



DETERMINATION OF MERGER NOTIFICATION M/17/025 – INVESCO/SOURCE

Section 21 of the Competition Act 2002

Proposed acquisition by Invesco UK Limited of sole control of Source Holdings Limited.

Dated 16 June 2017

Introduction

1. On 11 May 2017, in accordance with section 18(1)(a) of the Competition Act 2002, as amended (the “Act”), the Competition and Consumer Protection Commission (the “Commission”) received a notification of a proposed acquisition whereby Invesco UK Limited would acquire sole control of Source Holdings Limited (“Source”).

The Proposed Transaction

2. The proposed transaction is to be implemented pursuant to a sale and purchase deed (“SPD”) dated 27 April 2017 between the shareholders of Source, Source and Invesco UK Limited. Following implementation of the proposed transaction, Invesco UK Limited will exercise sole control over Source.

The Undertakings Involved

Invesco

3. Invesco UK Limited is a wholly-owned subsidiary of Invesco Ltd (Invesco UK Limited and Invesco Ltd are referred to collectively as “Invesco” in this determination). Invesco, headquartered in the United States, is an investment management firm listed on the New York Stock Exchange. Invesco is active in investment management in North America, Europe, the Middle East, Africa and Asia. As at the end of 2016, Invesco managed approximately €734 billion in assets for investors around the world.¹
4. Invesco owns one Irish-incorporated undertaking, Invesco Global Asset Management DAC, which is based in Dublin. Invesco provides Exchange Traded Funds (“ETFs”) through the *Invesco PowerShares* brand.² Invesco Global Asset Management DAC is the management company for *Invesco PowerShares’* European ETFs range and certain other Invesco funds. Approximately 18 of *Invesco PowerShares’* ETFs are domiciled in the State and most of these are listed on European stock exchanges.

¹Calculated using the ECB average annual exchange rate for the year 2016 USD1=EUR1.1069.

²ETFs are open-ended investment funds, the shares of which are traded on different stock exchanges. ETFs hold a portfolio of underlying assets designed to track the performance of a chosen market index, e.g., the FTSE 100.



5. For the financial year ending 31 December 2016, Invesco's worldwide turnover was approximately €4,276 million, of which approximately €[...] million was generated in the State.

Source

6. Source, an investment management firm headquartered in London, has [...] offices in Zurich, Paris and Munich. Source is majority-owned by Wargurg Pincus LLC, with the remaining shares [ultimately] owned by five investment banks and by management and [former and current] employees of Source.³
7. Source is a specialist provider of ETFs and its clients are domiciled in Germany, Austria, UK, Ireland, France, Benelux, Israel, Switzerland and Italy. As at the end of 2016, Source managed approximately €20 billion of assets for investors.⁴
8. Source owns one entity in the State, Source Investment Management Limited, which acts as the management company for 66 of Source's ETFs. It has no employees in the State.
9. For the financial year ending 31 December 2016, Source's worldwide turnover was approximately €[...] million, of which approximately €[...] million was generated in the State.

Rationale for the Proposed Transaction

10. The notification states:

"The Proposed Transaction would enable Invesco PowerShares to increase its scale, relevance and expertise in ETFs in EMEA and to diversify its ETF position in EMEA across asset classes, geographies and client segments."

Third Party Submissions

11. No submission was received.

Competitive Analysis

12. There is a horizontal overlap between the activities of the parties in the State. Invesco and Source are both active in the supply of ETFs in the state, whereby they both have funds domiciled and management companies operating in the State.
13. The Commission defines markets to the extent necessary depending on the particular circumstances of a given case. In this instance, it is not necessary for the Commission to define precise relevant markets. The Commission's conclusions concerning the competitive impact of the proposed transaction would be unaffected whether the

³ The five investment banks are Goldman Sachs Group Inc, Morgan Stanley & Co LLC, J.P. Morgan Chase & Co, Bank of America/Merrill Lynch and Nomura Holdings Inc.

⁴ The parties state that approximately €5 billion of the assets under management ("AUM") is held in Pacific Investment Management Company LLC's products which Source co-markets. Therefore, Source's AUM is approximately €15 billion as at December 2016.



relevant product market is defined narrowly (e.g., the supply of ETFs) or more broadly to include the supply of all types of asset management services. However, for the purpose of the competitive analysis, the Commission has assessed the competitive impact of the proposed transaction in the narrowest possible product market, i.e., the potential market for the supply of ETFs.

14. Similarly, while it is not necessary in this instance to define the precise geographic scope of the relevant product market for the purpose of assessing the competitive impact of the proposed transaction, the Commission has analysed its competitive impact by reference to the narrowest potential geographic market, i.e., the State.⁵
15. The parties estimate that their combined market share in the supply of ETFs in the EEA would be less than [0-5]% following completion of the proposed transaction. The parties state in the notification that they are unable to provide estimated market shares in the supply of ETFs in the State but consider that their respective market shares in the State for the supply of ETFs would not materially differ from, and may even be lower than, those in the EEA.⁶
16. The parties further state in the notification that:
 - Source estimates that approximately [0-5]% of its AUM are held by investors located in the State.⁷
 - *Invesco PowerShares* offers over 190 ETFs in total, of which approximately 18 are domiciled in the State. Furthermore, the geographic breakdown of Invesco's worldwide AUM by client domicile in 2016 shows that approximately [5-10]% of its AUM is held by clients based in Continental Europe and Ireland.
17. The Commission has no reason to dispute the estimated market share information provided by the parties. The Commission's investigation has found that the barriers to entry and expansion in the ETF segment of the asset management sector in the State are likely to be low. The ETF segment of the asset management sector has experienced significant levels of growth worldwide and in Europe in the last two decades. An article in the Financial Times entitled "*PwC: Exchange traded fund assets will double to €5tn by 2020*" dated 25 January 2015, stated that the worldwide ETF industry will double in size by 2020.⁸ Likewise, the State is experiencing record levels of assets and net sales in Irish domiciled funds, in particular, it is home to almost 50% of all European ETF assets.⁹ This

⁵ It is possible, however, that the potential geographic market for the supply of ETFs is European Economic Area-wide and may even be global in scope.

⁶ An article in the *Financial Times* dated 27 April 2017 (entitled "*Invesco snaps up ETF provider Source*"), states the following: "*Atlanta-based Invesco already ranks as the world's fourth largest ETF manager with assets of \$125bn but it has historically lacked a meaningful presence in the European ETF market...Source ranks as the seventh largest ETF manager in Europe with assets of \$25 but the business has struggled to achieve profitability in the face of ferocious fee competition from larger rivals including BlackRock, Vanguard, Deutsche Asset Management and Lyxor.*" Please see <https://www.ft.com/content/f9da0285-c059-3e65-bf74-e7abb6bcc0c5?mhq5j=e1>

⁷ The parties state in the notification that a small number of Invesco's clients are located in the State. With respect to ETFs, due to the nature of how ETF products are structured and traded, it is extremely difficult to track the underlying investors in ETFs and Invesco is therefore unable to estimate AUM in its ETFs in the State.

⁸ <https://www.ft.com/content/5a38818a-a2fb-11e4-9c06-00144feab7de?mhq5j=e2>

⁹ Irish Funds Industry Association article, please see <http://www.irishfunds.ie/news-knowledge/newsletter/spring-2017-newsletter-fund-focus/record-levels-of-assets-and-net-sales-in-irish-domiciled-funds>



supports the Commission's view that the barriers to entry and expansion in the ETFs segment of the asset management sector in the State are likely to be low.

18. The Commission considers that Invesco will continue to face competition from a number of providers of asset management services in the potential market for the supply of ETFs in the State post-transaction. With 6 of the top ten ETF issuers in Europe currently active in the State, the State has played a significant role in the European ETF sector.¹⁰ Alternative providers of ETFs in the State include BlackRock Asset Management Ireland Ltd, Vanguard Group Ireland, State Street Global Advisers (Ireland) Limited and JP Morgan Asset Management (Ireland) Limited. The Commission therefore considers that the horizontal overlap that exists between Invesco and Source with respect to the supply of ETFs in the State raises no competition concerns.
19. There is no vertical relationship between the activities of the parties in the State. The proposed transaction does not therefore raise any vertical competition concerns.

Conclusion

20. In light of the above, the Commission considers that the proposed transaction will not substantially lessen competition in any market for goods or services in the State.

Ancillary Restraints

21. No ancillary restraints were notified.

¹⁰ "Why Ireland For ETFs" June 2015 published by Irish Funds Industry Association (Irish Funds), please see <http://files.irishfunds.ie/1481206562-IF ETFs Brochure WEB.pdf>



Determination

The Competition and Consumer Protection Commission, in accordance with section 21(2)(a) of the Competition Act 2002, has determined that, in its opinion, the result of the proposed transaction, whereby Invesco UK Limited would acquire sole control of Source Holdings Limited, will not be to substantially lessen competition in any market for goods or services in the State, and, accordingly, that the acquisition may be put into effect.

For the Competition and Consumer Protection Commission

Patrick Kenny
Member
Competition and Consumer Protection Commission