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EUROPEAN ETF MARKET REPORT: Review of the year 2016

Please attribute the content to Detlef Glow, Thomson Reuters Lipper's head of EMEA research and the author of this report.

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EXECUTIVE SUMMARY

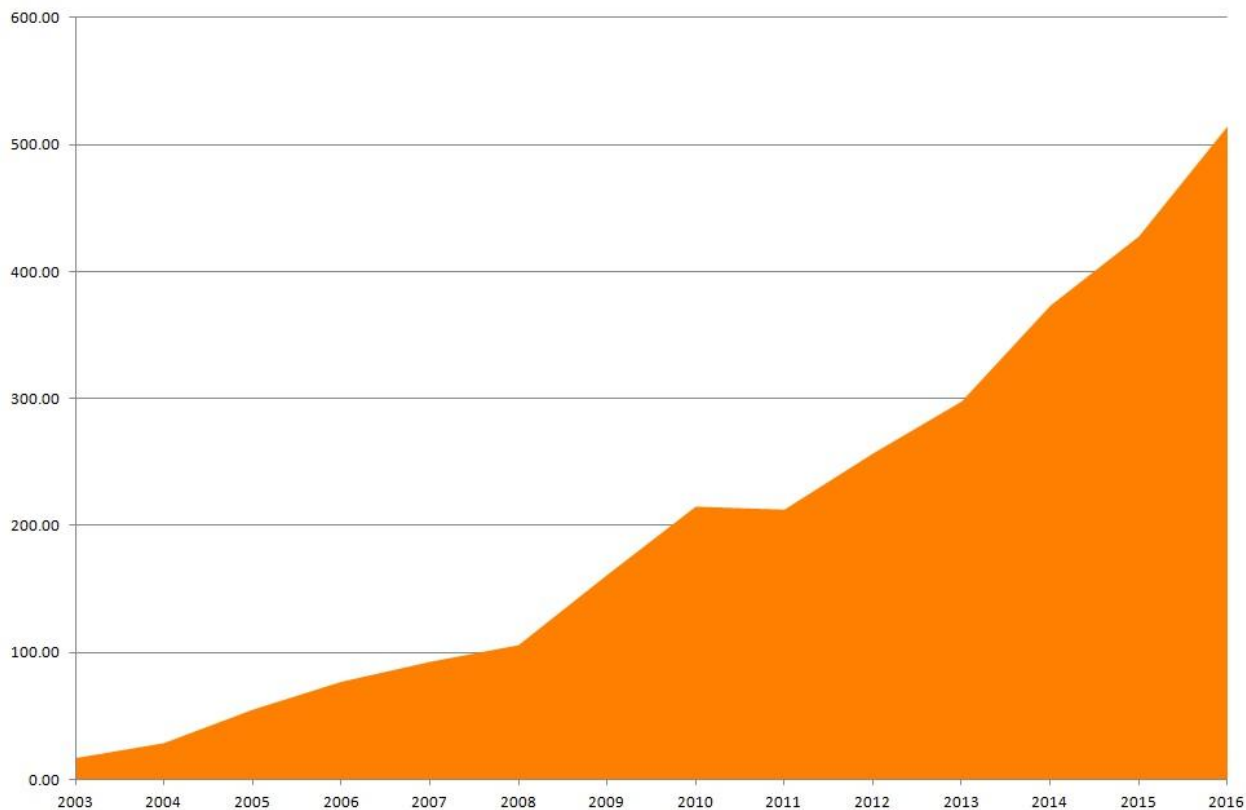
- Assets under management in exchange-traded funds (ETFs) hit a new all-time high (€514.5 bn) in 2016.
- Bond ETFs (+€19.1 bn) were the asset type with the highest net inflows in the European ETF industry over the course of 2016.
- Equity US (€82.1 bn) was the peer group with the highest assets under management at the end of December 2016.
- The best selling Lipper global classification over the course of 2016 was Equity US (+€8.7 bn), followed by Equity Global (+€6.5 bn) and Bond EUR Corporates (+€5.5 bn).
- **iShares**, with net sales of €26.6 bn, was the best selling ETF promoter in Europe over the course of 2016, followed by **Vanguard Group** (+€4.3 bn) and **SPDR** (State Street) (+€4.2 bn).
- The ten best selling funds gathered total net inflows of €19.7 bn for 2016.
- **iShares Core S&P 500 UCITS ETF USD (Acc)** was the largest (€18.3 bn in assets under management) and best selling (+€4.11 bn) individual ETF for 2016.



REVIEW OF THE EUROPEAN ETF MARKET IN 2016

The European ETF industry enjoyed a further increasing popularity with all kinds of investors in 2016. This popularity was seen also in the development of the assets under management; assets held by the European ETF industry increased for a fifth consecutive year and marked a new all-time high at €514.5 bn at the end of December.

Graph 1: Assets Under Management in the European ETF Segment (Euro Billions)



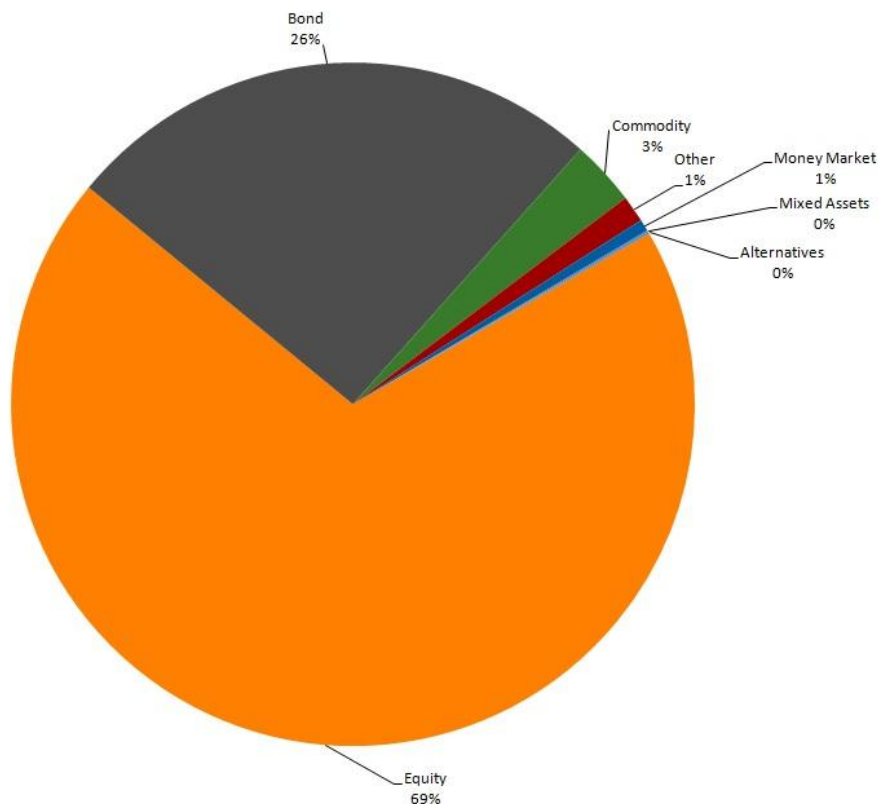
Source: Thomson Reuters Lipper

With regard to the overall number of products, it was not surprising that equity funds (€356.4 bn) held the majority of the assets, followed by bond funds (€132.0 bn), commodity products (€15.9 bn), “other” funds (€6.5 bn), money market funds (€2.9 bn), mixed-asset funds (€0.4 bn), and alternative UCITS products (€0.4 bn).



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Graph 2: Market Share, Assets Under Management in the European ETF Segment by Asset Type, December 31, 2016

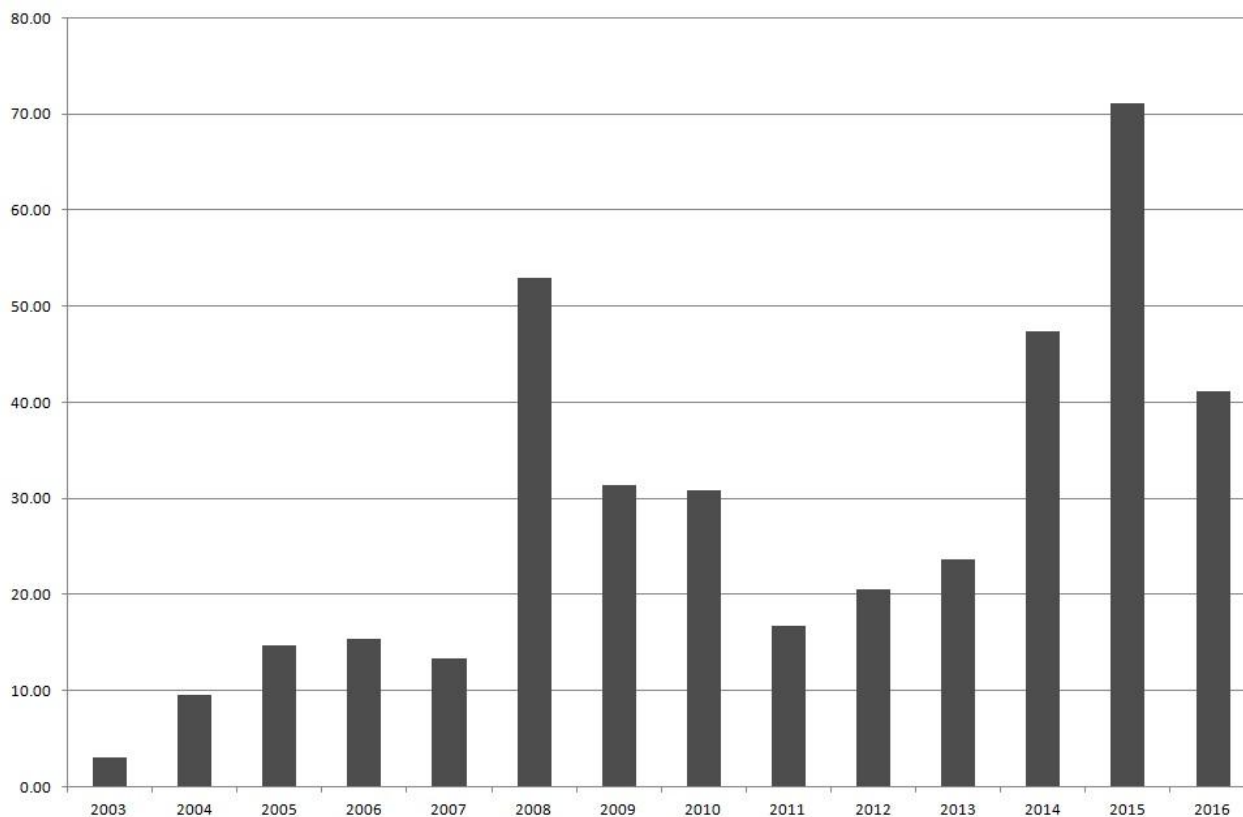


Source: Thomson Reuters Lipper

As was to be expected, the promoters of ETFs enjoyed net inflows for the year 2016 that were below the record inflows of 2015 but still above the long-term average. Overall, positive market impacts in combination with net inflows led to increased assets under management in the European ETF industry (€514.5 bn) for December, up from €448.2 bn at the end of December 2015. The overall increase of €66.3 bn for 2016 was mainly driven by net sales (+€37.7 bn), while the performance of the markets added €28.7 bn to the increase in assets under management in the ETF segment.



Graph 3: Estimated Net Sales (Euro Billions)



Source: Thomson Reuters Lipper

Fund Flows by Asset Type

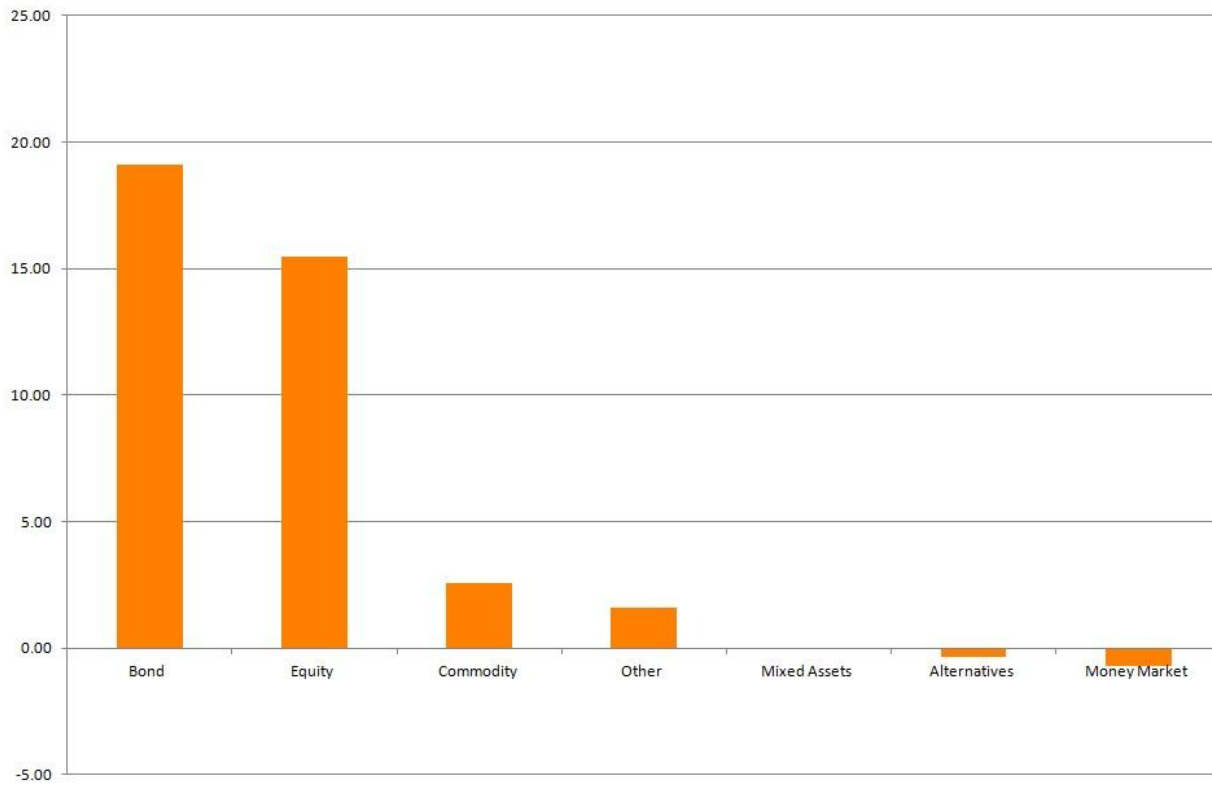
Bond ETFs (+€19.1 bn) were the best selling asset type in the European ETF segment over the course of the year, followed by equity ETFs (+€15.5 bn), commodity ETFs (+€2.6 bn), and “other” ETFs (+€1.6 bn). On the other side of the table money market ETFs (-€0.7 bn) showed the highest net outflows for the year, bettered by alternative UCITS ETFs (-€0.4 bn) and mixed-asset ETFs (+€0.009 bn).

The net inflows into equity ETFs were remarkable, since their actively managed peers showed net outflows for the year. Even though this had already happened to some degree, the year 2016 might mark a turning point in investor behaviour with regard to passive instruments.



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Graph 4: Estimated Net Sales by Asset Type, 2016 (Euro Billions)



Source: Thomson Reuters Lipper

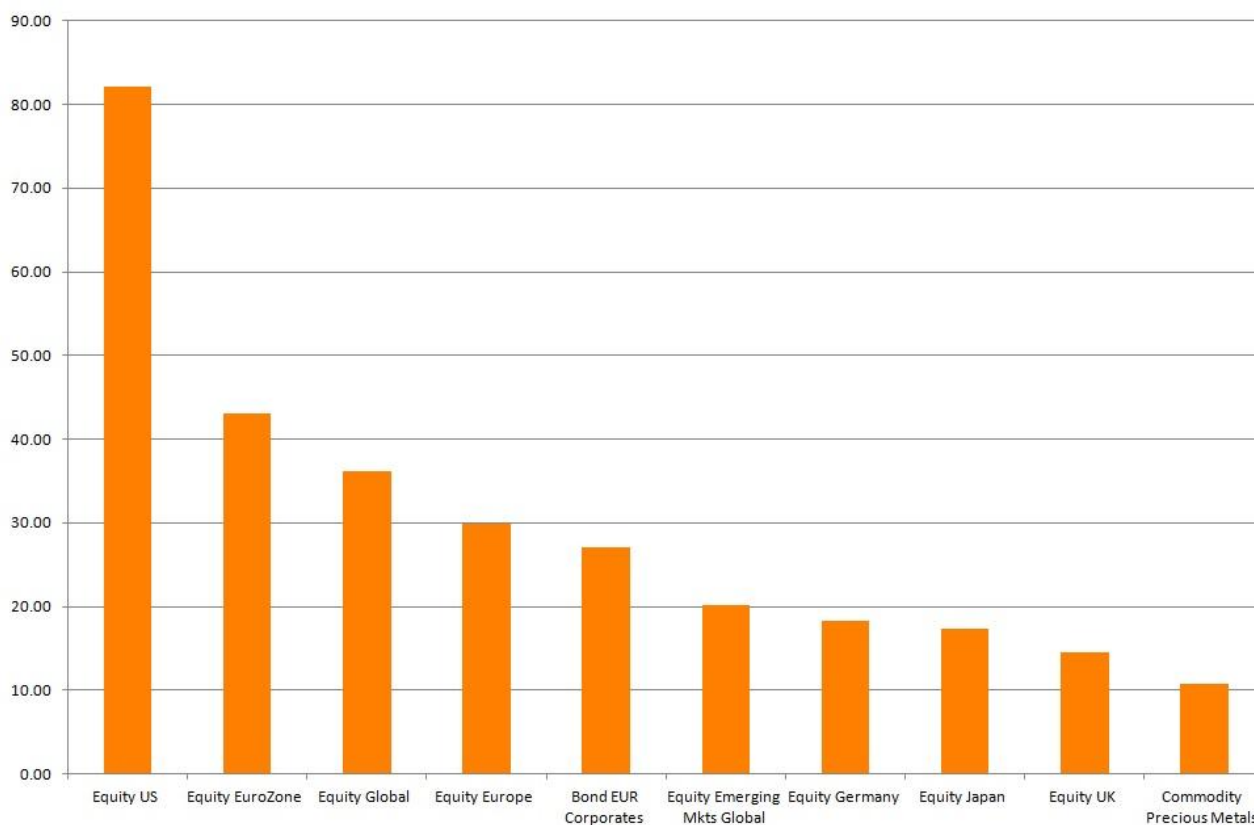


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Assets Under Management by Lipper Global Classifications

With regard to the Lipper global classifications, the European ETF market was split into 164 different peer groups. The highest assets under management at the end of December 2016 were held by funds classified as Equity US (€82.1 bn), followed by Equity Eurozone (€43.0 bn), Equity Global (€36.2 bn), and Equity Europe (€29.9 bn) as well as Bond EUR Corporates (€27.1 bn). These five peer groups accounted for 42.42% of the overall assets under management in the European ETF segment, while the ten top classifications by assets under management accounted for 58.17%. Overall, 18 of the 164 peer groups each accounted for more than 1% of the assets under management. In total, these 18 peer groups accounted for €361.9 bn or 70.34% of the overall assets under management. These numbers showed that the assets under management in the European ETF industry continue to be highly concentrated.

Graph 5: Ten Top Lipper Global Classifications by Assets Under Management, December 31, 2016 (Euro Billions)



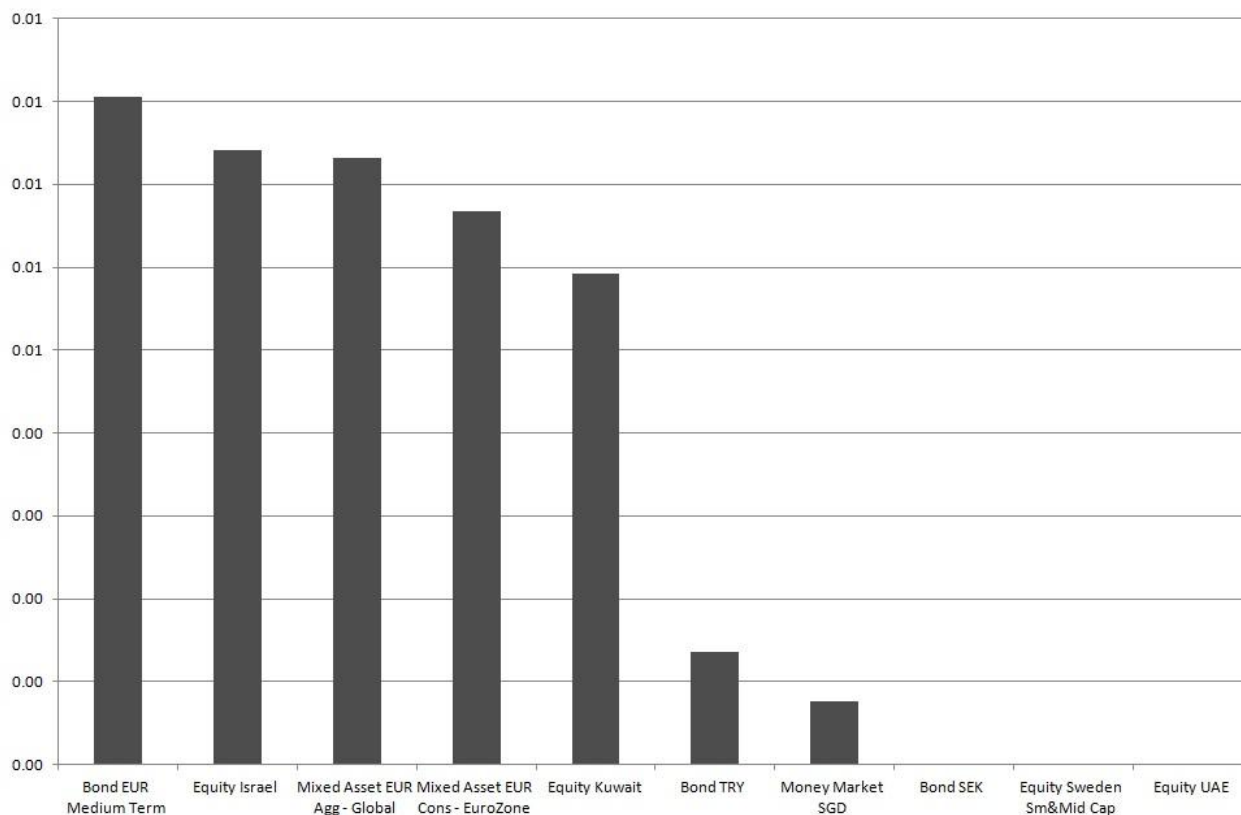
Source: Thomson Reuters Lipper



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The peer groups on the other side of the table showed that some funds in the European ETF market are quite low in assets and may face the risk of being closed in the near future. They are obviously lacking investor interest and might therefore not be profitable for the respective fund promoters.

Graph 6: Ten Smallest Lipper Global Classifications by Assets Under Management, December 31, 2016 (Euro Billions)



Source: Thomson Reuters Lipper

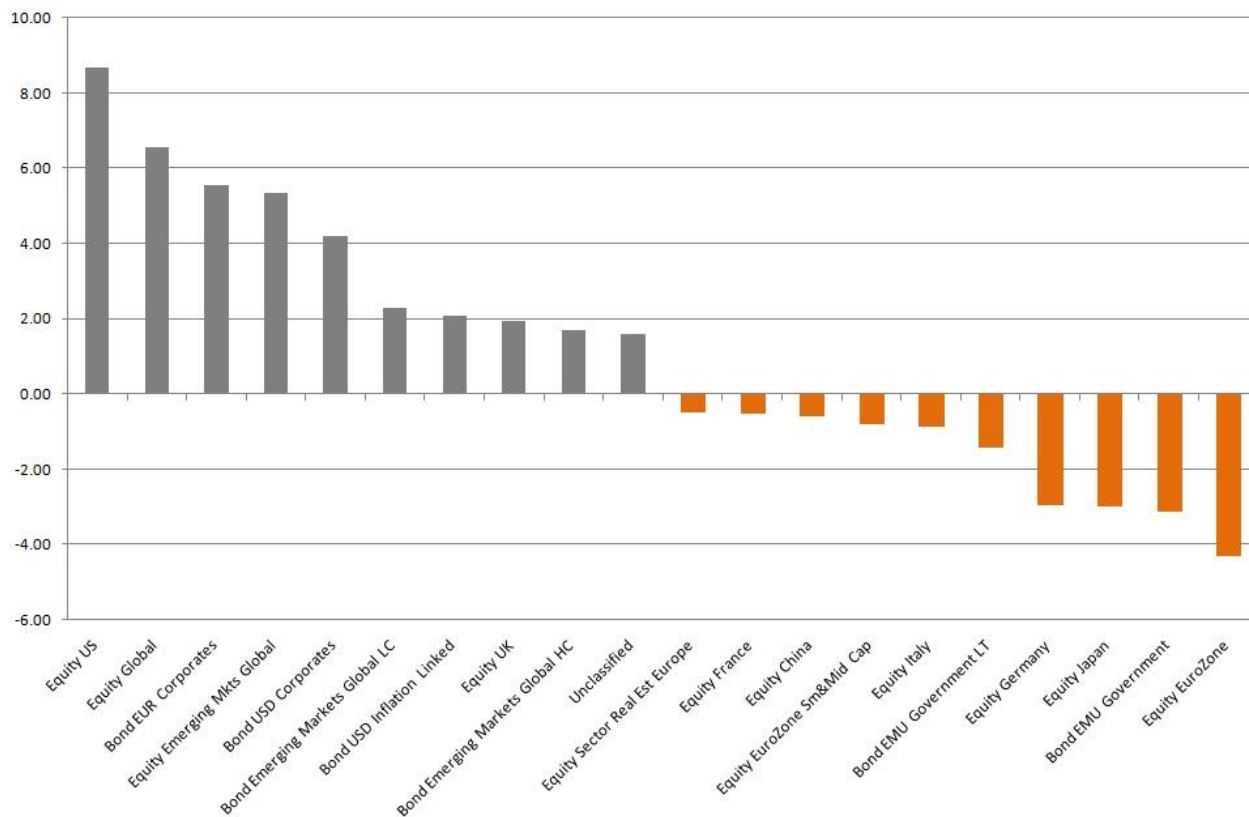
Fund Flows by Lipper Global Classifications

The best selling Lipper global classification for the year 2016 was Equity US (+€8.7 bn), followed by Equity Global (+€6.5 bn) and Bond EUR Corporates (+€5.5 bn). The inflows of the ten best selling Lipper classifications equalled to 105.90% of the overall inflows for the year. These numbers showed that the European ETF segment is also highly concentrated with regard to fund flows by sectors. Generally speaking, one would expect the flows into ETFs to be concentrated, since investors often use ETFs to implement their market views and short-term asset allocation decisions; these products are made for and therefore are easy to use for these purposes.



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Graph 7: Best and Worst Ten Lipper Global Classifications by Estimated Net Sales, 2016 (Euro Billions)



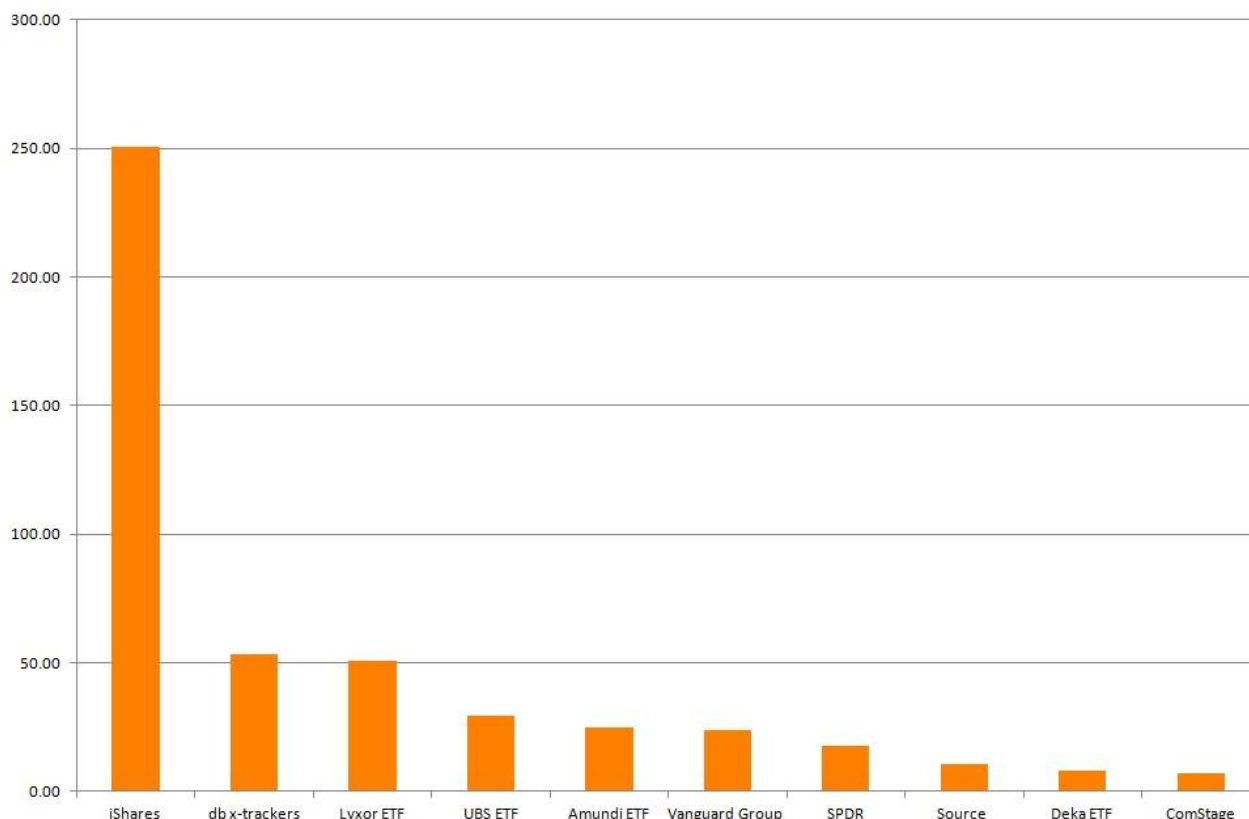
Source: Thomson Reuters Lipper

On the other side of the table the ten peer groups with the highest net outflows for the year 2016 accounted for €17.7 bn of outflows. Equity Eurozone (-€4.3 bn) faced the highest net outflows for the year, bettered by Bond EMU Government (-€3.1 bn) and Equity Japan (-€3.0 bn).

Assets Under Management by Promoters

A closer look at the assets under management in the European ETF industry by promoters also showed high concentration, since only 19 of the 48 ETF promoters in Europe held assets at or above €1.0 bn each. The largest ETF promoter in Europe—**iShares** (€250.6 bn)—accounted for 48.71% of the overall assets under management, far ahead of the number-two promoter—**db x-trackers** (€53.3 bn)—and the number-three promoter—**Lyxor ETF** (€51.0 bn). (To learn more about the concentration of the European ETF market on the promoter level, please read our report: [Is the dominance of big players killing the competition in the European ETF industry?](#))

Graph 8: Ten Top ETF Promoters by Assets Under Management, December 31, 2016 (Euro Billions)



Source: Thomson Reuters Lipper

The ten top promoters accounted for 92.75% of the overall assets under management in the European ETF industry. This meant in turn that the other 38 fund promoters registering at least one ETF for sale in Europe accounted for only 7.25% of the overall assets under management.

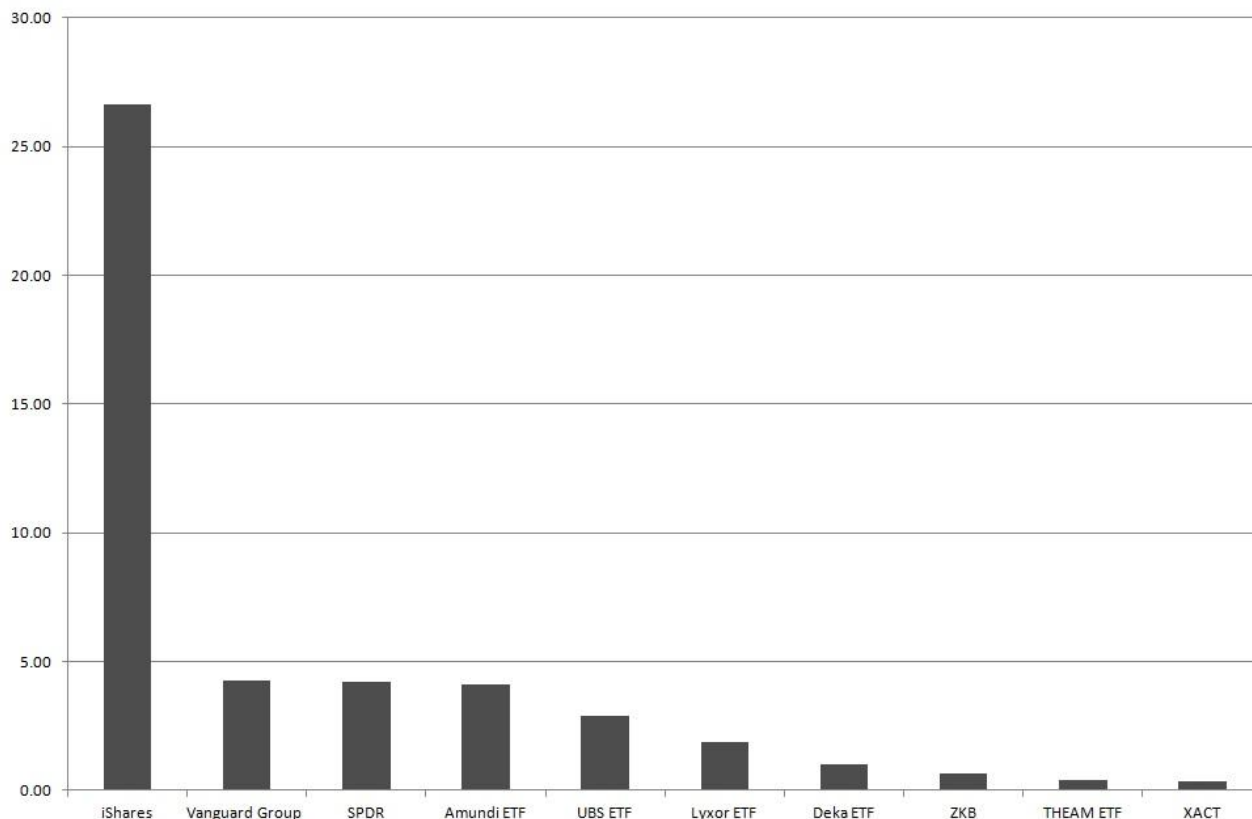


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Fund Flows by Promoters

Since the European ETF market is highly concentrated, it is not surprising that seven of the ten largest promoters by assets under management were also among the ten top-selling ETF promoters for 2016. **iShares**, with net sales of €26.6 bn, was the best selling ETF promoter in Europe, followed at a distance by **Vanguard Group** (+€4.3 bn) and **SPDR** (State Street) (+€4.2 bn).

Graph 9: Ten Best Selling ETF Promoters, 2016 (Euro Billions)



Source: Thomson Reuters Lipper

Since the inflows of the ten top promoters accounted for 112.31% of the overall estimated net flows into ETFs in Europe for 2016, it was clear that some of the 48 promoters (14) faced net outflows (-€7.0 bn in total) over the course of the year.

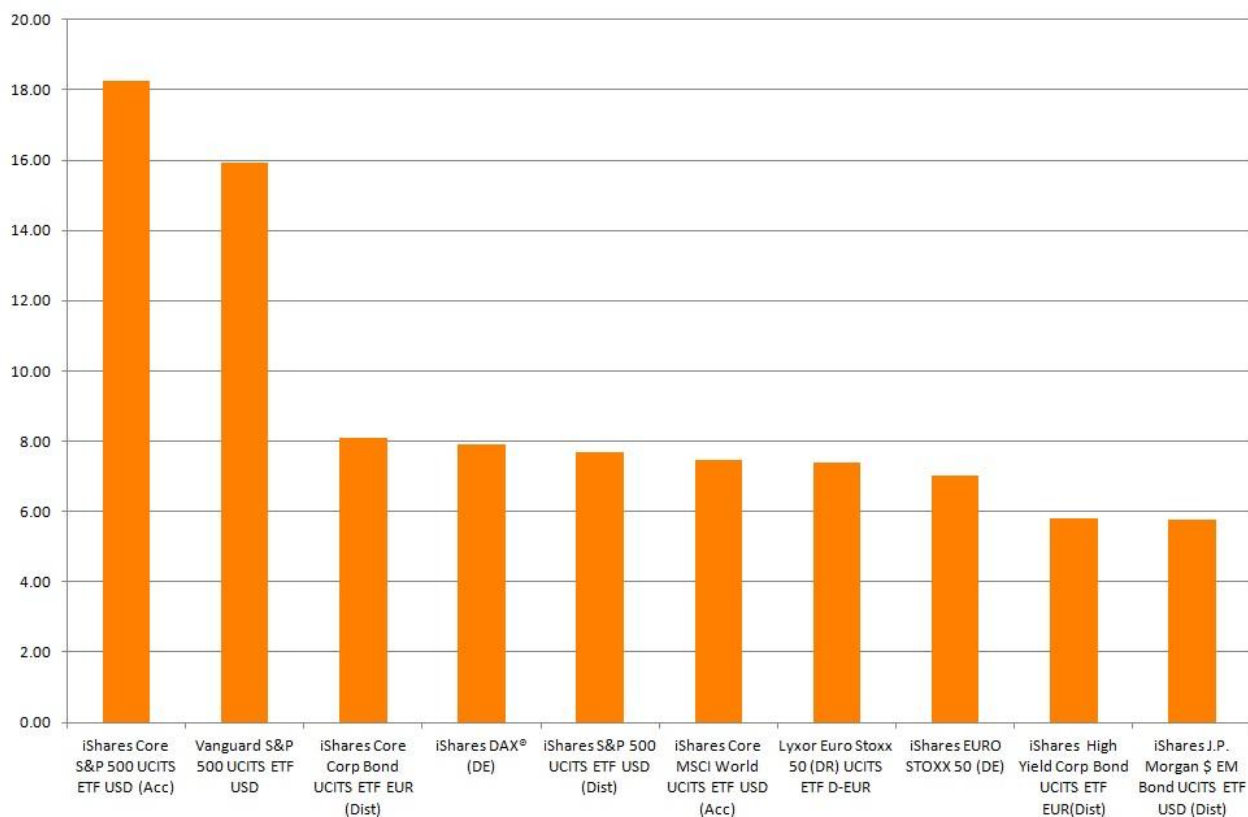


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Assets Under Management by Funds

There were 2,098 instruments (primary funds and convenience share classes) listed as ETFs in the Lipper database at the end of December 2016. With regard to the overall market pattern it was not surprising that the assets under management at the ETF level were also highly concentrated. Only 111 of the 2,097 instruments held assets above €1.0 bn each. These products accounted for €295.7 bn or 57.47% of the overall assets in the European ETF industry. The ten largest ETFs in Europe accounted for €91.3 bn or 17.75% of the overall assets under management. (Please read our study: [Is the European ETF industry dominated by only a few funds?](#) to learn more about the concentration at the single-fund level in the European ETF industry.)

Graph 10: Ten Largest ETFs by Assets Under Management, December 31, 2016 (Euro Billions)



Source: Thomson Reuters Lipper

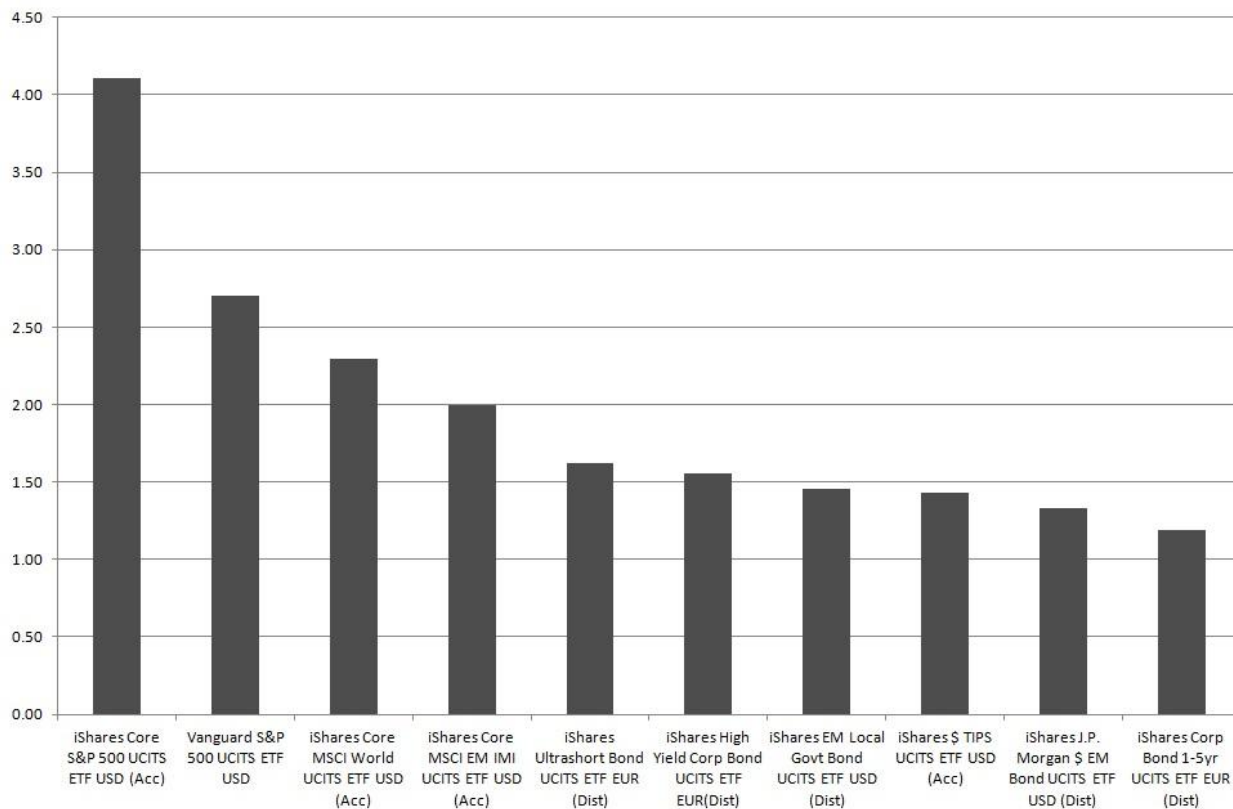


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ETF Flows by Funds

A total of 1,088 of the 2,096 instruments analyzed in this report showed net inflows of more than €10,000 each for the year 2016, accounting for €90.0 bn or 238.73% of the overall net flows. This meant in turn that the other 1,010 instruments faced no flows or net outflows for the year. In more detail only 200 of the 1,088 ETFs posting net inflows enjoyed inflows of more than €100 m each over the course of 2016, summing to €71.8 bn. The best selling ETF for 2016, **iShares Core S&P 500 UCITS ETF USD (Acc)**, accounted for net inflows of €4.1 bn or 10.88% of the overall net inflows; it was followed by **Vanguard S&P 500 UCITS ETF USD** (+€2.7 bn) and **iShares Core MSCI World UCITS ETF USD (Acc)** (+€2.3 bn).

Graph 11: Ten Best Selling ETFs, 2016 (Euro Millions)



Source: Thomson Reuters Lipper

The flow pattern at the fund level showed the concentration even better than the statistics at the promoter or classification level. Overall, nine of the ten best selling funds for 2016 were promoted by **iShares** and accounted for total net inflows of €17.0 bn or 45.09% of the net inflows in the European ETF segment.



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