

VIDEO

May 20, 2016

Focus on Funds: Industry Growth and Globalization Key Themes in 2016 Fact Book

Focus on Funds

Industry Growth and Globalization Key Themes in 2016 *Fact Book*

The *2016 Investment Company Fact Book*, the premier fund industry publication, offers a vast array of data on industry trends. In the May 20, 2016, edition of *Focus on Funds*, ICI Chief Economist Brian Reid shares some highlights, including where the industry is growing.

Transcript

Stephanie Ortvals-Tibbs, ICI Director, Media Relations: What's often known as the industry's bible, ICI's *Fact Book* has just published, and amidst a wide array of data about the U.S. mutual fund and exchange-traded fund industry, there are some key trend lines emerging about growth and globalization. Here are some insights from ICI Chief Economist Brian Reid.

So Brian, when we start looking at the trend lines out of this year's *Fact Book*, there's always a lot of information there. What really jumps out at you?

Brian Reid, ICI Chief Economist: One of the things that jumps out at me is the fact that, despite the fact that we have been in a pretty flat market for the last year and a half, we remain at a record level of assets for mutual funds, ETFs, and closed-end funds—at over \$18 trillion. Now, much of that growth occurred earlier in the decade, as the markets recover from the financial crisis, and we're going to see, going forward, more growth coming from rising stock and bond prices, as opposed to new inflows. But nevertheless, we're still at record levels.

Ortvals-Tibbs: So that's kind of the mark of a mature industry, but what's interesting is that when you get to the numbers that you're talking about, growth can be really significant just off of the AUM that's in there.

Reid: That's right. The growth that is coming from rising stock and bond prices, and overall returns on these funds, is going to be the primary driver in a more mature market. If you

think about it, a 10 percent increase in the overall level of assets because of price appreciation or returns is going to add another \$1.8 trillion to the overall existing base. The number of households that were investing in mutual funds has remained fairly stable, and so as a result, the new money coming in is going to be less important in this more-mature market as a driver of growth.

Ortbals-Tibbs: It's usual of you, Brian, to stand back, look at all of the data, and use that to turn conventional wisdom on its head, because I think that people have been looking at smaller bits of data and saying, "There are a lot of fund outflows." They wouldn't necessarily think that the assets under management are where they are and that the fund industry has grown as it has in the past year. As you look at it, there's something else that's a little bit surprising—and that's that we see a lot of growth in fund sponsors. Can you tell me what you see there?

Reid: Yes. We had a great deal in growth in assets, and new fund sponsors coming into the industry have been a very important and dynamic source of change in the industry. So we have had nearly 190 new fund sponsors on balance come in since 2009—so, during this decade. Some of them have come in through a series trust. These are ways in which a smaller asset manager can offer a mutual fund, and these series trusts offer a turnkey operation to offer that fund. Another source of growth has been through ETF sponsors. We've seen, on net, about 30 new sponsors coming in just offering ETFs alone.

Ortbals-Tibbs: So if that's the picture in the U.S. industry, stand back and help us understand what you're seeing globally. What does the data show there from the industry?

Reid: During this decade, we've seen a \$12 trillion increase in assets globally for what we call the regulated fund industry. About half of that is coming to the United States, about a third in Europe, and then the rest in Asia-Pacific. But Asia-Pacific has actually shown a rate of growth—much faster than both the United States and Europe—growing 75 percent since 2009.

Ortbals-Tibbs: All of the numbers that you've mentioned are eye-popping, but certainly the Asia numbers are of significance. So, what does that say to you about what's going on in that region? What's the trend line there?

Reid: What the trend line is, is that there's a growing demand of funds—regulated funds through retirement products—because of a growing middle class in the Asia-Pacific region. It's not only just China, but it's the other Asian countries, as well as Australia because of their Superannuation program. All of these factors have been driving the growth, and increasing the growth in new flows as well as asset appreciation.

Ortbals-Tibbs: So, as you stand back and look at the year ahead, you think that a lot of the U.S. asset managers and our global asset managers will continue to look to this region as one of their drivers for growth.

Reid: That's right. As the U.S. market has become more mature, asset managers have begun to look at areas where there has been greater growth potential, and Asia-Pacific is certainly one of those areas. So we're not only seeing a rising interest, but rising importance in being able to get into those markets and offer regulated funds to middle class investors who are looking to save for retirement and other investment goals.

Additional Resources

- [2016 Investment Company Fact Book](#)
- [ICI Research and Statistics](#)

Copyright © by the Investment Company Institute. All rights reserved. Information may be abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice.