Bulletin
de la Banque de France
237/1 - SEPTEMBER-OCTOBER 2021

BANQUE DE FRANCE
EUROSYSTÈME

French collective investment schemes proved highly resilient during the crisis in 2020

In 2020, despite the crisis, assets under management in French and European collective investment funds (CIS) increased. In particular, it was a historic year for money market funds, thanks to exceptional inflows: up 25% for France and 14% for the euro area. Over the past ten years, developments have been different for the two categories of CIS (money market and non-money market), be it in terms of investors, portfolio composition or market structure.

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French CIS in 2020

EUR 1,336 billion
Non-money market outstandings
(up 2% in one year)

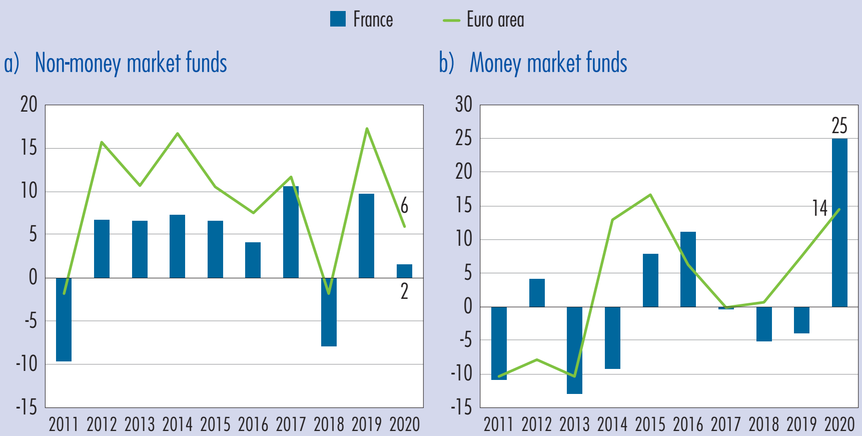
EUR 393 billion
Money market outstandings
(up 25% in one year)

EUR 3.2 billion
Average outstandings
of money market funds
(up 342% in ten years)

EUR 560 billion
Outstandings of labelled funds
(24% of French collective management schemes)

Changes in outstandings of collective investment schemes (CIS) in France and the euro area by category since 2011

(%)



Source: Banque de France.

1 In the context of the crisis, French and European CIS have played their role as a flexible and secure instrument to allow investors to adjust their savings

The net assets of French money market and non-money market funds grew by 25% and 1.6% respectively in 2020

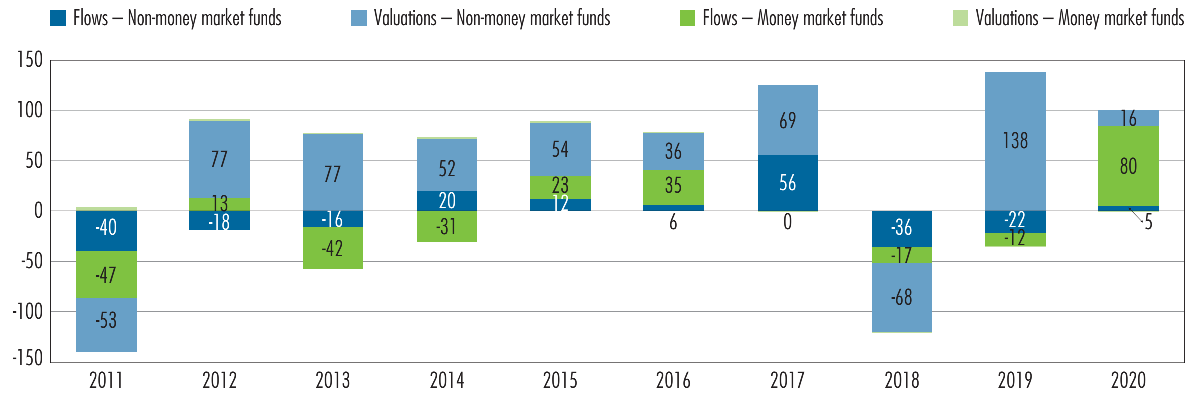
The net assets of French CIS amounted to EUR 1,729 billion at the end of 2020, consisting of EUR 1,336 billion for non-money market funds and EUR 393 billion for money market funds. The total balance sheet of CIS (EUR 1,915 billion) corresponds to 11% of the total assets managed by the French financial sector as a whole, including funds deposited in banks, CIS and insurers, and estimated at almost EUR 18,200 billion.

In 2020, despite a turbulent first quarter, the net subscriptions and changes in value of French CIS were positive overall. After three consecutive years of net investor outflows, money market funds recorded inflows of EUR 80 billion in 2020 (see Chart 1), i.e. an increase of 25% year-on-year, which constitutes a record since 2006. Money market fund outstandings thus returned to their end-2010 level (see Chart 1). This exceptional annual inflow contrasted with the strong demand for net redemptions (EUR 53 billion) that took place in March 2020 (see Box 1 below). This outflow was mainly driven by non-financial corporations in order to meet their cash flow needs (see below).

Non-money market fund flows were also positive in 2020 (up EUR 5 billion), after two years of significant outflows. Their valuation reached EUR 16 billion, i.e. up 1.2% year-on-year, which is below the average annual valuation over the past ten years (3.9%). However, this valuation level is still respectable given the shock that occurred in March on the markets, with a loss of value over one month of EUR 103 billion, i.e. a drop of 8%. This loss was more than offset over the rest of the year, particularly in November 2020, with a historic valuation of EUR 69 billion (5.6% monthly).

By category of non-money market funds, in 2020 employee savings funds and real estate funds were the most buoyant, with inflows increasing by EUR 7 billion and EUR 6 billion respectively (see Chart 2 below). Employee savings funds thus benefited from the excess savings generated by the fall in consumption and from government measures favouring these schemes. Real estate funds recorded a total of EUR 68 billion in inflows over ten years, and also made a significant contribution to the overall inflows of non-money market funds over the period. Furthermore, labelled funds were increasingly popular with investors (see Box 2 below).

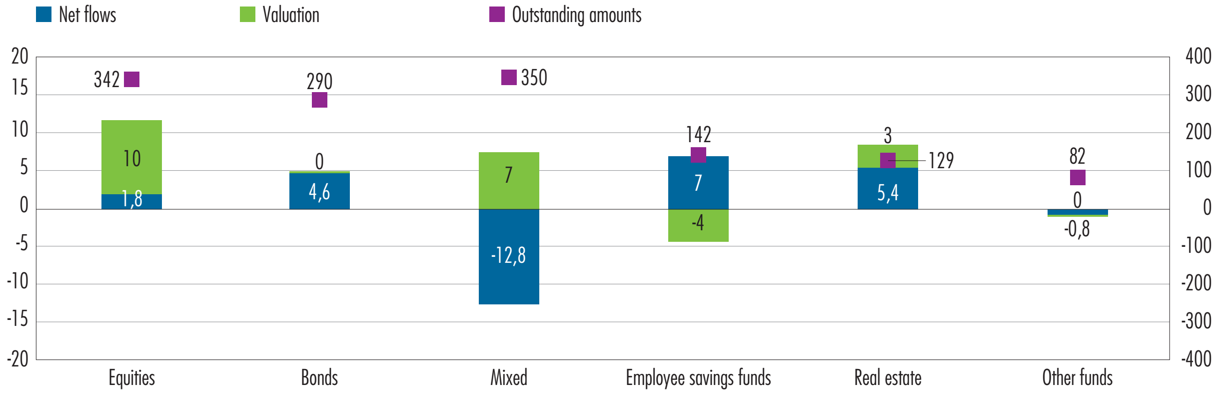
C1 Changes in French CIS flows and asset valuations, 2011-2020
(EUR billions)



Source: Banque de France.
Note: CIS Collective investment schemes.
Outstandings of non-money market funds: 39% increase between 2010 (EUR 963 billion) and 2020 (EUR 1,336 billion).
Outstandings of money market funds: stability between 2010 (EUR 394 billion) and 2020 (EUR 393 billion).

C2 Breakdown of flows and valuation of assets of French non-money market funds, by category, in 2020

(EUR billion; left-hand scale: flows and valuations, right-hand scale: outstandings)



Source: Banque de France.
Notes: For mixed funds, there were outflows of EUR 12.8 billion and valuation gains of EUR 7 billion, with year-end outstanding of EUR 350 billion.

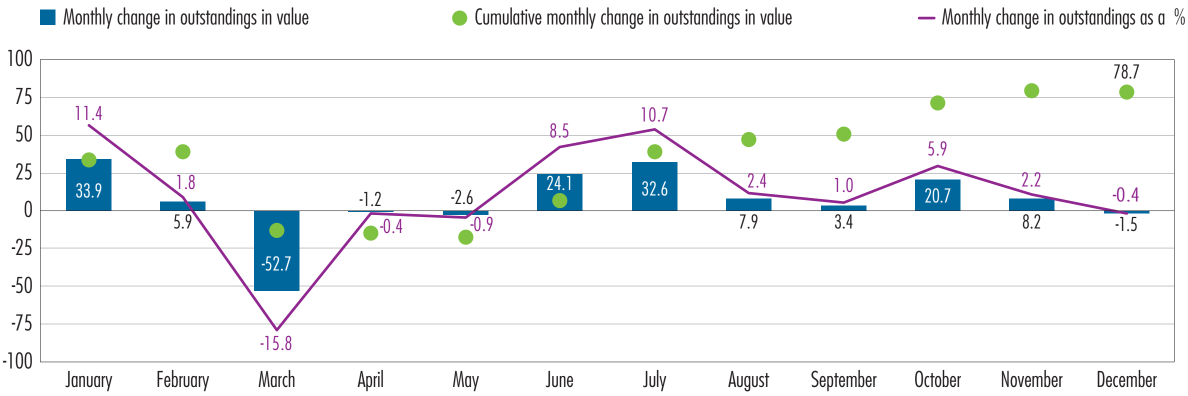
Box 1

Towards a new regulation of money market funds to enhance their resilience

The run (massive redemption request) observed on French money market funds in March 2020 (EUR 53 billion net withdrawals, -16% in outstandings, see Chart) had no major impact and was short-lived: all money market funds were able to honour redemption requests and their situation quickly improved to end the year exceptionally well thanks to government's support measures for the economy.

Monthly change in French money market fund inflows in 2020

(EUR billions)



Source: Banque de France.

These funds have been affected by the high degree of uncertainty surrounding asset valuations and the macroeconomic outlook. However, the money market was severely disrupted by a self-perpetuating spiral of declining demand,

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rising rates, falling security prices and declining valuations of money market funds, exacerbating sell-offs (-9% on assets in March).

The Eurosystem's intervention to ensure that the short-term securities market remained liquid proved necessary to stabilise the situation quickly and contain liquidity risk. These tensions rekindled fears of a liquidity crisis in this segment and led regulators and supervisors to reflect on the implementation of new prudential rules to better manage these risks. An already substantial arsenal had been put in place in the wake of the 2008 crisis to follow-up on the lessons learned from that period. On the asset side, the funds' portfolios must comply with maturity limits and daily and weekly liquidity ratios to ensure a certain liquidity buffer. On the liabilities side, liquidity management tools have been made available to managers (swing pricing, capping or suspension of redemptions, redemptions in kind, ring-fencing, etc.) in order to reduce the risk of massive investor runs in the event of a crisis.

Work is underway at the European and international levels to shore up the stability of the money market fund sector via a macroprudential approach. In March 2021, the European Securities and Markets Authority (ESMA) launched a consultation on proposals for reforming the regulation of money market funds in the run-up to the July 2022 review of the EU regulation on money market funds.

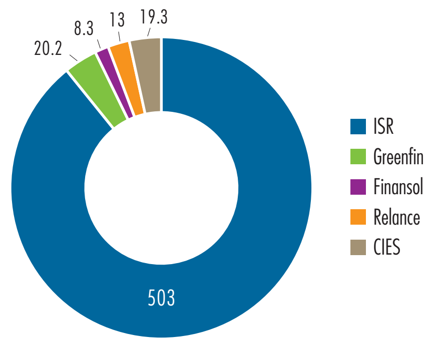
BOX 2

Significant growth in labelled funds

In France, the development of labelled funds has accelerated in recent years in a context of generally low returns and a shift in savings towards meaningful investments. There are currently five main labels, three of which are public labels based on extra-financial criteria and which are increasingly popular with investors. Outstandings of labelled funds (EUR 560 billion) represented 24% of French collective investment schemes excluding securitisation (EUR 2,330 billion at end-2020)[1].

Ca Outstandings of French and foreign labelled funds in France as at 31 March 2021

(EUR billions)



Sources: French Ministry for the Ecological and Solidarity Transition, Finansol, CIES; authors' calculations.
Notes: The figures given are the latest available as at 31 March 2021.
ISR – *investissement socialement responsable*, Socially Responsible Investment; CIES – *Comité intersyndical de l'épargne salariale*, Inter-union Committee on Employee Savings.

The ISR (*investissement socialement responsable*, or Socially Responsible Investment – SRI) label, defined as "an investment that seeks to reconcile economic performance and social and environmental impact by financing companies that contribute to sustainable development, regardless of their sector of activity" is the most widespread to date, with outstandings exceeding EUR 500 billion at the end of March 2021. This is followed by the Greenfin label (EUR 20 billion in outstandings), which targets the energy and ecological transition; the CIES label (*Comité intersyndical de l'épargne salariale*), based on the "SRI" concept and intended for employee savings funds

1 Source: *Association française de la gestion financière* (AFG – the French Asset Management Association).

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(EUR 19 billion in outstandings); and the "Relance" label (EUR 13 billion in outstandings), which enables investors to support the equity and quasi-equity of French companies (small and medium-sized enterprises, and intermediate-sized enterprises), both listed and unlisted, and thus to contribute to the recovery of the French economy. Lastly, the Finansol label (EUR 8.3 billion) allows investors to channel their savings or financial assets into financing companies and associations engaged in activities with a strong social and/or environmental purpose.

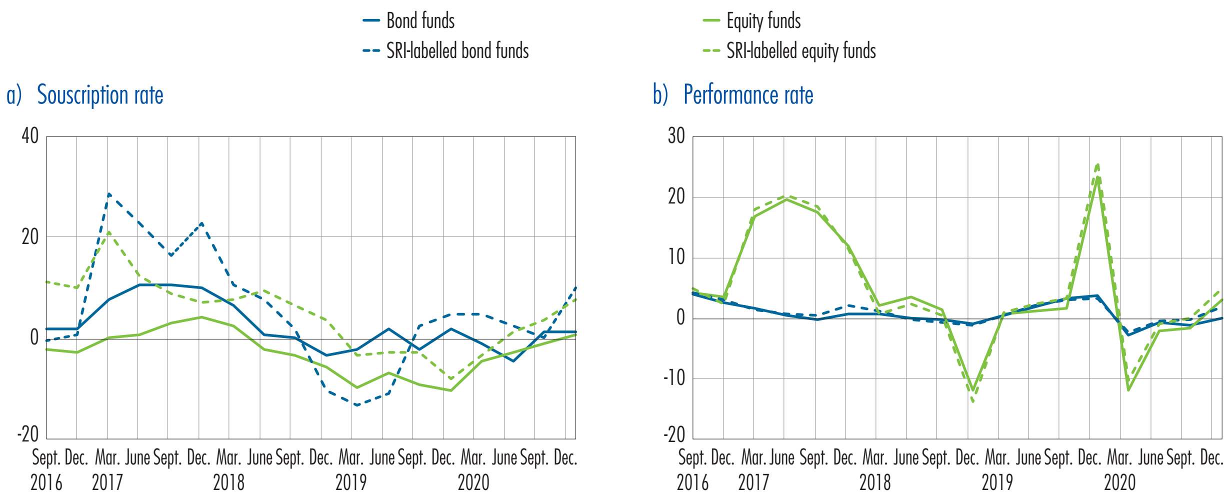
Over one year, the outstandings of French SRI-labelled funds rose sharply from EUR 88 billion to EUR 230 billion at the end of 2020. At 31 December 2020, money market funds were the most highly represented asset class with 45% of outstandings. Equity funds account for one third of outstandings.

The growth in outstandings testifies to the attractiveness of this type of fund to investors. This is reflected in the annual subscription rates, which are above the average for funds in the same category.

The performance rates, which were almost identical to the average of funds in the same category until June 2020, appear to be higher in the second half of 2020. In order to consolidate this successful entry into the range of financial investments, the ISR label is currently being reviewed. This review aims to strengthen its requirements in terms of transparency, monitoring the impact of portfolios with regard to environmental, social and governance (ESG) criteria and hence to bolster the confidence of investors in these products.

Cb French funds with and without ISR label

(%)

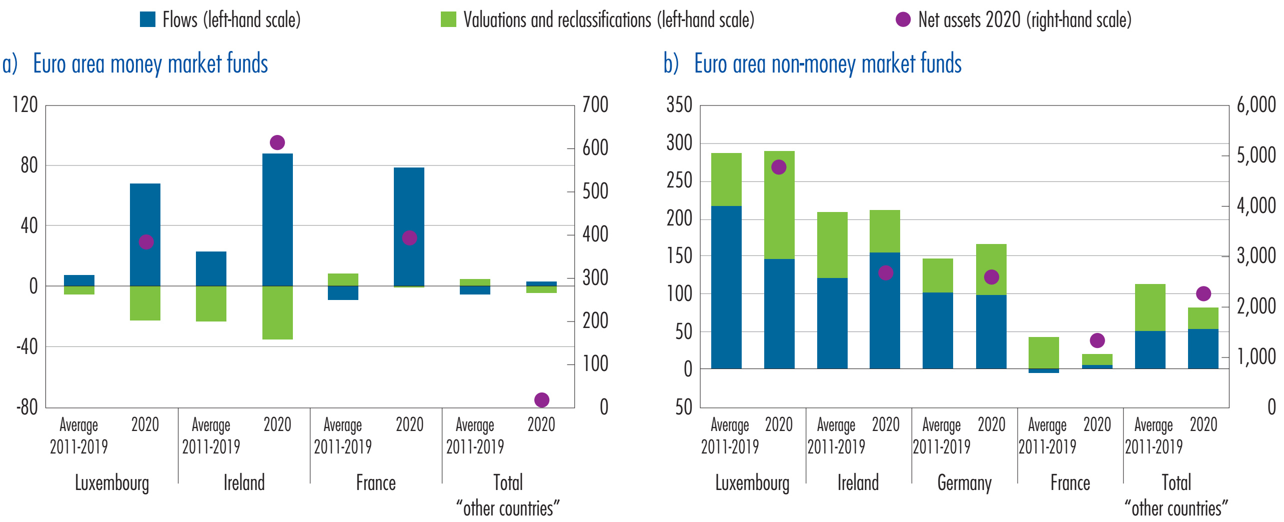


Source: Banque de France.
Note: ISR – *investissement socialement responsable*, Socially Responsible Investment.

Euro area CIS remained equally robust in 2020

In the other euro area countries, money market funds also benefited from significant investor inflows in 2020, despite the market turbulence at the beginning of the year. Ireland and Luxembourg, which are the two main players along with France (the three countries account for 99% of euro area outstandings), recorded net inflows of EUR 87 billion (15% of outstandings) and EUR 68 billion (20% of outstandings) respectively in 2020 (see Chart 3a below). Compared to French funds, these countries were less affected in March thanks to an asset structure perceived as less risky (larger share of sovereign securities) and an investor base whose behaviour proved to be more stable. However, they recorded lower inflows during the rest of the year.

C3 Breakdown of the changes in outstandings in flows and valuations, by country
(EUR billions)



Sources: Banque de France, European Central Bank.

Moreover, the valuation of Luxembourg and Irish funds fell by 6% over the year, in connection with dollar and sterling denominated funds.

For non-money market funds, the performance in the euro area in 2020 was in line with the average trend over the last ten years (see Chart 3b): Luxembourg, Ireland and Germany showed steady growth with sustained flows. They manage EUR 10,000 billion in outstandings, i.e. two-thirds of the aggregate euro area outstandings (EUR 13,718 billion), and record EUR 404 billion in net flows over 2020, i.e. 82% of the total. France is the fourth largest European player, with a market share of 11% (down 6 percentage points over ten years).

2 The main subscribers to the funds: non-financial corporations and insurance companies

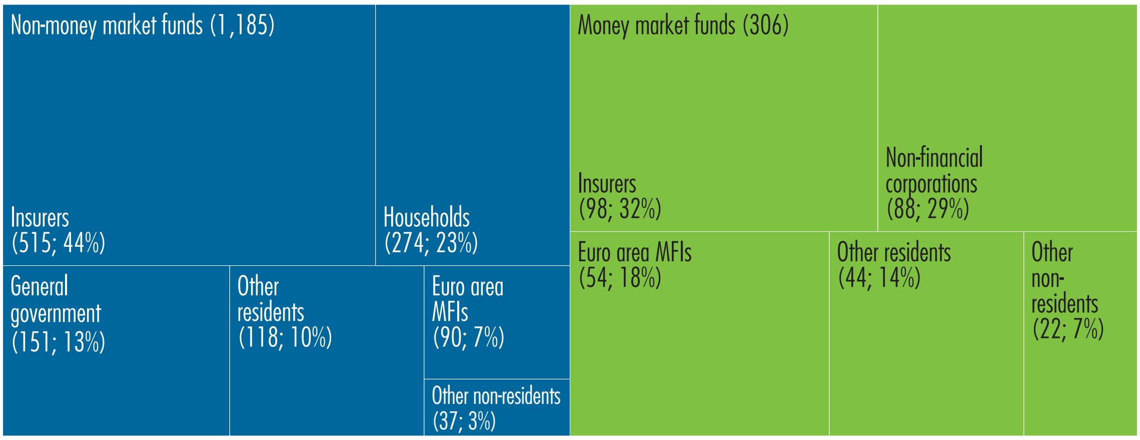
The share of residents in money market funds has fallen by 15 percentage points over ten years

At the end of 2020, French insurance companies and non-financial corporations held 61% of the consolidated money market funds outstandings (32% and 29% respectively). The other significant holding sectors are euro area banks and other residents (other financial intermediaries account for 6% and general government for 5%). The share held directly by households (and NPISHs – Non-Profit Institutions Serving Households) remained very low (2%), as they prefer to invest their liquid financial savings in regulated savings accounts or, simply, in overnight deposits (see Charts 4 and 5 below). Thanks to the state-guaranteed loans that have bolstered their cash position, companies were the largest investors in 2020, accounting for EUR 32 billion, i.e. 40% of total investor inflows for the year.

Over the period 2011-2020, the share of money market funds held by residents fell sharply (from 95% to 80%). The share of non-resident investors, for its part, increased by 15 percentage points to 19% of outstandings at the end of 2020, reflecting the attractiveness of French money market funds, particularly in Europe (up 12 percentage points). Investors from outside the euro area still represent a small minority (4%).

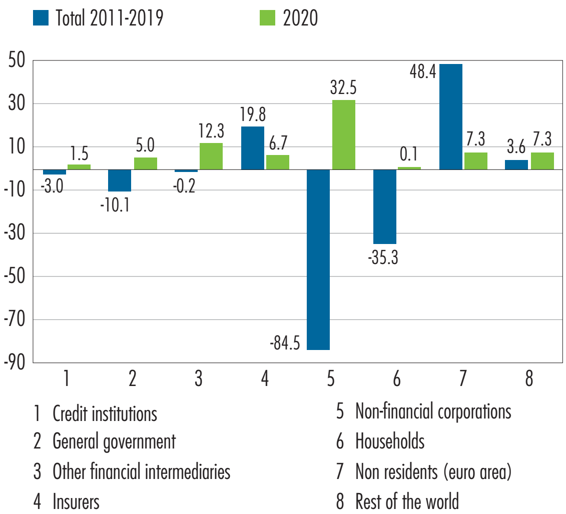
Over the last ten years, resident outflows were mainly from French non-financial corporations (-12 percentage points). Households (and NPISHs) also withdrew EUR 35 billion (see Chart 5 below) and their share of total outstandings fell from 10% to 2%. Insurers, for their part, invested EUR 26 billion over the 2011-2020 period, increasing their share of total holdings (32% at the end of 2020, compared with 24% in 2010).

C4 Breakdown of French CIS by holding sector at end-2020
(EUR billions)



Source: Banque de France.
Notes: Consolidated holdings, excluding own holdings by Collective Investment Schemes (CIS).
The "households" item includes Non-Profit Institutions Serving Households (NPISHs).
MFI, Monetary Financial Institutions.

C5 French money market fund flows by holding sector
(EUR billions)



Source: Banque de France.
Notes: The "households" item includes Non-Profit Institutions Serving Households (NPISHs).
Flow calculations do not take account of own holdings.

Insurers are the structural investors in non-money market funds

In 2020, insurance companies were among the main resident investors (especially in equity and real estate funds), in particular due to the dynamic net inflows into unit-linked contracts in 2020 (whose underlyings are mostly in CIS). Overall, this behaviour is mainly the result of the diversification and yield-seeking strategies by life insurers, which have adapted their business model to the context of persistently low interest rates.

Over the 2011-2020 period, holdings by residents – companies, insurers, households, etc. increased by 4% to reach 82% of outstandings at the end of 2020. This trend reflects total net inflows from residents of EUR 21 billion over ten years, mainly due to insurance companies (up EUR 38 billion) and general government (up EUR 20 billion).

At the same time, non-residents sold assets totalling EUR 53 billion. Euro area residents accounted for EUR 34 billion of these outflows (EUR 41 billion of outflows from monetary financial institutions). Investors from the rest of the world, for their part, sold off assets amounting to EUR 19 billion.

3. French money market funds made significant portfolio reallocations in 2020

Over the short period, cash and net assets grew strongly

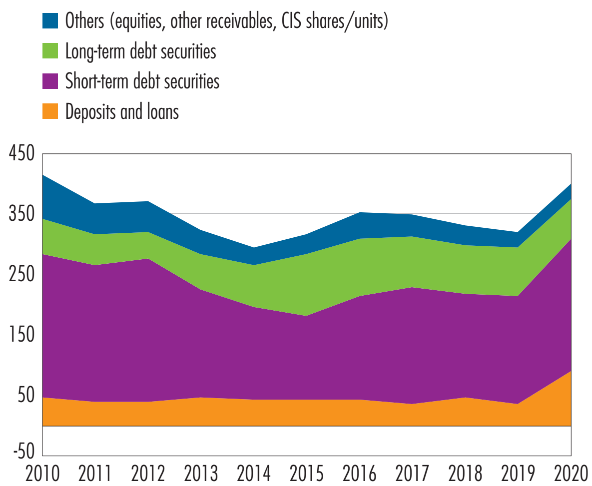
In order to cope with the surge in redemption requests in March, money market funds had to increase their cash and cash equivalents. This resulted in an increase in the share of deposits, which then continued throughout 2020. French money market funds therefore now have excess liquidity to cope with potential further redemptions. At the same time, they favoured short-term securities in their portfolio (see Chart 6).

Hence, March marked a break with the previously stable allocation in deposits, which averaged 11% of the total balance sheet over the past years. They doubled in 2020 to 22% at the end of the year. This is also the case in Luxembourg and Ireland, although to a lesser extent than in France (see Chart 7).

In 2020, there was also a reversal in the average allocation of short- and long-term securities. After net divestments of around EUR 59 billion between 2011 and 2019, French funds have invested EUR 41 billion in these short-term securities in 2020. At the same time, their investments in long-term securities resulted in net sales by EUR 18 billion, compared with net acquisitions of EUR 21 billion over the 2011-2019 period.

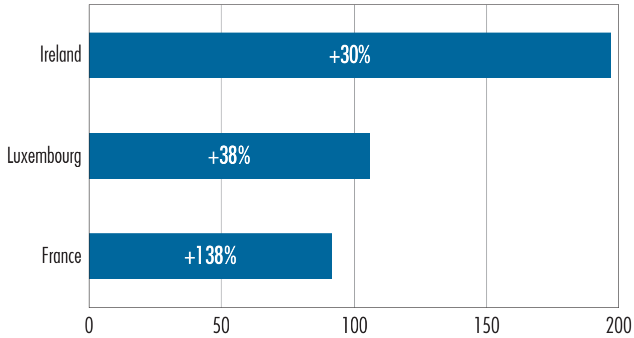
In parallel, the massive redemptions in March generated tensions in short-term liquid assets, which declined on average in value by about 9%. This was due to a reduction in the supply of securities in the money market and other debt markets, as well as to the difficulties that some funds experienced in selling their securities.

C6 Changes in the assets of French money market funds, 2010-2020
(EUR billions)



Sources: Banque de France, European Central Bank.

C7 Outstanding deposits of money market funds at end -2020 and their changes over the year
(EUR billions)



Sources: Banque de France, European Central Bank.
Note: For France, outstanding deposits of Collective Investment Schemes (CIS) totalled EUR 91.7 billion at the end of 2020, rising by 138% over 2020.

Portfolios also shifted into government debt securities.

At the same time, this crisis period resulted in a EUR 24 billion increase in government debt securities held in the funds' portfolios. Throughout the post-crisis period, there has been a constant search for safer investments and higher-quality government securities.

Therefore, investments in this asset class accounted for all net purchases of securities (EUR 25 billion) while other assets were shunned. As a result, their share in total assets increased from 2% to 11% year-on-year.

4 The structure of non-money market fund portfolios remained stable

The structure of instruments in the assets of French non-money market funds has changed little over ten years

Money market funds did not make any reallocations between short-term and long-term securities in 2020, as opposed to money market funds. These two categories of securities recorded total outflows of EUR 5 billion.

Similarly, deposits and other net investments showed very minor net outflows of EUR 2 billion. Conversely, investments in real estate and equities recorded significant inflows of EUR 7 billion each.

Over the long term, non-money market funds in France have not been affected by a major change in the structure of portfolios and their number has decreased slightly (see Box 3 below). However, due to the growth of real estate funds, non-financial assets have increased significantly. Their share in total assets thus increased from 2.5% at the end of 2010 to 6.6% at the end of 2020.

As regards the geographical breakdown of investments, there were also only marginal adjustments. Between the end of 2010 and the end of 2020, securities of euro area issuers increased by three percentage points in relation to the overall securities portfolio, representing 33% at the end of 2020. This reallocation was to the detriment of resident securities (-1 percentage point) and to those of the rest of the world (-2 percentage points), reflecting the growing integration of European capital markets (see Table 1 below).

In the euro area, portfolio structures are heterogeneous and less inert than in France

Equities and debt securities are the two main asset classes in the portfolio of non-money market funds throughout the euro area. However, the composition of assets varies greatly across countries (see Chart 8). Over the long term, there have been significant changes in the average portfolio structure, particularly in Ireland and Germany.

The share of equities in total assets varies greatly from country to country (see Chart 9), with 45% for the Netherlands, 42% for Luxembourg, but only 22% for Germany. In Ireland, the share of equities stood at 37% in 2020, although it had fallen markedly over ten years (-9 percentage points).

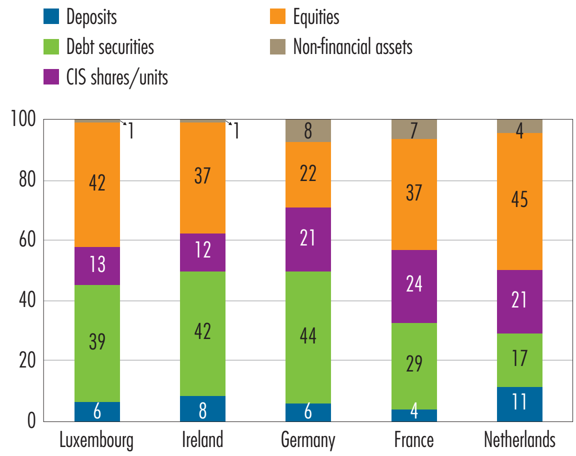
Debt securities are highly represented in Germany (44%) and Ireland (42%). In Germany, however, the share of this asset class has fallen by eight percentage points since the end of 2010. The Netherlands had the lowest share in 2020 (17%) due to a sharp decline since 2011 (-14 percentage points).

Outstandings of CIS shares/units increased significantly in Germany, rising by nine percentage points.

Non-financial assets, consisting mainly of real estate in the portfolios of non-money market funds, are low, except in Italy (22%), Germany (8%) and France (7%).

C8 Portfolio composition of euro area non-money market funds in 2020

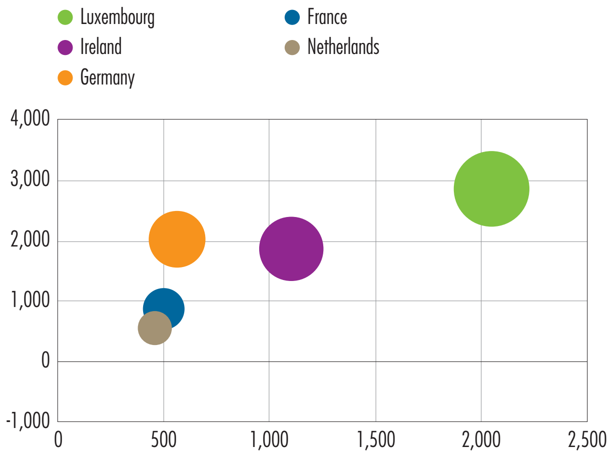
(%)



Sources: Banque de France, European Central Bank.

C9 Share of equities in the portfolios of CIS in the five largest euro area countries at the end of 2020

(x-axis: equities, y-axis: other instruments; EUR billion)



Sources: Banque de France, European Central Bank.
Note: Luxembourg (green) holds EUR 2,052 billion in equities (x-axis) and EUR 2,900 billion in other instruments (y-axis). The size of the disks represents the total assets under management.

In geographical terms (see Table 1), the structure of euro area CIS portfolios diverges quite significantly. While Irish and Luxembourg funds are mainly invested in securities issued by the rest of the world, German funds have a fairly balanced structure, while France has a stronger domestic bias (49% resident securities). This is due to the high proportion of "funds of funds" – i.e. a significant proportion of assets invested in other funds – in most French funds and also to the good coverage of managers' investment needs by the French debt and equity market. In 2020, the trend for each country was confirmed, but with a greater diversification towards international, non-euro area securities.

T1 Breakdown of euro area non-money market funds' portfolios by geographical area of securities issuance

(Outstandings in %; flows in EUR billion).

	Outstandings at end-2020			Flows 2020		
	Resident	Euro area	Rest of the world	Resident	Euro area	Rest of the world
Luxembourg	12	27	61	14	-14	104
Ireland	9	15	76	20	23	131
Germany	28	38	35	26	16	22
France	49	33	18	7	-11	4
Other	22	35	43	74	37	260

Source: Banque de France.
Note: Luxembourg funds hold 12% of their assets in securities issued in Luxembourg, 27% in the euro area and 61% in the rest of the world.

BOX 3

Money market and non-money market funds have significantly different structures

Over the last ten years, money market funds in France and the euro area have become increasingly concentrated. Average assets under management by individual Collective Investment Schemes (CIS) have grown significantly, up 342% for France (from EUR 722 million in 2011 to EUR 3.2 billion in 2020), and up 330% for the euro area (EUR 3.4 billion in 2020, see Chart a). This very robust growth in average outstandings contrasts with the trend in total outstandings, which increased very modestly, particularly in France (12% over ten years), thus reflecting a significant decline in the number of funds. Indeed, they have fallen by three-fold in the euro area and by four-fold in France. This development can be explained by the concentration of the product ranges. The aim is to reduce fixed costs within management companies in a context of declining returns. This drop has been even more pronounced since 2018, due to the new European regulations that impose very short-term liquidity constraints (daily and weekly liquidity ratios). Over ten years, the European money market has become increasingly concentrated. Luxembourg, Ireland and France now account for 99% of the euro area's outstandings (compared to 94% in 2011).

The market for non-money market funds is much less concentrated, with average assets under management of EUR 221 million in the euro area, which is 15 times lower than for money market funds (see Chart b). Furthermore, total euro area outstandings are growing faster than average assets under management due to an increase in the number of funds. France is the only country where the number of funds has decreased slightly over ten years. Despite this decline resulting from the desire to streamline costs, French funds remain small compared to the rest of the European top 5: on average, a French fund manages EUR 132 million, compared to EUR 265 million on average for a Luxembourg fund, EUR 344 million for an Irish fund and EUR 476 million for a Dutch fund.

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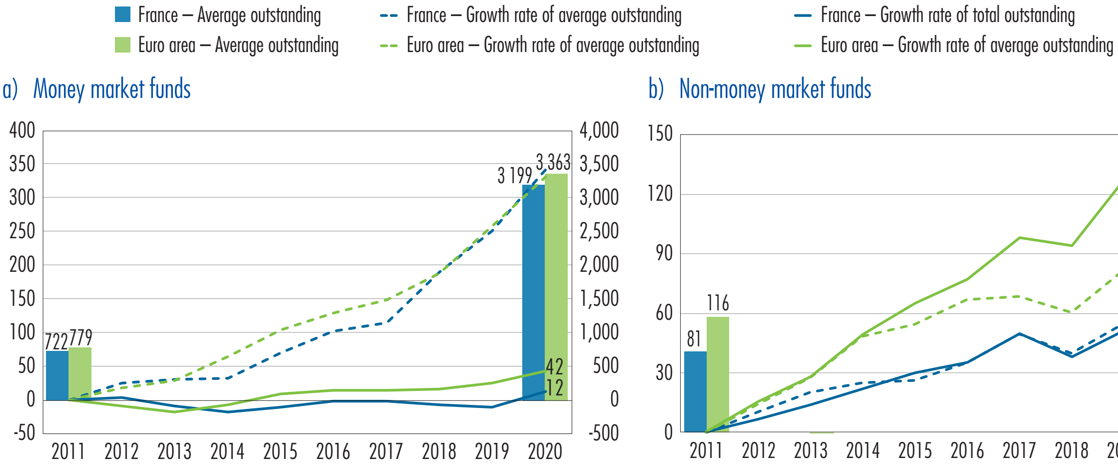
Average outstandings of funds and growth rates of average and total outstandings
(left-hand scale: growth rate in %; right-hand scale: outstandings in EUR million)



Source: Banque de France.

Published by
Banque de France

Managing Editor
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Technical production
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ISSN 1952-4382

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