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## **Funds Absorb Record \$1.6 Trillion Net Inflow Worldwide in 2017**

### ***Global Assets Likely to Exceed \$50 Trillion in Five Years***

NEW YORK, NY – May 24, 2018 – Investors expanded their commitments to unprecedented levels during 2017 as net flows to long-term funds soared to \$1.6 trillion worldwide, triple the amount in the previous year and well above the \$1 trillion peaks of the past decade. Half of the contributions came from Europe and cross-border international markets, where active strategies generated 74% of gains, according to a new report from Impactvesting LLC and EastEdge Analytics.

“The market correction in the First Quarter of 2018 sharply reduced fund inflows, but gains could resume and persist for some time if economic growth and financial conditions remain sound”, says Jag Alexeyev, founder of Impactvesting LLC. “Based on our models, fund assets will likely surpass \$50 trillion worldwide by 2022.” Global mutual fund assets under management grew 23% during 2017 to \$34 trillion excluding money market funds, the most robust expansion since 2012-13.

While growth may remain on track, the fund business will experience rapid evolution around the world, changing the opportunity set for investment managers. As discussed by Impactvesting and EastEdge Analytics in their new report, *Global Fund Management: 2018-2022 Outlook*:

- Actively-managed funds captured \$0.7 trillion of net inflows globally in 2017, providing relief after net redemptions in the previous year. Europe and cross-border international markets accounted for 84% of these gains. Yet passive strategies continue to expand and challenges remain for many firms, particularly in the US. More than 200 managers worldwide each generated at least \$1 billion of flows into their active funds last year, but 100 firms suffered over \$1 billion of net redemptions.
- Competition and regulation are re-shaping the economics of fund distribution, product demand, pricing, and investment solution design. The industry will further gravitate towards asset allocation programs, outcome-oriented solutions, fees-for-advice, index funds and ETFs, model portfolios, wraps, and risk-based programs.
- Success continues to concentrate among a few massive funds. PIMCO's Income strategy alone captured \$85 billion of inflows last year through its Europe, Cross-Border, and North America vehicles. Industry concentration was partly masked by exceptional volumes across many funds last year, but will become more acute during periods of reduced inflows. Recent merger and acquisition activities reflect efforts to preempt such constraints, add complementary capabilities, and widen global footprints.
- Dimensional has emerged as the highest cash flow active manager of the past five years, generating \$130 billion of cumulative net sales through 2017. Other active fund leaders include JPMorgan, Amundi, Intesa Sanpaolo, and BlackRock. These five firms accounted for 22% of active flows totaling \$2.2 trillion worldwide during the past half-decade. Among index fund and ETF providers, Vanguard and BlackRock together collected 66% of the \$2.8 trillion of passive fund flows in the past five years.

- Firms in Europe will encounter some of the biggest changes amid the implementation of MiFID II. Managers and distributors alike face margin pressures as fund distribution gets transformed by requirements for higher transparency, more detailed client profiling, and the elimination of inducements and retrocessions. Several distributors are adopting vertically-integrated business models with a renewed focus on in-house products, reduction in third-party funds and partners, and expanding use of sub-advisors.

Industry progress in Asia meanwhile has slowed, albeit temporarily. Funds across the region attracted \$0.5 trillion of flows last year, but 88% went to money market vehicles, primarily in China. Investors in Asia contributed \$57 billion to local long-term funds, plus another \$60 billion to cross-border international funds. In addition, Japan still offers international firms the ability to raise significant assets as sub-advisors to local firms.

“Prospects for China and Asia however will brighten”, says Bryan Liu, founder of EastEdge Analytics. “Despite weaker results in 2017, assets across Asia have tripled since the global financial crisis. AUM could rise to around \$8 trillion by 2022 as investors migrate to longer-term investments, catalyzed in part by ongoing pension reforms in China and across the region.”

Technology holds an important key for asset managers to renew products, marketing and sales, and client experiences. Innovations in technology are being applied across the value chain, from investment management to operations and solution delivery. Automated robo-advisory platforms, already surpassing \$200 billion in assets, will enable lower cost financial solutions for broader client segments.

Environmental, social, and governance (ESG) considerations also have become a priority. ESG risk factor integration, sustainable and impact investments, and shareholder engagement activities now touch trillions of dollars of managed assets, but are still at an early stage of adoption. The vast growth of sustainability metrics enables new solutions but presents challenges for information management and interpretation. The rising “profit with purpose” mindset suggests an expanding role for investment managers as stewards of family wealth and pension outcomes, rather than just providers of investment funds.

### **About Impactvesting LLC**

Impactvesting is a research and consulting firm that helps asset managers access the fastest growing segments of the global investment industry. Combining data-driven analysis with insights to support business expansion, Impactvesting specializes in international fund distribution, non-US sub-advisory opportunities, product innovation, alternative investment strategies, sustainable investments, and ESG integration. Learn more at [www.impactvesting.com](http://www.impactvesting.com).

### **About EastEdge Analytics**

EastEdge Analytics helps asset managers to better understand the asset and wealth management industry in Asia. The company provides data-driven and insight-led business intelligence with a focus on China, Japan, and cross-border fund markets (Hong Kong, Singapore and Taiwan), supporting clients in market entry, product and distribution development, regulatory impact assessment, fintech innovation and implementation, and other critical business issues.

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