French asset management boutiques
Ready for export

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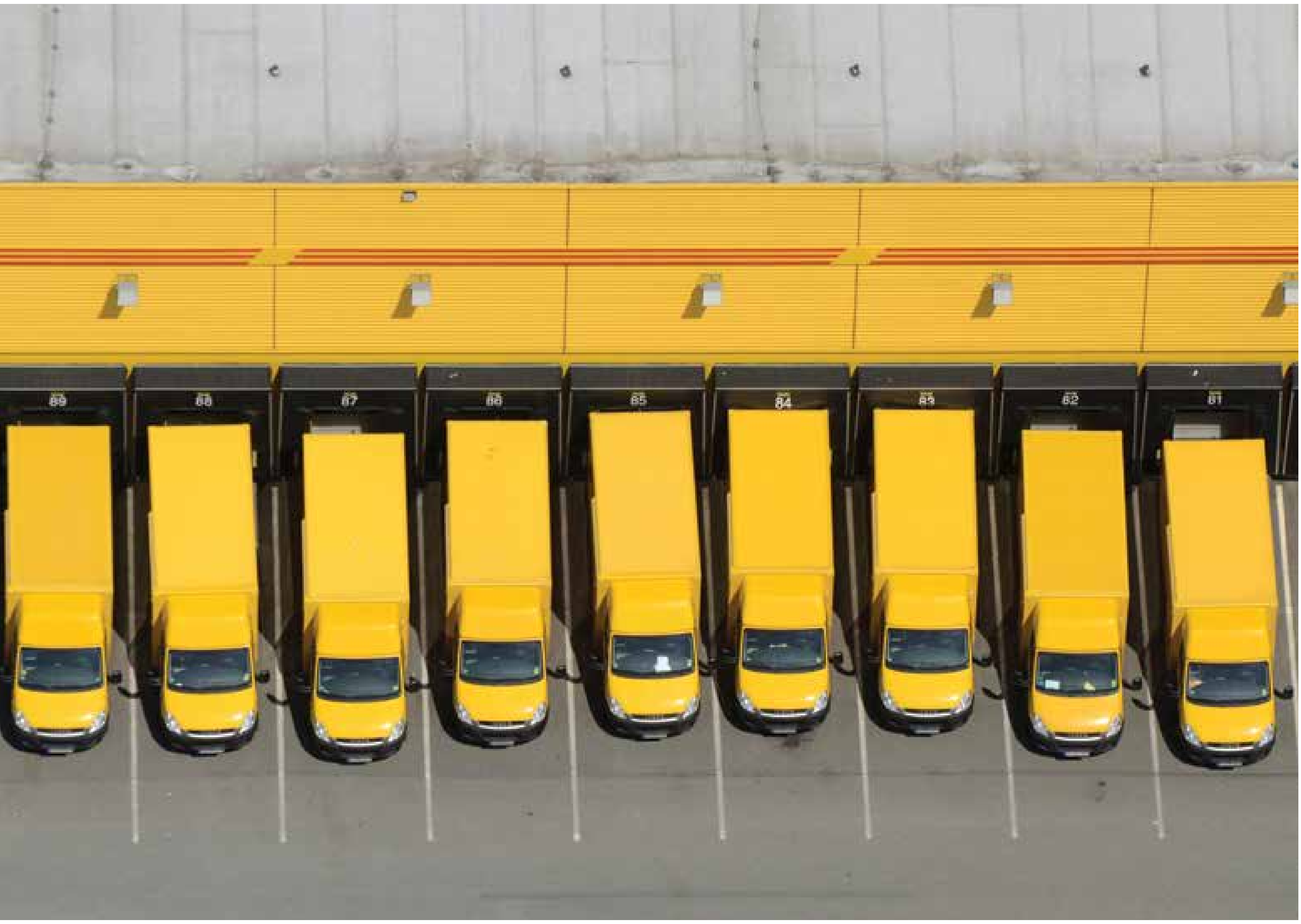


Since 2008, the French asset management industry has undergone significant structural development. What observers had considered to be a cyclical shock was actually a profound transformation of the business.

Driven by steady and recurring demand and with little exposure to foreign competition in its market, the industry had prospered with a certain degree of complacency. Having previously adopted margin protection policies based on the streamlining of product ranges, management structures had noticed by 2011 that their growth model could no longer rely solely on domestic sales. At the same time, it is true that other European markets, as well as the United States and Asia, regained momentum. Adopting an international market positioning, even if limited to local markets, requires the monolithic model to be adapted to a dual organisation, incorporating development functions on a wider scale.

From opportunity to strategy building

While, for the most part, the initial international successes were achieved from given opportunities, most entities now adopt ready-made deployment strategies that are commonly based on the answers to two questions: what? and how?

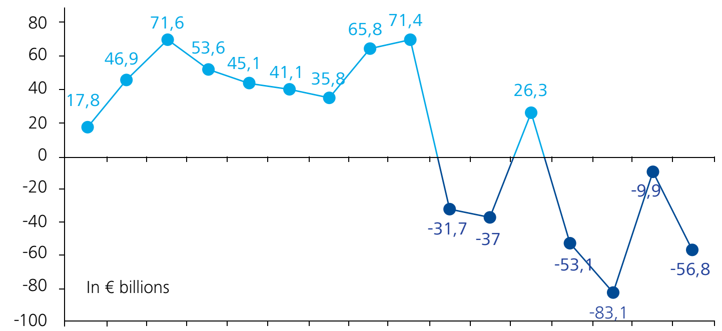
The 'what' refers to the question: what products are to be marketed?

Overall, the French players are general multi-class funds and are positioned in competitive expertise markets (e.g. 752 French funds out of 2,065 European large cap euro funds); furthermore, fund size is limited and they are generally denominated in euros. The aim is therefore to identify flagship products in product families whose differentiation in the French market could be transposed to the target foreign market (types of constraints, ability to use derivatives, hedged units). This stage is most often intuitive and still only very rarely based on the systematic use of a 'market appeal/competitive position' matrix. Regarding the eternal question of the comparative advantages of funds incorporated under French and Luxembourg law, there is no single answer.

Searching for a size effect (the 25 leading funds by sales represent 42% of European sales) often leads to streamlining based on a Luxembourg structure; sub-funds are built either by setting up a master-feeder structure or through a merger. However, while bilateral agreements between Luxembourg and certain Asian countries can prove to be advantageous for a Luxembourg solution (sale), it may be better to incorporate a fund under French law when comparing tax policies.

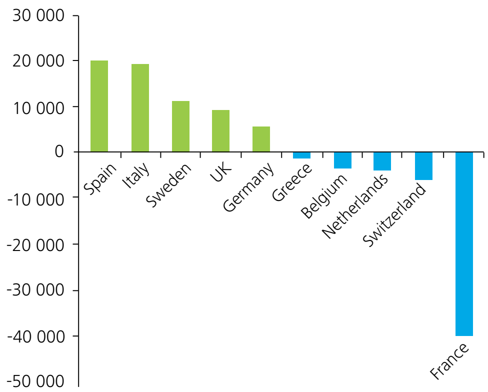
Figure 1: Redemptions

Market: evolution of annual net sales (France)



Source: EuroPerformance-a Six Company

Figure 2: Top and bottom five countries by sales



Source: Lipper 2014

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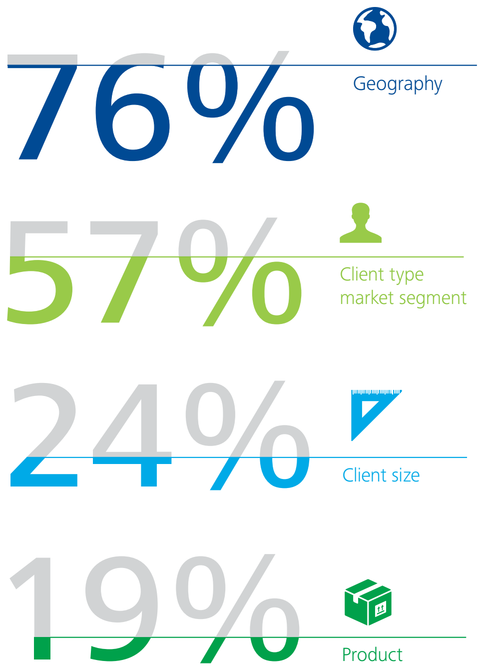
The 'how' refers to the question: how are the products to be distributed? Third-party marketer, in-house, partnership, branches?

The use of third-party marketers and an internal sales team is often only a temporary market learning solution. Partnerships are often sought but are difficult to find (NExT AM, a management company incubator, offers support via its network); as for commercial branches, local assets under management must be obtained beforehand to lessen the impact of the investment. Gaining knowledge of markets, culture and regulations is time-consuming and generally slows the process of reaching agreement on product adaptation and operational cycles or even regulatory or tax reporting requirements. However, this year saw substantial investments being made by French management companies in international commercial profiles and the establishment of branches in London, Milan, Geneva and Munich.

Figure 3: International learning process

Source: Deloitte IMS 2013

Figure 4: Segmentation of Sales force, 2012



Source: Cerulli Associates, in partnership with Institutional Investor Institute

A strategy that must be successful

There is no miracle solution: a substantial investment with no immediate return is needed, which is why the structured approach adopted is far from methodical.

Brand development is still insufficient in the largely competitive environment that prevails in Europe (3,200 management companies and 55,000 funds). Size does not systematically influence reputation. However, it is crucial that the communication policies of medium-sized entities combine brand and expertise and therefore create 'indispensability'; multimedia communication strategies covering the target geographical area provide the essential groundwork for any sales policy.

Messages come in multiple forms (management companies, flagships, use of the team's expertise and its market vision) and are sent via the local distribution channels (media relations, blogs, social networks, sites, newsletters, etc.).

The emergence of a true marketing strategy is only in its early stages; with very few exceptions, communication budgets are still:

- Determined instinctively without any clear link to the marketing strategy
- Broadly flat (62.5% of U.S. entities opted to increase their marketing budgets in 2013; only 36.8% have done the same in Europe—source: Cerulli Associates)
- Mostly focused on the domestic market

Moreover, the impact of communication budgets (product sales, site visits, rise in the number of RFPs, etc.) is not measured.

Figure 5: Features of a Manco brand

Source: Deloitte IMS 2013

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For the boutiques, **operational marketing** is gradually moving from a simple support function to a key differentiating instrument for the entity. Investor reporting adapts to new requirements by being:

- Multiple (institutional, retail, international)
- In step with management style
- Produced on a timely basis
- Personalised, with emphasis on a 'home-made' approach
- High value-added (risk indicators, performance attribution)
- Communicated using new tools
- In line with best international practices (GIPS)

Websites are overhauled to ensure that they meet the objectives of clarity, necessity and internationalisation. They have links to a regularly updated blog that fosters relationships between sales teams and clients via social networks. The long-term management of references with international and local consultants is vital to the creation of sustained demand. Adapting to their recommendations is the key to successful international development.

Due to the small number of calls for tender on French soil, responses must be reconsidered and teams repositioned in order to be able to provide solutions to foreign demand. Work on management efficiency cannot be ruled out in order to increase management competitiveness.

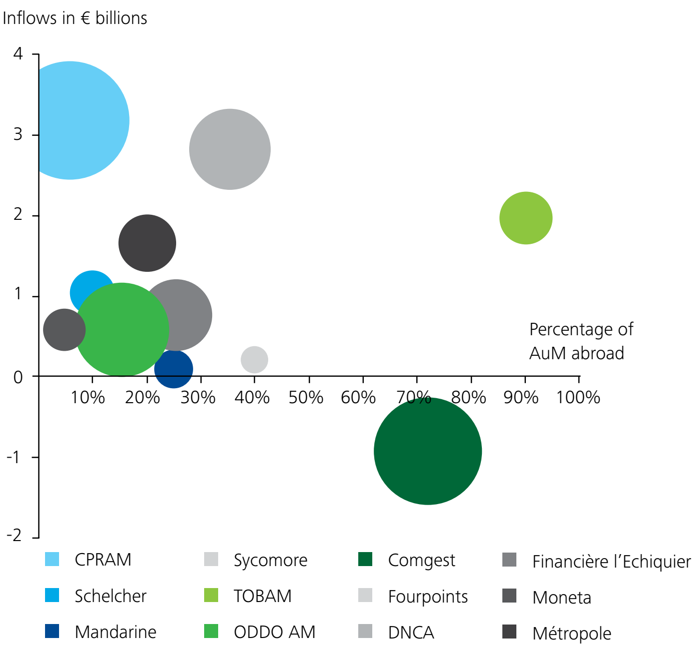
The last key to the success of French entrepreneurial management companies is to align **client services** with the expectations of international investors. Client services that were previously undervalued are no longer being allocated appropriate resources.

Strengthening client loyalty by being able to respond to operational issues, while providing sales teams with a full communications history, answering information requests in a timely manner and dealing with claims efficiently and in the client's native language (or in a language in which the client is proficient) is absolutely essential.

Figure 6: Distribution strategy key success factors

Source: Deloitte IMS 2013

Figure 7: 2013 for French 'boutiques'

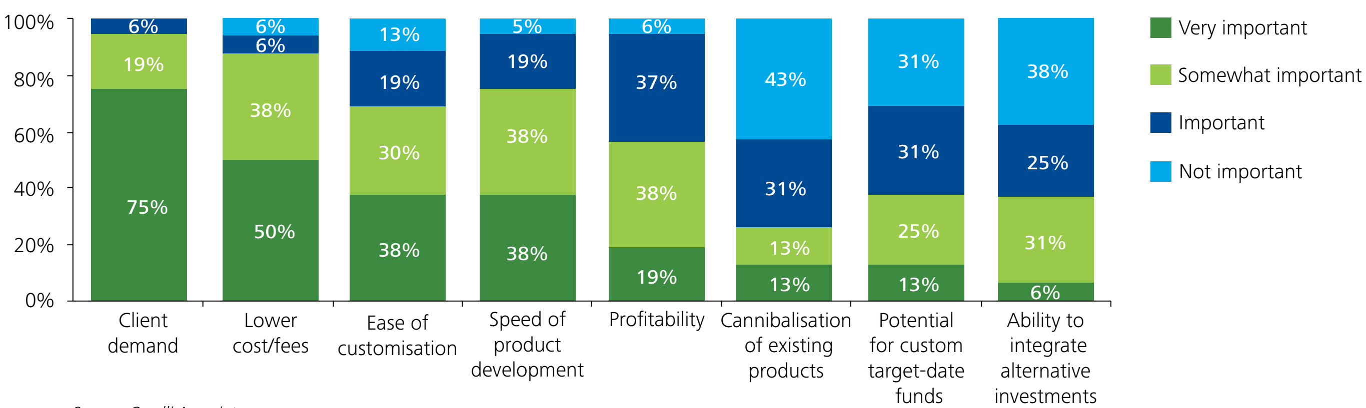


Source: Deloitte IMS 2013

Figure 8: Prospects and clients

Source: Deloitte IMS 2013

Figure 9: Asset manager considerations for development and distribution of CTFs, 2012



Source: Cerulli Associates

Approved quality products and marketing and sales functions to be developed

Even though considerable progress has yet to be made, particularly—as previously mentioned—in operational marketing, client service, brand development or even a strategic approach, French 'boutiques' are well on the way to providing international markets with well-established and diverse expertise.

Most of the services they provide are based on traditional equity, euro and balanced management approaches (DNCA, Sycomore Gestion, Métropole Gestion, Mandarine Gestion, etc.) but some also encompass management processes or operate in innovative sectors (Schelcher Prince Gestion, Tikehau, Tobam, SPGP, etc.). We are still waiting for the entire industry to come together to continue these initial successes and thus promote the emergence of these 'new champions.'

To the **point**:

- Faced with sluggish French sales over the long term, French boutiques have started to deploy their expertise internationally
- While their initial successes were achieved from given opportunities, they now build strategies based on the identification of products sold and the sales organisation
- Nevertheless, considerable progress is still needed in brand development, operational marketing and even client service
- The international expansion of French boutiques should enable investors to enrich their range of management strategies by relying on innovative management processes or original spheres of activity, as well as more orthodox management techniques tailored to current expectations

Adopting an international market positioning, even if limited to local markets, requires the monolithic model to be adapted to a dual organisation, incorporating development functions on a wider scale