

Investment Funds – out of style?

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Are investment funds out of style?

The first investment fund was created to **'provide small investors with an opportunity to diversify'**.

This objective, unaltered over time, has been a key factor contributing to the remarkable success of investment funds.

Other benefits include:

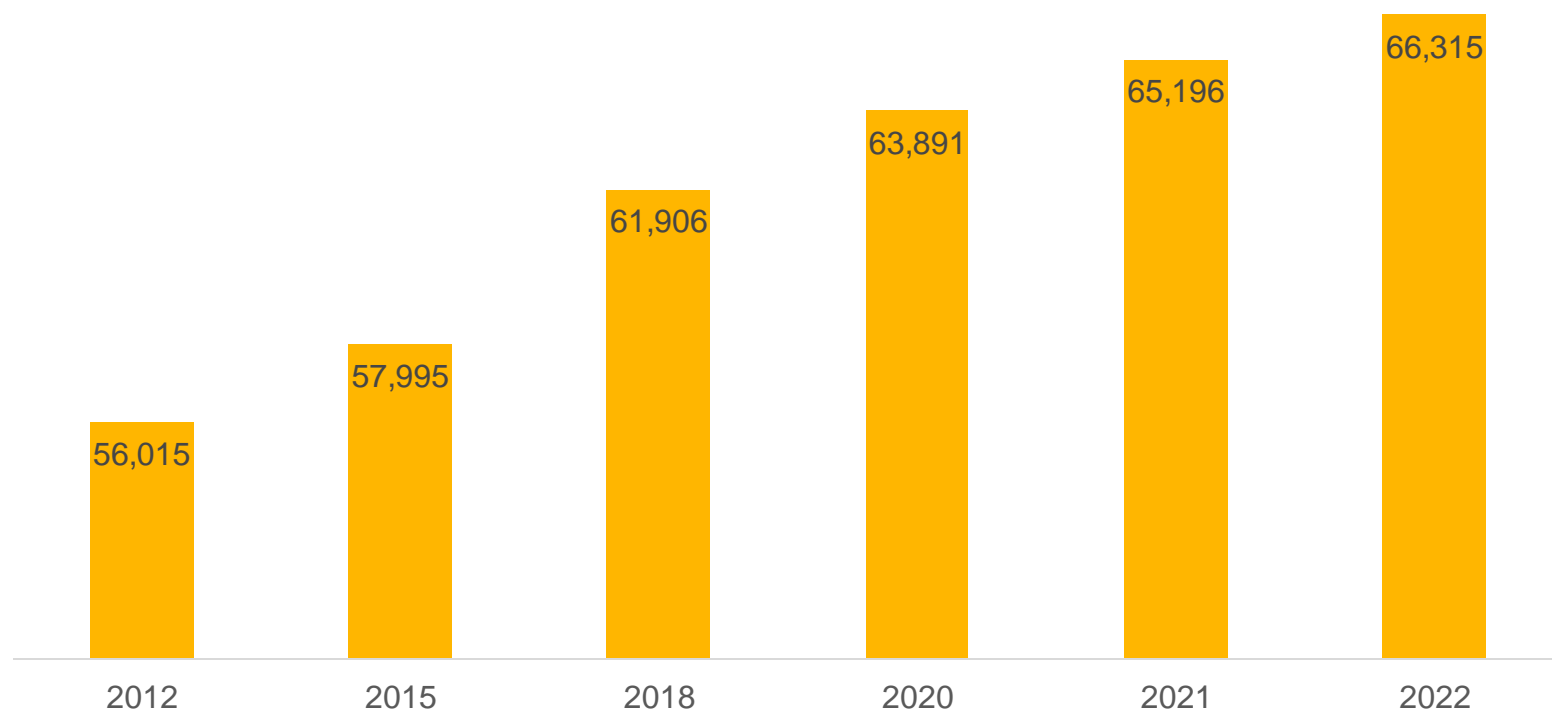
- Delegation of management to investment professionals
- Cost effective
- Regulated
- Retail investors access to capital markets

Limitations:

- No customisation to a client specific requirements and/or tax situation
- Trade only once a day
- Layers of cost
- Time to market

Are investment funds out of style?

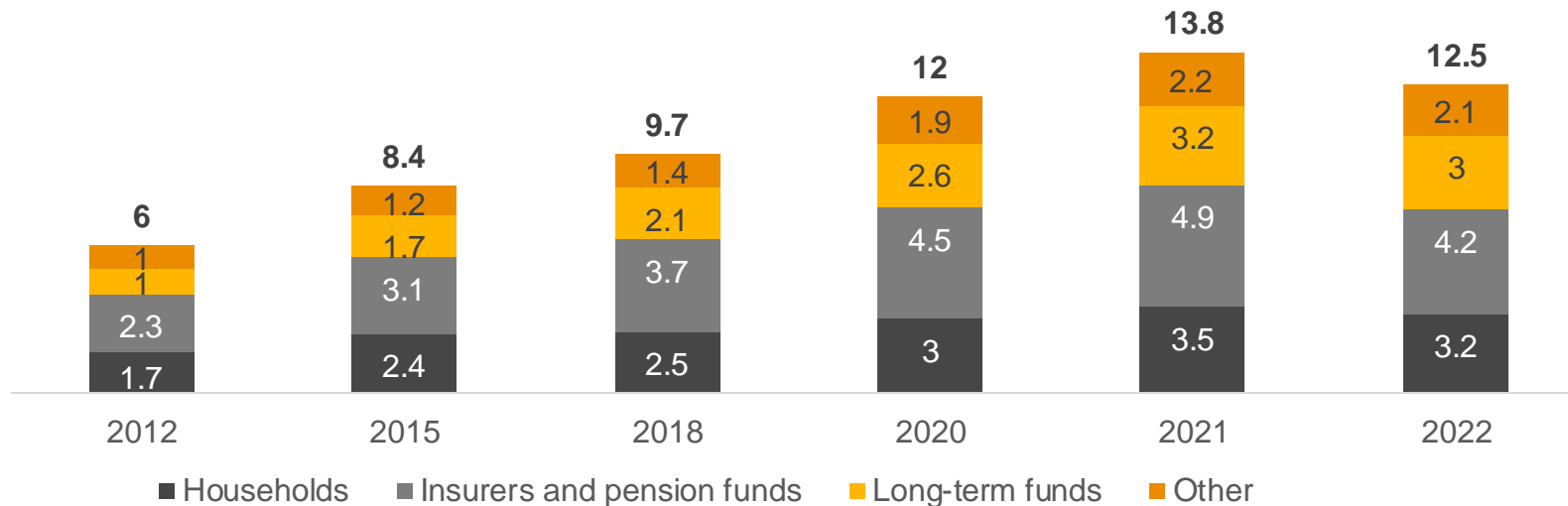
Number of European investment funds



The number of European domiciled funds continued to increase, with a net addition of 1,119 new funds over the year 2022. Since end 2012, the number of funds increased by 18.4%.

Who are investing in investment funds?

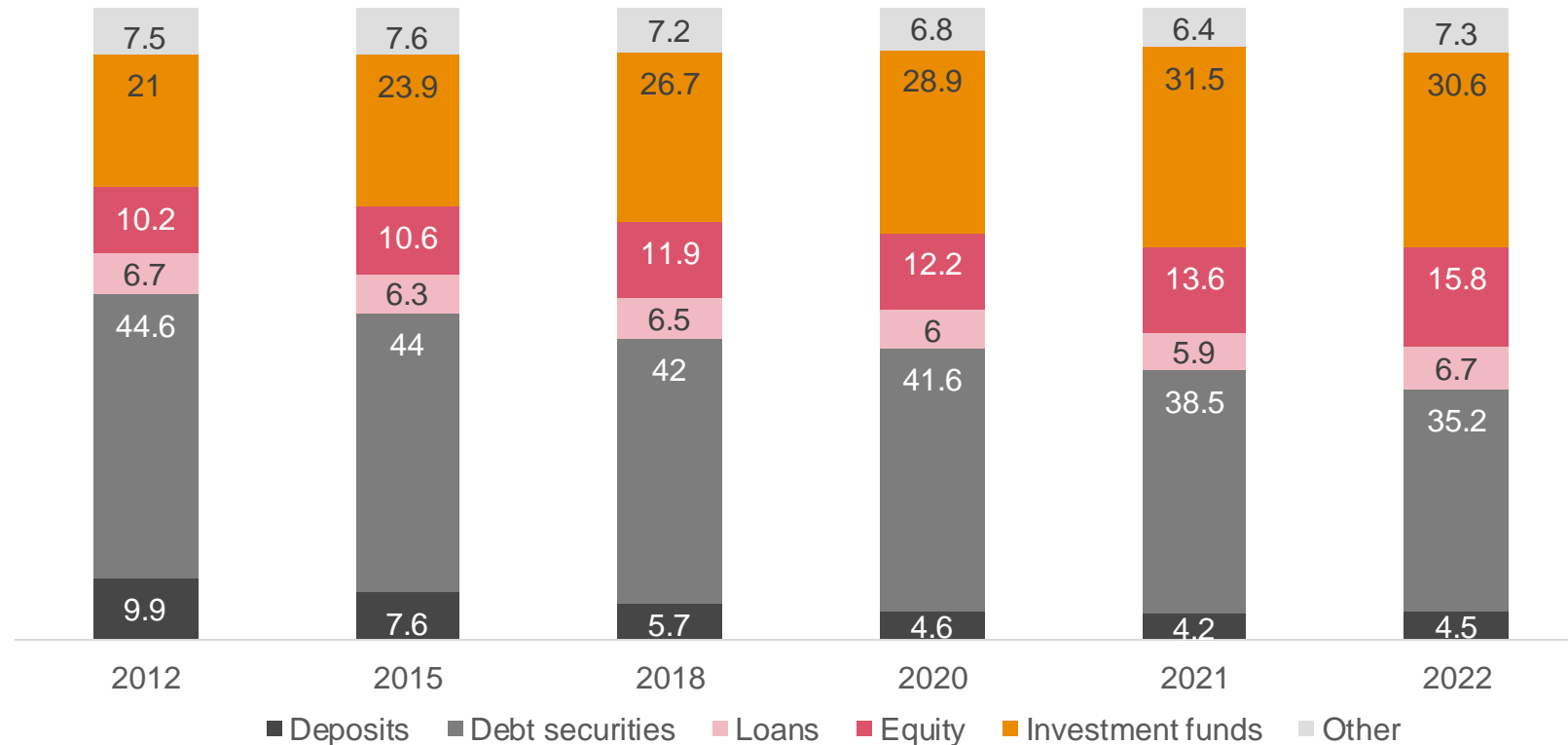
Investment fund ownership in the EU by sector (EUR trillions)



Insurers and pension funds are the largest fund investors in the EU. From originally catering to modest investors, investment funds successfully evolved to attract large, institutional investors.

Who are investing in investment funds?

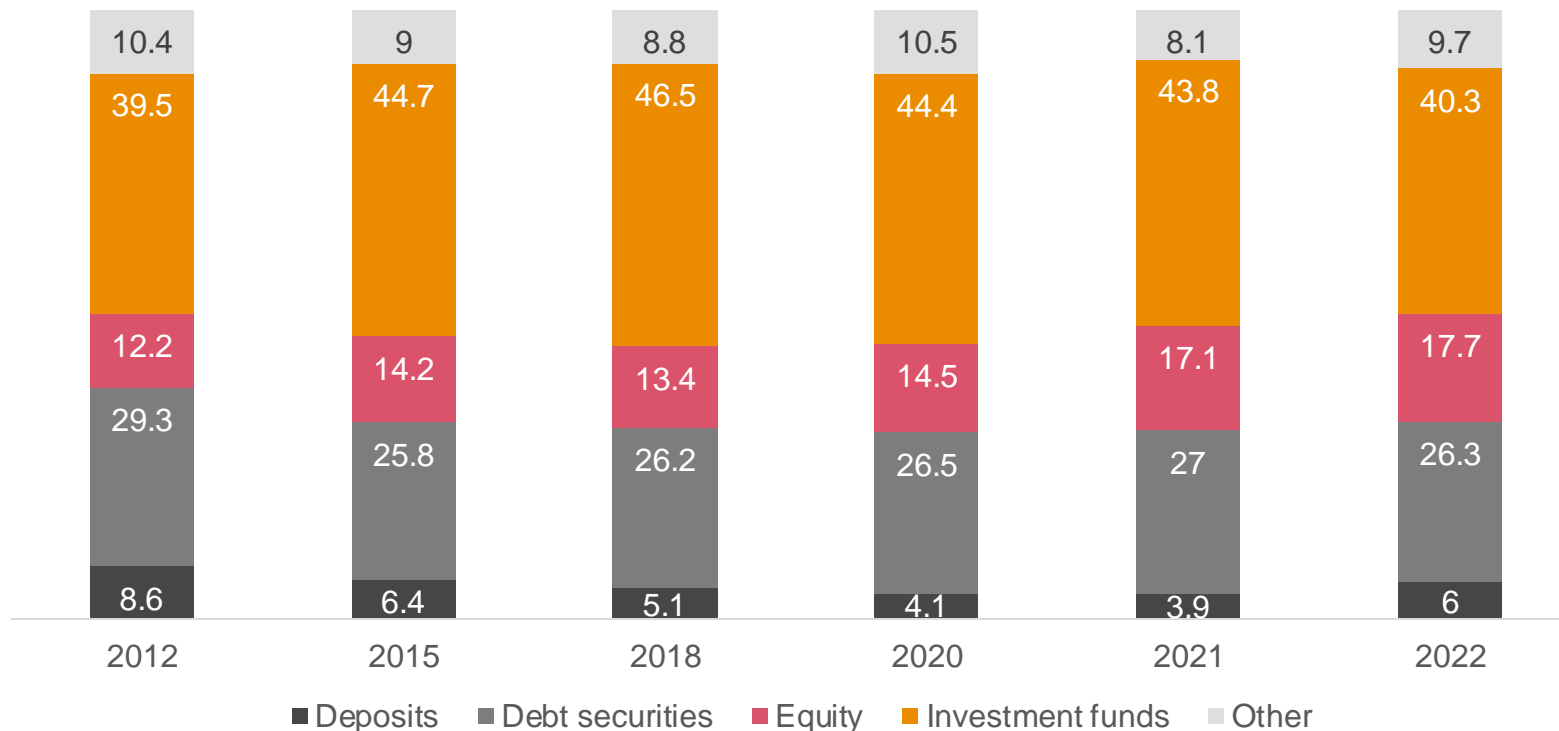
Financial asset ownership by EU insurers (percentage share)



Insurers are among the most significant institutional investors in Europe. Over the past 10 years, funds are taking an increasingly important place, increasing from 21% in 2012 to 30.6% in 2022.

Who are investing in investment funds?

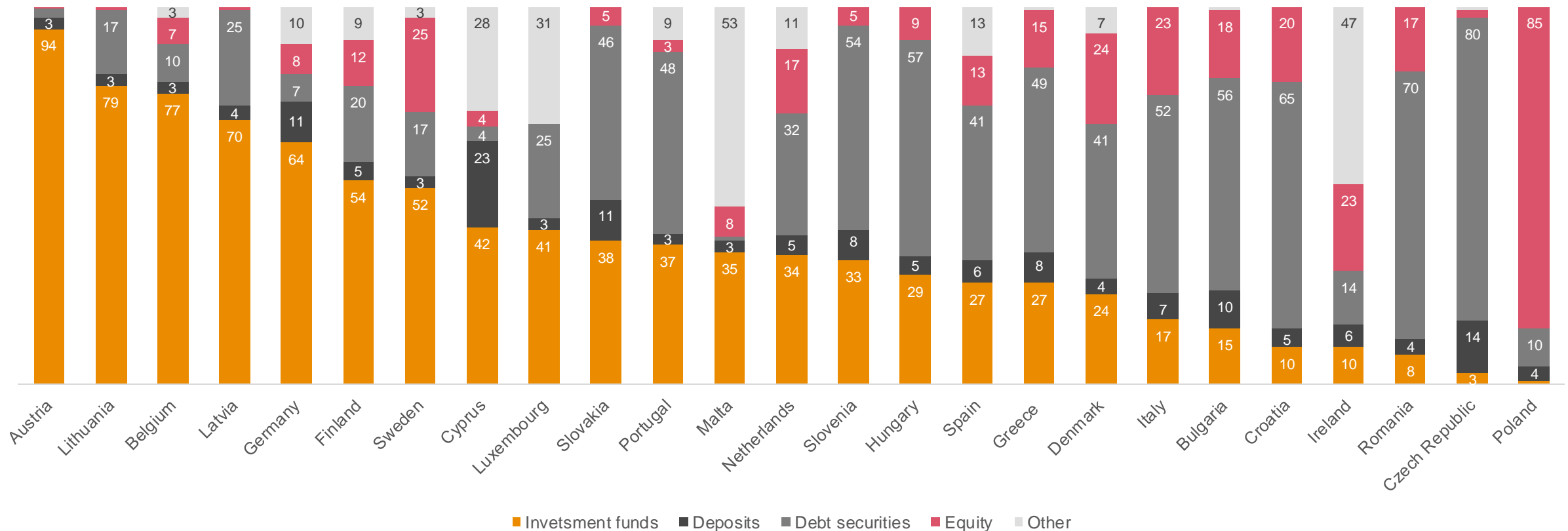
Financial asset ownership by EU pension funds (percentage share)



Investment funds are the dominant asset type in the investment portfolios of pension funds. The reason investment funds continue to dominate pension funds is because they provide easy way to diversify geographic, sectoral exposure and diversify risk. Falling costs also make funds an increasingly attractive investment option.

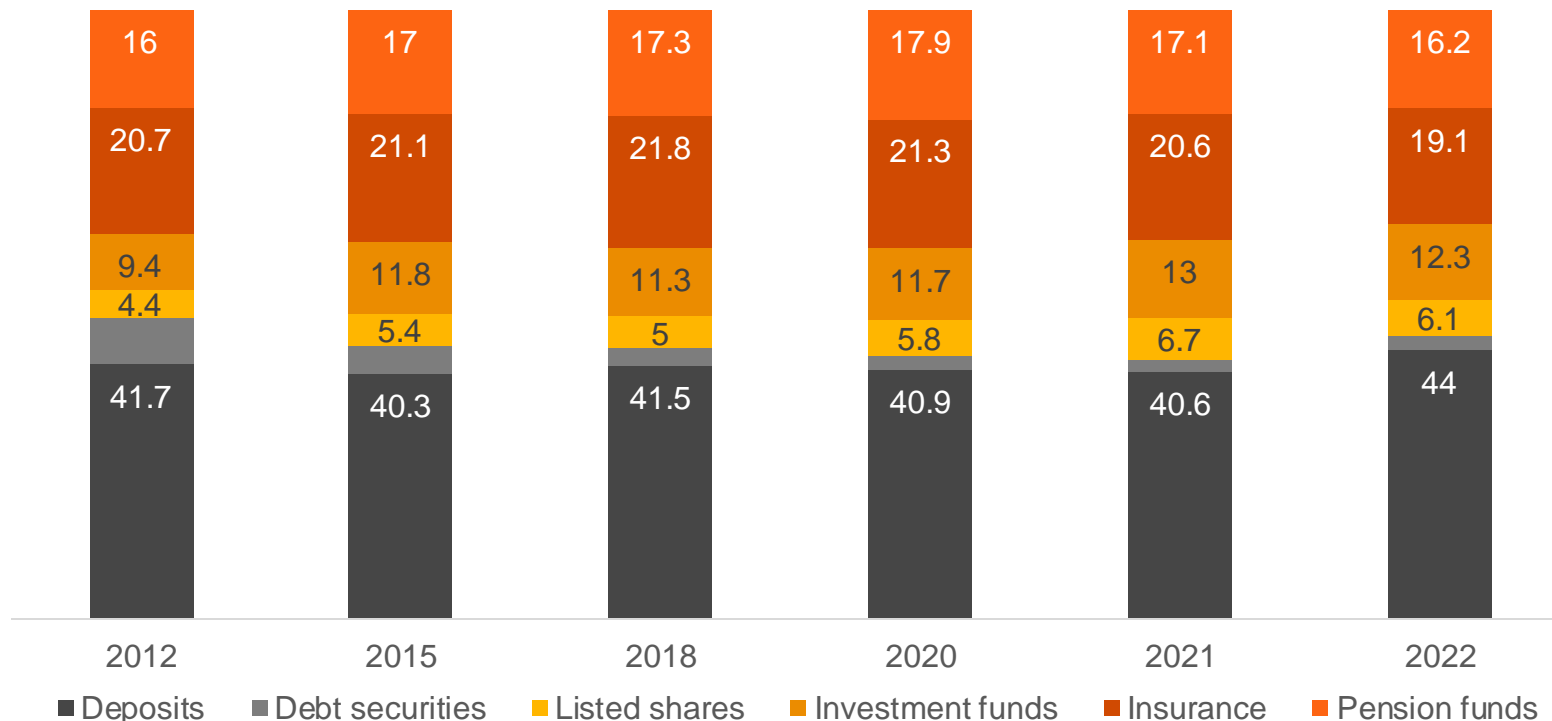
Who are investing in investment funds?

Pension funds – asset allocation at end 2022 (percentage share)



Are investment funds appealing to retail investors?

Direct financial holdings of EU households (percentage share)



The high share of deposits stands out when we look at the financial assets of European households. The European Commission's newly published Retail Investment Strategy (RIS) seeks to better equip EU citizens with the necessary safeguards and confidence to become capital markets investors.

Why investment funds may have lost their edge?

- Time to market has increased
- Regulations governing products are constantly evolving and becoming more stringent
- Various alternatives to investment funds are becoming more prevalent and more widely available to clients
- Performance
- Costs
- Technology has significantly lowered the fixed costs of some services/products formerly reserved to institutional investors

Which products may outshine investment funds?

Actively Managed Certificates

- Fall into the category of structured products, but in practice most of them are closer to a fund
- AMCs are debt instruments issued by financial institutions or SPVs (Guernesey, Jersey, Luxemburg)
- Combine the advantages of structured products (favorable tax structure, lower entry thresholds, rapid issuance, lower costs) with the qualities of investment funds (diversification and adaptability of the portfolio to multiple conditions market)
- AMCs issued by SPVs are not exposed to issuer risk, which may not be the case for AMCs issued by financial intitutions
- AMCs are very often set up as segregated cells, and consequently, there is no risk of contagion between the cells
- Highly tailored to the investors' individual goals and preferences
- Greater diversification as AMC strategy can include public, private and digital assets
- Highly popular with IAM since can be launched with lower amounts than a fund
- Transferable securities (with an ISIN)
- AMCs can be listed on exchange
- Master/feeder structure
- Sold to retail and professional investors

Which products may outshine investment funds?

Exchange Traded Products (ETPs)

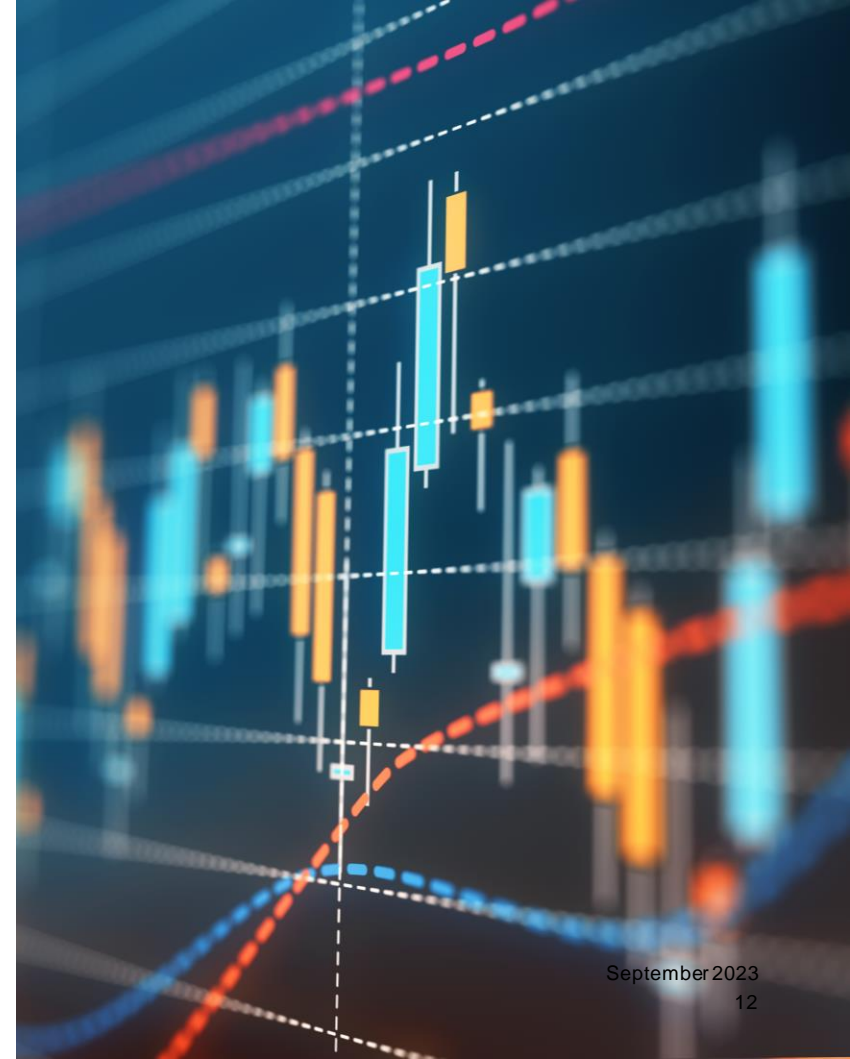
- Unlike ETFs, ETPs are not collective investment schemes within the meaning of CISA. As such, ETPs are exempt from the approval requirement of the FINMA
- In Switzerland ETPs are specifically defined as collateralised, non interest bearing, bearer debentures (debt securities)
- ETPs are open ended, trade around the price of the underlying asset(s), with no risk of valuation discounts or premia
- Securities that track underlying security, index, or financial instrument
- ETPs trade on exchanges similar to stocks
- Available to all type of investors



Which products may outshine investment funds?

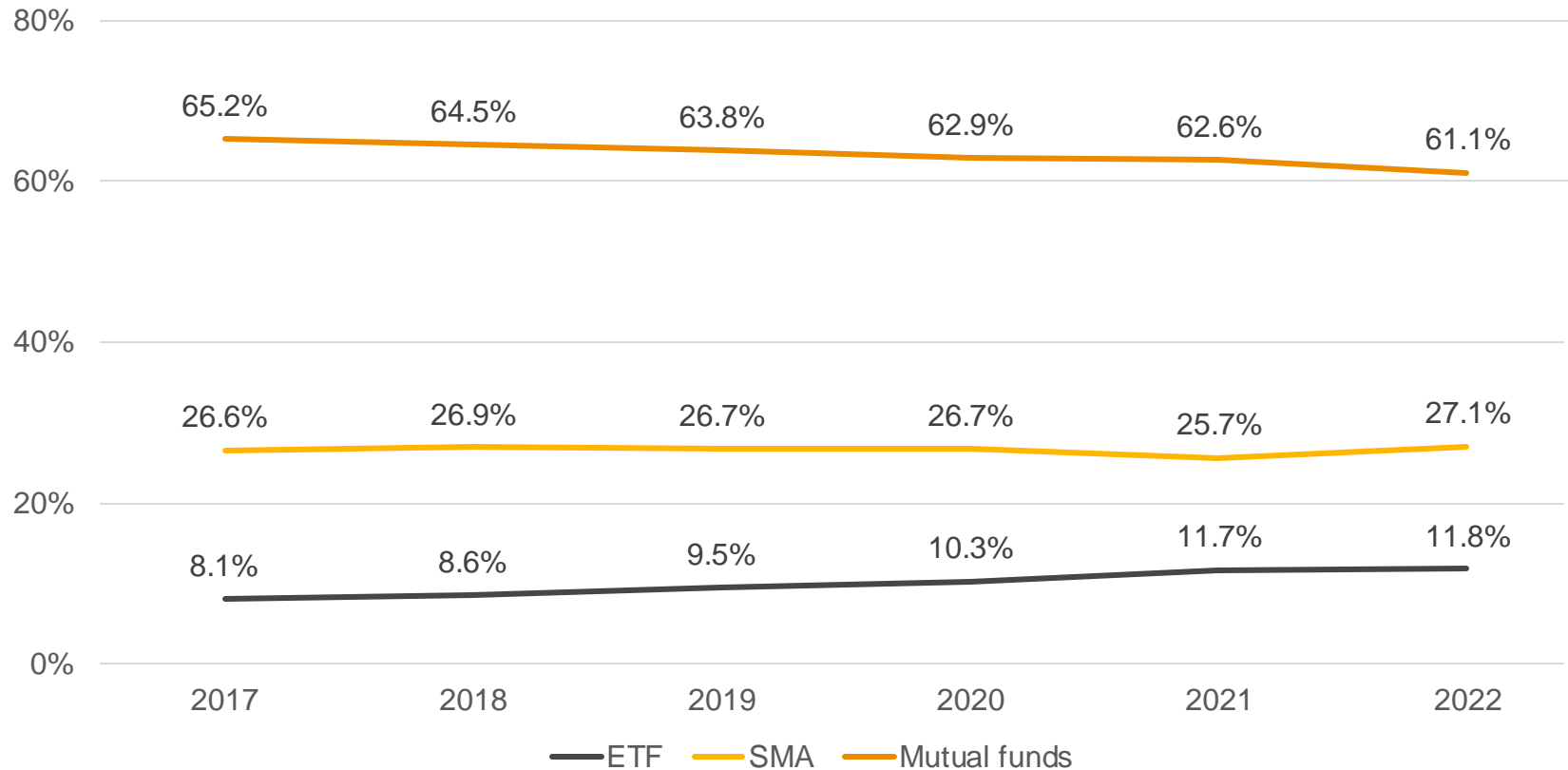
Segregated mandates

- Largely reserved for institutional and high net worth investors
- Portfolio of direct securities held by investors, providing transparency of holdings and flexibility to customise investments
- Higher costs due to personalization
- Large investments needed to set up a segregated mandates (institutional mandates)
- Democratization over the years with the development of robo-advisers, but mostly used by savvy investors



Which products may outshine investment funds?

Global asset market share



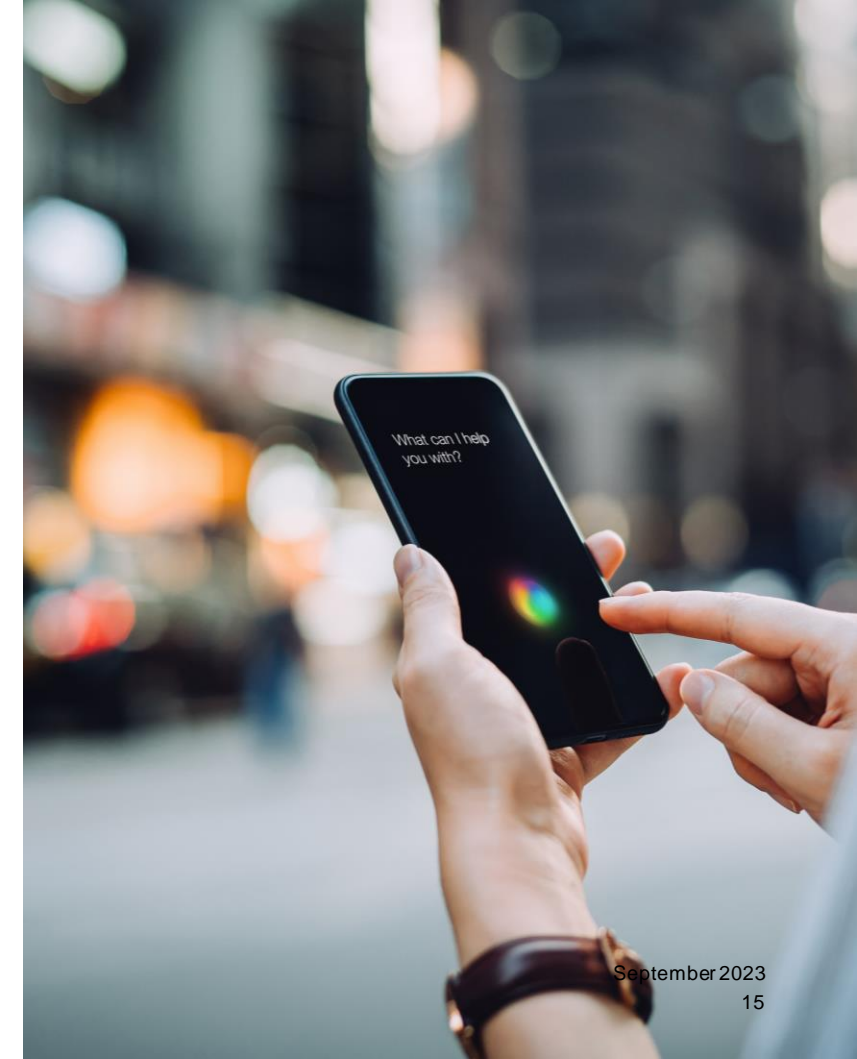
Which products may outshine investment funds?

Tokenisation

- Liquid assets – no strong business case
- Illiquid assets – provide retail investors to additional asset classes, tangible and intangible, enabling increased diversification
- Secondary trading of illiquid assets

What comes next?

- 67% of millennials want computer-generated recommendations (robo) as part of their investment platform, compared to 30% of Gen X.
- A higher percentage of millennials are familiar with crypto currencies and tokenisation. It's potentially a sign that alternative types of investment could be interesting for the next generation
- Artificial intelligence will contribute to further customization of investment products
- Increased interest from retail investors to access non traditional asset classes



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