These include, for example, Munich, Hamburg, and Cologne. They have specialised in certain customer groups or product types. Hamburg, for example, is

Portfolio management employees by location



As of 31 December 2020
Source: BVI

home to many fund houses focusing on property funds.

The day-to-day portfolio management decisions are often delegated to other companies. Across all fund types, 47 percent of the assets of products domiciled in Germany are managed by a third party rather than the asset management company which has launched the fund.

From the perspective of the delegating fund company, the main reasons for separating the two functions are:

- Appointing specialist portfolio managers with expertise in certain markets or asset classes, such as emerging market equities or high-yield corporate bonds, to achieve a superior fund performance
- Delegate has better access to trading venues or systems that offer additional or more efficient investment options
- Optimisation of business functions and processes and associated cost savings

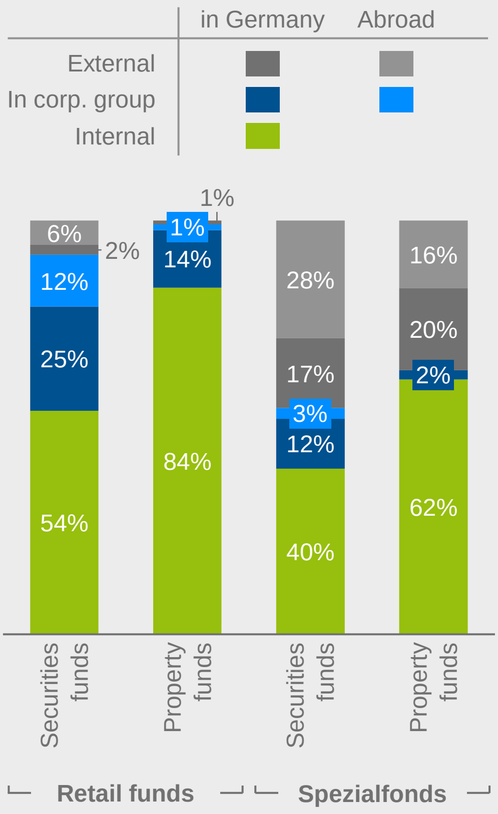
Domestic and foreign asset managers can use the portfolio management for funds as an entry point to the German market without founding a local asset management company. This saves time and administrative effort. For savers and investors, the presence of additional managers increases the range of choices and the chances of good investment results – while keeping costs down at the same time.

In the EU, delegation is comprehensively regulated by the Alternative Investment Fund Managers Directive (AIFMD) and the UCITS Directive. Among other things, the National Competent Authority of the Management Company must be notified, the services provided must be effectively monitored and the delegating company must retain responsibility for the fund. Third parties must be subject to supervision themselves and fulfil the same regulatory requirements as the Management Company. The delegation models used in practice are in line with these rules and have proven their reliability over many years.

Delegation can be conducted with managers within or outside of the respective corporate group. Irrespective of the group affiliation, it is both possible to engage providers in Germany and abroad. Which model is chosen depends on many factors. However, there are recurring patterns for certain types of funds (see chart below).

In the case of retail funds, fund companies rarely delegate portfolio management to external managers. For securities-based products, they account for only 8 percent of the assets under management. More than half of the funds are managed internally, another 37 percent are managed by other companies within the corporate group. In the case of retail property funds, as much as 84 percent of the portfolios are managed internally and 15 percent by other group entities. The background to this is that retail funds are often set up by integrated asset management groups which maintain dedicated companies for administration, portfolio management and distribution. In this case, transferring fund management to an in-house provider primarily increases the efficiency of the group.

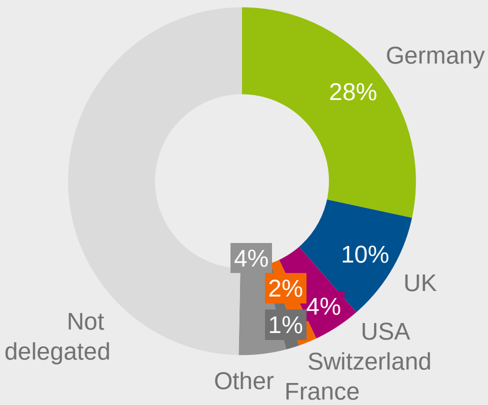
Who is responsible for portfolio management?



As of 31 December 2021

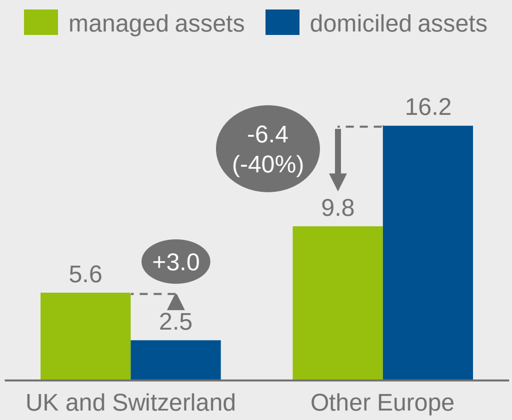
Snapshot Portfolio Management

Delegated portfolio management of funds held in Germany by country in percent of AuM



As of 31 December 2021. Coverage: 62 percent
Source: BVI

Fund management and domiciliation in Europe in EUR billion



As of 31 December 2020
Source: EFAMA

In the case of Spezialfonds, delegation to external third parties plays a significantly larger role. For securities funds, it amounts to 45 percent of the assets under management. This is because many Spezialfonds are set up by "master capital management companies" (Master-KVGs). They combine various asset classes as segments in one fund to simplify tax and accounting procedures as well as performance measurement for institutional investors. On average, a master fund has 4.4 segments. The portfolio management of individual segments is then often left to individually mandated managers. In the case of property Spezialfonds, the delegation of portfolio management has only gained momentum in recent years. It is slowly approaching the scale common in the securities fund sector. Today, managers outside the group steer 36 percent of total assets. By comparison, this figure was only 20 percent in 2016.

Across all fund types, German companies (including the fund company itself) account for three quarters of the portfolio management market. Correspondingly, foreign providers represent just under a quarter of total assets under management. According to a survey of BVI members, the most common location of delegates is the UK – even after Brexit. Around 10 percent of total assets are managed there, almost half of all portfolios managed abroad. Especially for retail funds, including ETFs, in-house managers based in London play a major role. The UK is followed by the USA (4 percent) and Switzerland (2 percent). In other words: Every sixth euro invested in German funds is managed outside of the EU. To France, the second largest portfolio management location in Europe, BVI members delegate only one percent of fund assets.

These figures exemplify the global division of labour in the fund industry, which is even more pronounced in other countries than in Germany. At the end of 2020, funds set up in the EU administered around EUR 16 trillion, of which around 40 percent were managed in non-EU countries. In net terms, the investment decisions for more than EUR 6 trillion were "imported". Main exporters include the financial centres in the UK and Switzerland. While funds with a combined net asset value of only EUR 2.5 trillion are domiciled there, a further EUR 3 trillion in management services were added on balance.

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