German Investment Funds Association

Snapshot Portfolio Management

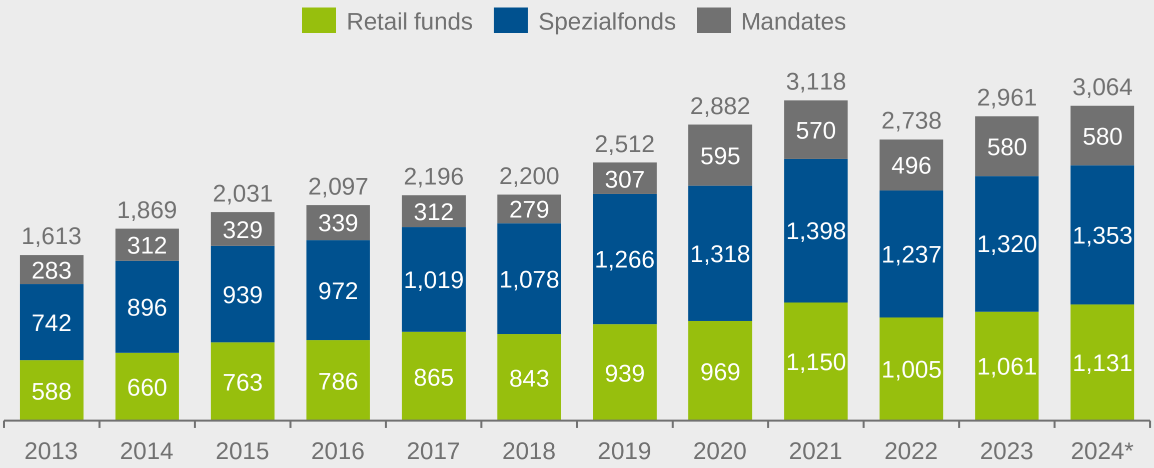
PORTFOLIO MANAGEMENT IN GERMANY AT A GLANCE

Managers in Germany make portfolio decisions for funds and mandates with assets totalling over EUR 3 trillion

Germany is one of the largest portfolio management locations in Europe. As at the end of June 2024, fund managers in Germany made the daily investment decisions for assets totalling over EUR 3 trillion on behalf of domestic and foreign investors. Retail funds accounted for 37 percent of the market, Spezialfonds for 44 percent and mandates for 19 percent. Mandates are agreements between an asset manager and an investor in which, for example, the investment strategy, risk management procedures, reporting obligations, fees, valuation methods and ESG preferences are defined. Other than that, however, the asset manager is free to buy and sell assets and execute transactions on behalf of and on account of the investor.

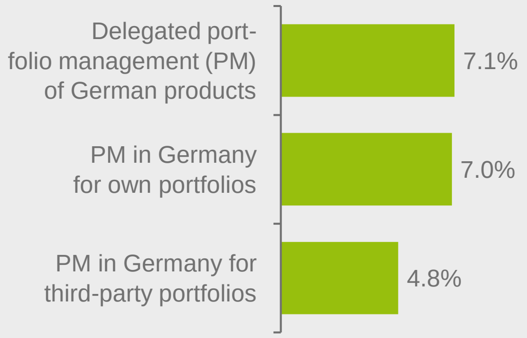
Since the end of 2013, assets under management have roughly doubled for all three product types; the average growth rate in portfolio management was 6.3 percent per year. Since 2020, however, as a

Investment fund and mandate assets managed in Germany in EUR billion



Data as of 31.12., *30.6.

Growth in assets under management in percent p.a.



Period under review 31.12.2013-30.6.2024

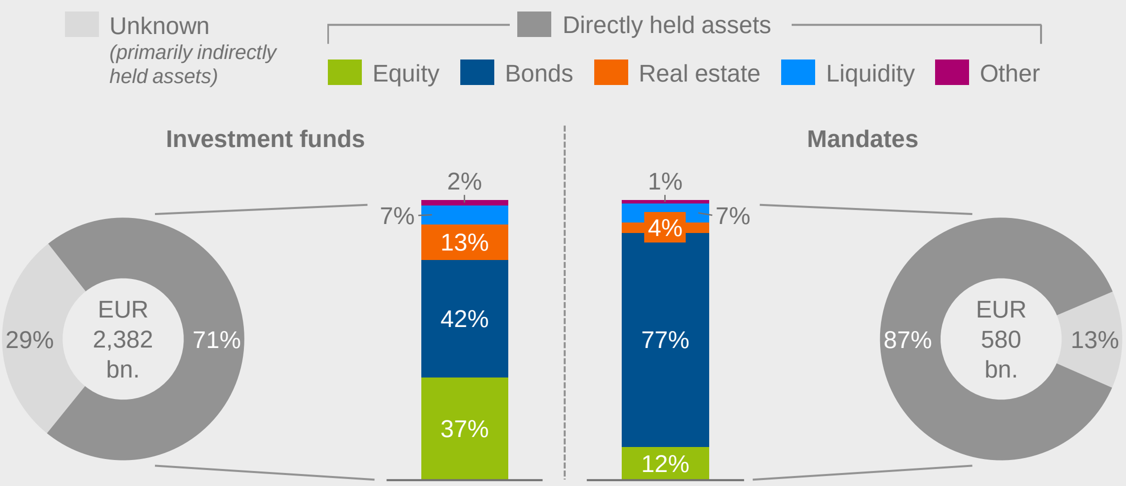
result of the better performance of equities compared to bonds, funds – which invest more heavily in equities (see chart below) – have been the main drivers of the industry's growth.

Portfolio managers fulfil an important function: they bring together the assets of private savers and institutional investors with the capital requirements of companies and governments. On the one hand, this enables profitable capital investments, for example to secure the standard of living in old age, and on the other hand to invest in growth and innovation. In about half of the cases, decisions on the specific portfolio composition are made by the company administrating the fund in question. In the remaining cases, specialised portfolio managers within or outside the Group are mandated. They offer distinct expertise for certain markets or asset classes, have access to special trading venues or work particularly efficiently. The share of outsourced portfolio management in funds and mandates managed in Germany has remained constant since the end of 2013: both outsourcing and in-house management have grown by an average of around 7 percent per year. In contrast, the volume of portfolios managed for third parties has only increased by an average of 4.8 percent per year.

As only a few thousand people work in portfolio management in Germany and benefit from network effects such as regionally available talent and service providers, the management of funds and mandates is concentrated in four regions. The focus has traditionally been on Frankfurt and the Rhine-Main region: this is where the first fund companies were founded as subsidiaries of the major banking groups. Today, Frankfurt's market share in the management of funds and mandates is 62 percent, followed by Munich, the Rhine-Ruhr metropolitan area and Hamburg (see also Snapshot Portfolio Management of July 2023).

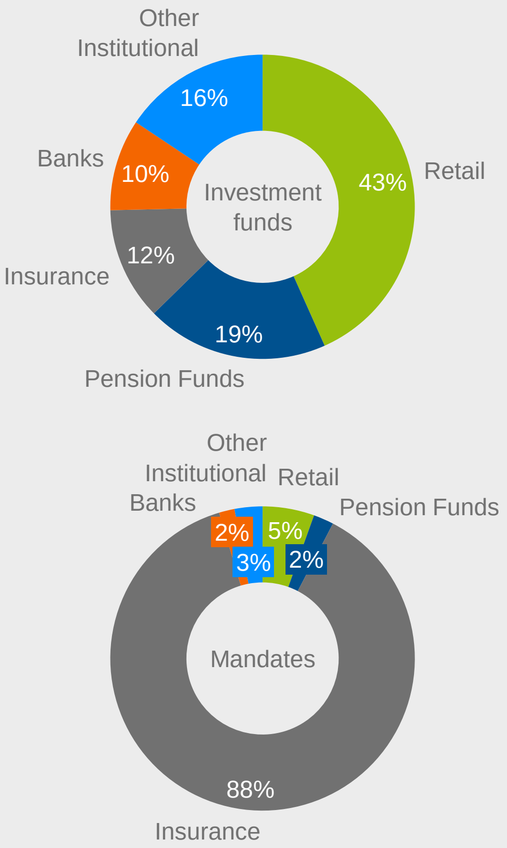
The assets under management are invested in line with investors' risk appetite and return expectations. According to a BVI survey, bonds were the largest asset class among direct holdings at the end of 2023. They accounted for 42 percent of fund assets and 77

Asset allocation of funds and mandates managed in Germany



Data as of 31.12.2023

Investment funds und mandates managed in Germany by investor type



Data as of 31.12.2023

percent of assets managed by mandates. Many investors who have to fulfil regular payment obligations, such as life insurers or pension funds, attach particular importance to low price fluctuations and regular interest payments.

Investments in equity play a particularly important role for investment funds. They accounted for 37 percent of the total volume, compared to 12 percent for mandates. Directly held real estate made up 13 percent and 4 percent, respectively. A smaller proportion is invested in private equity or venture capital. Liquid instruments accounted for 7 percent of assets under management for both funds and mandates.

In addition, fund and mandate managers also invest indirectly in securities and real assets: Other investment funds (and unknown investments) account for 29 percent of assets in funds and 13 percent in mandates. One of the main reasons for investing via funds is that they can be more efficient than direct investments, for example in the case of smaller exposures to asset classes in which other managers have particular expertise. Risk and liquidity management considerations also play a role.

An estimated 90 percent of portfolios managed in Germany are held by domestic investors; foreign investors are underrepresented in both investment funds and mandates. However, the two segments differ significantly in terms of their respective investor groups.

According to our survey, 43 percent of funds were managed for private investors as at the end of December 2023. This corresponds to over EUR 1 trillion managed for private households, for example via the retail banking channel at banks and savings banks or in wealth management. Accordingly, institutional investors account for 57 percent of the fund assets managed in Germany. Pension funds hold 19 percent of the shares, insurance companies 12 percent and banks 10 percent. The remaining holdings are distributed among a wide range of other institutional investor groups, including industrial and service companies, foundations and sovereign institutions.

In contrast, mandates outside of a fund wrapper are held almost exclusively by insurance companies - and are often managed by companies within the corporate group. Insurers account for almost 90 percent of the portfolios. Private investors, pension funds, banks and other institutional investors each account for less than 5 percent of the market, although the emergence of robo-advisers and online investment platforms in recent years has created new channels for retail investors to access mandates.

Contact
markus.michel@bvi.de
+49 69 15 40 90 242