

ESMA report values EU Alternative Investment Funds at €5.8 trillion

Sector breakdown

Funds of Funds accounted for 14% of the industry, followed by Real Estate Funds (12%), Hedge Funds (6%) and Private Equity Funds (6%). The remaining category of Other AIFs accounts for close to two-thirds of the industry (61%), covering a range of strategies with fixed income and equity accounting for 67%. Most AIFs are sold to professional investors (84%) but retail participation is significant at 16%, with the highest share in the Funds of Funds and Real Estate categories.

Liquidity risk an issue in Real Estate and Funds of Funds sectors

The two sectors with the largest percentage of retail investors, Funds of Funds (FoF) with 31% and Real Estate with 21%, are also the sectors where the report finds potential issues linked to liquidity. Many of the funds in the Real Estate sector offer daily liquidity, which indicates a structural vulnerability risk as they invest in illiquid assets while allowing investors to redeem their shares over a short time-frame. For the Funds of Funds sector there is a mismatch in liquidity, as 35% of the NAV is redeemable within a day, while only 24% of assets can be liquidated within that timeframe.

Increased use of leverage in the Hedge Fund sector

The Hedge Funds sector amounted to €333bn in NAV, or 6% of all AIFs. However, when looking at gross exposure they total 67% of all AIFs due to their increasing reliance on the use of derivatives. These funds are exposed to financing risk, as one third of their financing is overnight. However, the fact that they maintain large cash buffers offers some security.

Steven Maijor, Chair, said:

“In this second analysis of the data collected from AIFs, ESMA covers 99% of the market, making this a truly comprehensive overview of this important sector. The collection and analysis of data supports ESMA, and National Competent Authorities, in our work enhancing investor protection and promoting orderly and stable financial markets in the European Union.

A detailed analysis of the liquidity risks of AIFs has highlighted that especially the categories with the highest percentage of retail investors are vulnerable to these risks. This should be considered by investors when making their investment decisions.

These data will also support National Competent Authorities in their supervision of AIFs, and further strengthens supervisory convergence throughout the EU.”

The report includes three sections, covering:

- **Market monitoring** – including an analysis of structures and trends in European AIFs markets during each reporting period, building on the indicators developed for risk monitoring;
- **Statistical methods** – focusing on the classification of funds in the Other AIFs category as well as the exposure of AIFs to leveraged loans and collateralised loans obligations; and
- **AIF statistics** – setting out a full list of indicators and metrics currently monitored by ESMA.