German Investment Funds Association

FACTS ABOUT INVESTMENT FUNDS

WHY INVESTMENT FUNDS ARE IMPORTANT FOR THE ECONOMY AND SOCIETY

GOOD TO KNOW – THE FACTS AT A GLANCE

The concept of the investment fund is simple

Savers' money is pooled and distributed across a variety of securities and asset classes. An investment fund is not allowed to invest more than 10 per cent of its assets in a company. This diversification reduces risk.

The concept of the investment fund goes back a long way

As early as 1774, the Dutch merchant Adriaan van Ketwich organised the first investment trust according to the principle of the modern investment fund.

Investment funds enable investors to participate in economic growth

Investment funds enable savers to participate in financial markets, property markets and in global economic growth with just a few euros.

Investment funds are protected against insolvency

Investors' money is held separately from the capital of the investment company, and is therefore not affected by any difficulties the investment company may find itself in.

The investment company always acts in the interests of the investor

As a trustee, it is legally obliged to do so. For this reason, investment funds have obligations to investors and are subject to stringent regulations.

Investment funds have an important economic function:

Investment funds are an important part of the economy

Investment companies are neither banks nor insurance companies, but a separate pillar of the financial economy. In Germany, they manage around EUR 4 trillion as trustees for retail and institutional investors. They are therefore a major element in the German financial market, the rules and standards of which they actively help to shape and develop.

Investment funds pool capital and direct it

They bring together money provided by investors and match it with the capital demands of companies and governments around the world. In this way they provide equity capital and debt capital to businesses for growth and innovation and assist the states to perform their functions.

Many institutional investors use investment funds

Insurance companies, retirement benefit schemes, banks, health insurance funds, churches and foundations have their assets managed in a way that maximises their returns.

Investment funds also manage the majority of pension plans in Germany

Although Germans mostly save for their retirement through pension insurance policies or their company pension scheme, they are indirectly investing in investment funds. The majority of pension plans is invested in retail funds and Spezialfonds. In Germany, the amount invested in funds via pension plans is around EUR 1,800 billion (as at 30 June 2023).

INVESTMENT FUNDS FINANCE COMPANIES AND GOVERNMENTS

Investment funds are intermediaries. They bring together the money provided by millions of savers and institutional investors, and match it with the capital demands of companies and governments. They therefore enable growth and innovation.

Asset managers invest in companies

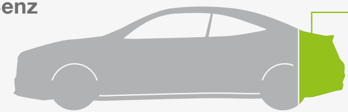
EUR 2,060 billion

Market capitalization of shares from Germany-based issuers; as at 30 June 2023; sources: BVI, Deutsche Bundesbank

8 % of the equities of German companies are held by German investment funds.

This is how much European funds invest in flagships of German industry

Mercedes Benz



12 %

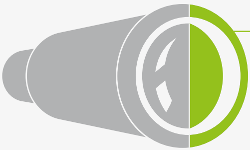
share held by the European investment fund sector

Zalando

18 %

share held by the European investment fund sector

Jenoptik

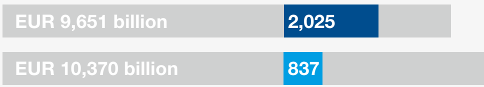


21 %

share held by the European investment fund sector

As at May 2023; source: Morningstar

Share of European investment funds*



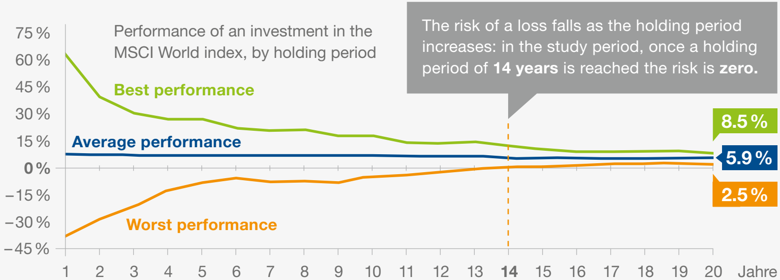
As at 30 June 2023; source: ECB
*Without money market funds, Euro zone only

LONG-TERM APPROACH PAYS OFF

Investors for whom security is important should take a long-term view when investing in equity funds. Over long investment periods, the risk of a loss approaches zero.

The longer the holding period, the lower the risk

A sample calculation shows that the investment of a single sum in the MSCI World index at any time between 1986 and 2022 was able to earn just under six per cent return on average per year. Stock market volatility is barely noticeable over longer periods.



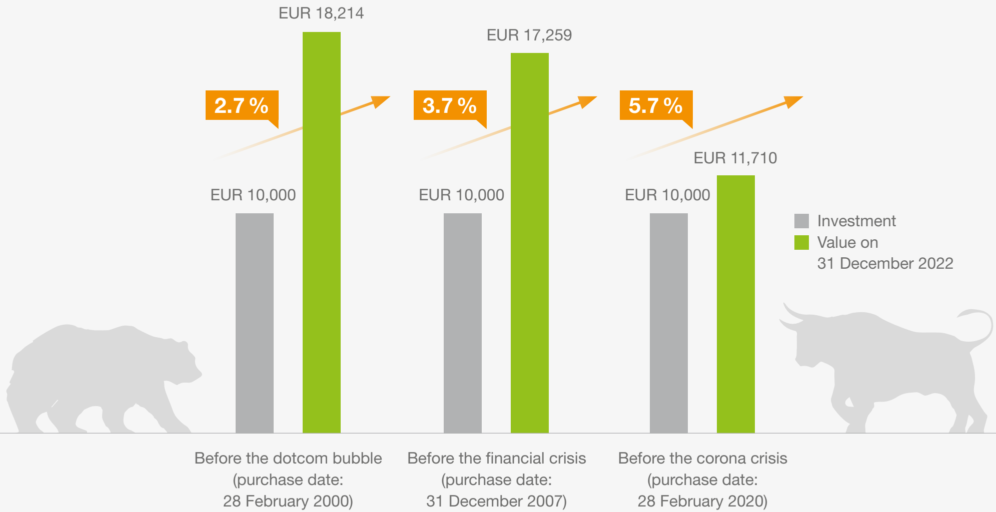
Breakdown of rolling, annualised performance at month's end for the period from 31 March 1986 to 31 December 2022; single-sum investment; source: Morningstar

Bad year on the stock exchange no cause for anxiety

Given time, investors can more than make up for even significant falls in prices – such as after a stock market crash or financial crisis. Data from Deutsche Bundesbank shows how an investment of EUR 10,000 in the German blue-chip index DAX performed when the saver invested shortly before the biggest equity crashes in recent history – that is, at the worst possible time.

Gains despite share price crash

Performance of an investment of EUR 10,000 in the German blue-chip index DAX per year



Source: Deutsche Bundesbank

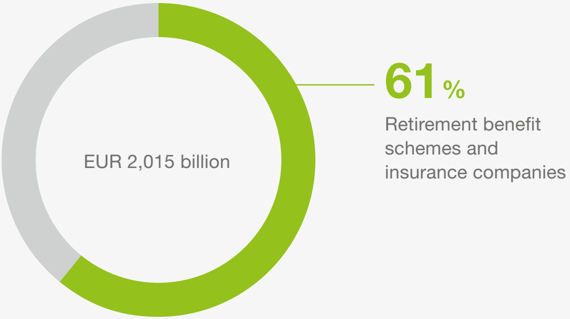
INVESTMENT FUNDS ARE THE BACKBONE OF PENSION PLANNING

Investment funds play a central role in pension planning: although people save for their retirement through insurance companies, pension schemes and employers, the money invested is mainly managed in investment funds.

Open-ended Spezialfonds largely manage pension assets

What many people do not know is the important role that funds play in the investment of pension assets. Retirement benefit schemes and insurance companies together hold a 61 per cent share in the EUR 2,015 billion of assets managed by open-ended Spezialfonds.

Open-ended Spezialfonds:

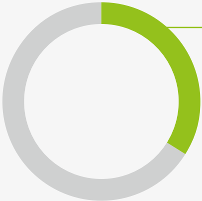


As at 30 June 2023; source: BVI

Insurance companies and retirement benefit schemes invest their capital in funds

The capital for example that flows into pension insurance is also invested in investment funds: insurance companies at 34 per cent and retirement benefit schemes at 68 per cent.

Investments by insurance companies*:
Total
EUR 2,329 billion

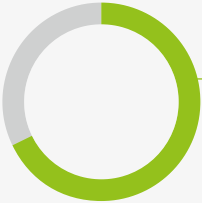


34 %
share of
investment funds

of which **life assurance:**
EUR 1,154 billion

48 %
share of
investment funds

Retirement benefit schemes:
EUR 673 billion



68 %
share of
investment funds

*Including property insurance and reinsurance companies, without retirement benefit schemes
As at 30 June 2023; source: Deutsche Bundesbank

GREEN TRANSFORMATION: THE FUND SECTOR IS THE DRIVER

The political goal for 2045 is climate neutrality. This requires significant investment in the economy and in public infrastructure. Funds play an important role in this.

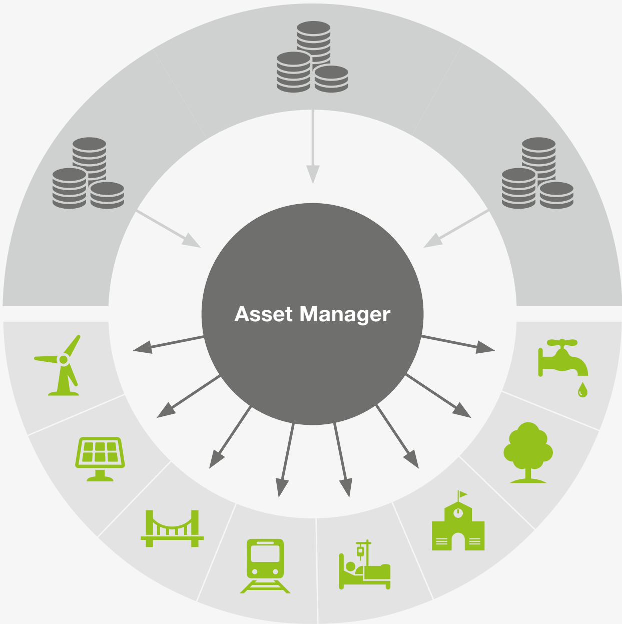
How funds are used for transformation

The transformation of the real economy will be sucessful only if investors do not just invest in “green” projects, but help as many companies as possible to finance the transition from “brown” to “green”.

As part of pursuing sustainable investment strategies, fund managers also use their influence with portfolio companies to push for improvements wherever possible in environmental, social and governance areas, i. e. good corporate governance, for example by exercising voting rights, in dialogue with management or by other shareholder engagement.

Funds match projects with capital

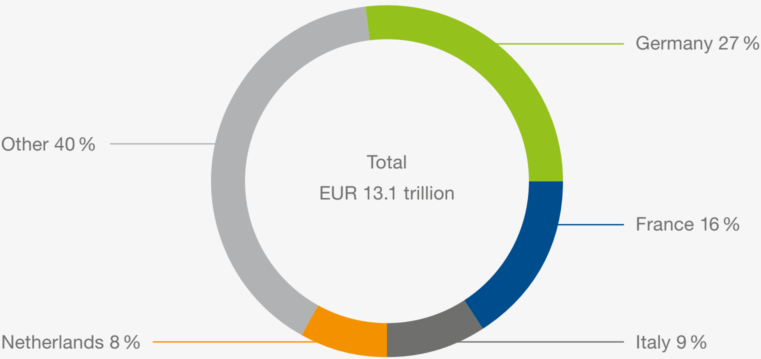
The need for new green infrastructure in areas such as solar and wind energy is great. The public sector cannot meet this demand on its own. Therefore, private capital is urgently needed. And it is available: investors such as retirement benefit schemes, insurance companies, churches and foundations are all looking for such investments. However, they usually do not have the necessary know-how. And that is why they invest in infrastructure funds offered by specialized asset managers.



INVESTMENT FUNDS ARE IMPORTANT FOR GERMANY

Retail and institutional investors in the European Union have a total of EUR 13,100 billion invested in funds. Germany is the largest market, with assets of EUR 3,600 billion.

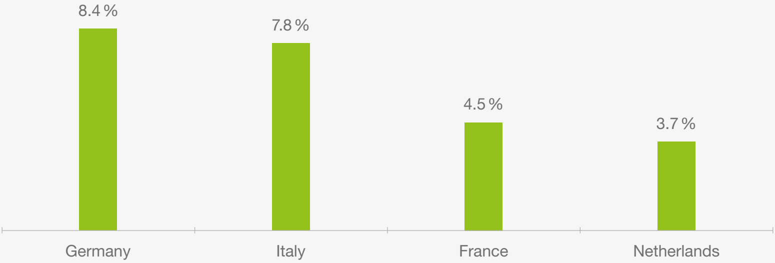
Fund assets of investors in the EU



Total UCITS and AIFs by market
As at 30 June 2023; source: ECB

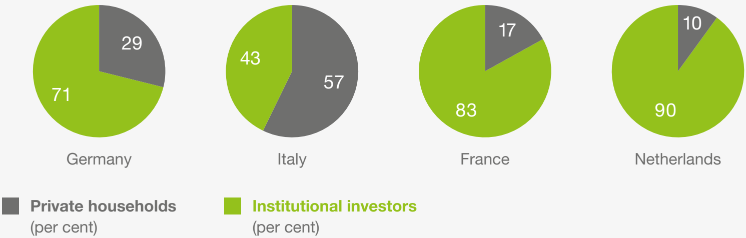
Growth of fund assets

Over the past ten years, fund assets in Germany have grown by an average of 8.4 per cent per year. In the EU, Germany is thus ahead of other large markets such as Italy or France.



Average annual growth rate 30 June 2013 to 30 June 2023; source: ECB

Distribution of fund assets



As at 30 June 2023; source: ECB

MYTHS ABOUT INVESTMENT FUNDS

Myth 1: Investment funds are complicated

Actually, the concept of the investment fund is quite simple: savers' money is pooled and invested in different securities or tangible assets according to the investment strategy chosen. Broad diversification reduces risk in a way that would be nearly impossible for investors to achieve by their own direct investment. In any case, the costs would be far higher.

Myth 2: Investment funds are for gamblers

Insurance companies, retirement benefit schemes, churches and foundations are not gamblers. They all invest in investment funds – with good reason: investment funds enable them to participate in economic growth, as funds put most of their investors' money into equities, fixed income (bonds) or property – the real economy. This generates long-term returns.

Myth 3: Investment funds are for wealthy people

On the contrary: investment funds are for everyone. Because they pool the money of a number of investors and then invest it on the capital or real estate market, they enable every individual to participate in the growth of companies and countries, even if they only have small amounts to invest. And the majority of investment funds are suitable for all budgets.

Myth 4: Investment funds are risky

No, investment funds are protected in the event of insolvency of the investment company. Generally, the fund assets are owned by the investors, not the investment company, which only manages them as a trustee. The funds would therefore remain unaffected if the investment company got into difficulties. Investment funds and fund companies also have to comply with very strict legal standards.

Myth 5: Investment funds are aggressive

As trustees, investment funds are legally obliged to represent the interests of investors. They therefore work on their behalf to bring about a long-term improvement in the portfolio companies' business performance and thus also in their share price performance. This also includes exercising voting rights at general meetings of shareholders. Investment companies always act in the interests of investors rather than for their own benefit.

Myth 6: Investment funds are mighty big players

In terms of the assets they manage, some large investment companies appear to be mighty big players. This is the impression you get at first glance. On closer scrutiny, it can be seen that behind the overall amount under management there are many single funds following different investment strategies for different types of investors. The assets under management do belong to the investors and not to the investment company. There are also rules that prevent a stake in a company from becoming too large and that keep the risks of the investment fund in balance. An investment company is not allowed to hold more than 10 per cent of the voting rights in a company.

Myth 7: Investment funds are like banks

Even though the term "investment fund" is very similar to that of the "investment bank", the activities of funds and banks are completely different. Investment funds pool investors' money and manage it as trustees, but they do not include this money in their own balance sheet. This means that if they get into difficulties, the fund investors' capital is not affected. This is different from banks. If a bank declares bankruptcy customers' money is also affected. That is why they require a deposit insurance fund. Investment funds are not an investment banking product.

BVI represents the interests of the German fund industry at national and international level. The association promotes sensible regulation of the fund business as well as fair competition vis-à-vis policy makers and regulators. Fund companies act as trustees in the sole interest of the investor and are subject to strict regulation. Funds match up investors with the capital demands of companies and governments, thus fulfilling an important macroeconomic function. BVI's members manage assets of some EUR 4 trillion for retail investors, insurance companies, pension and retirement schemes, banks, churches and foundations. With a share of 27 per cent in the EU, Germany represents the largest fund market in the EU.

Masthead

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