



The asset management industry

Pascal Koenig, Investment Management Leader in France, had an interesting conversation with Yves Perrier, Chief Executive Officer of Amundi on the asset management industry, its challenges and prognosis for the future.



Yves Perrier

Yves Perrier is Chief Executive Officer of Amundi since its creation in 2010 and a member of the Executive Committee of Crédit Agricole since 2003. He is also Head of the Insurance Asset Management and Real Estate activities for Crédit Agricole Group. As such, along with his position of CEO of Amundi he supervises the Insurance division (*Crédit Agricole Insurance*) and the Real Estate division (*Crédit Agricole Real Estate*). Yves Perrier is also Honorary Chairman of the AFG (*Association Française de Gestion Financière*).

Deloitte: Has asset management become a fully-fledged industry or is it still dependent on the banking or insurance industry?

Yves Perrier: The asset management business is a business in its own right with key links to distributors. Over the first four years following the creation of Amundi, the French asset management industry suffered redemptions, in particular from retail clients of banking networks. This was a direct consequence of new regulatory constraints: the banks favored deposits over investments in mutual funds. This environment pushed asset managers to find new drivers of growth. That was the case for Amundi, which had to grow outside of its partner networks and outside of France. Since 2010, Amundi's assets under management have increased by 50 percent from €670 million to €1.2 billion (excluding

the integration of Pioneer), essentially from organic growth and international development. This development strategy has enabled Amundi to transform itself from being mostly captive in terms of its banking owners to a competitive open asset management platform that was approved by the market during its IPO in November 2015.

However, this development would not have been possible without the support of our majority shareholder. The Crédit Agricole group plays a key role in shaping our corporate culture and has also provided vital financial support on several occasions, as was the case when we decided to acquire Pioneer. Furthermore, being part of a group like Crédit Agricole offers a lot of potential for revenue synergies, in particular with regard to insurance >

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and real estate activities. The creation of the Savings business line (including insurance, real estate, and asset management) by Crédit Agricole has enabled us to develop and provide complete investment solutions that meet the client's needs according to their investment horizon, objectives, and risk/return profile.

D: In an industry with very little concentration, is big necessarily beautiful?

YP: The consolidation movement is part of a wider context: across the entire financial industry—asset management, banking, insurance—players are constantly seeking new ways to boost their competitiveness. The entire financial sector is facing a squeeze on profit margins due to very low interest rates. Nowhere is this trend more evident than in mortgage interest rates and returns on savings. And it will continue. Further challenges to the asset management industry come from the development of passive management and competition from providers in the English-speaking world. With their extensive domestic market (representing 50 percent of the global asset management market), US asset managers are well positioned to expand aggressively in Europe. In response to this context, asset managers have had to adapt by innovating and reducing their costs. Asset management is mainly a fixed-cost industry with substantial economies of scale. Achieving critical size is one way to address declining incomes. That is why we do therefore expect some consolidation in the industry. Mid-sized asset management

companies are natural candidates for consolidation. However, consolidation is not the only solution. There is still room for boutique asset managers based on the talent and entrepreneurial spirit of their managers. So, in this case big is not necessarily the only form of beauty. We believe the winners in this environment will be the companies that:

- Maintain consistency with their selected business model and strategic positioning, and avoid "stuck-in-the-middle" positioning.
- Improve agility, modularity, and time-to-market to be able to (I) expand into new products and investment approaches, (II) develop new activities and/or positions on new activities in the value chain, (III) adapt to new distribution and fee model scenarios, (IV) respond appropriately to clients' increasingly high expectations regarding services and reporting, and (V) react to external shocks.
- Achieve best-in-class efficiency and cost control.

For example, the acquisition of Pioneer Investments was not only motivated by issues of scale. Amundi and Pioneer have highly complementary investment capabilities. Pioneer will reinforce Amundi's expertise in various asset classes such as European, US, and Emerging Market equities, Multi-Asset, and US fixed income. Pioneer clients will benefit from the recognized and custom-designed services of Amundi, such as Smart Beta, ETF, real and alternative assets, structured and guaranteed solutions, as well as money market funds. Likewise, Amundi and Pioneer have complementary geographic coverage, generating strong cross-selling opportunities. In addition, a long-term partnership with the Unicredit networks allows Amundi to further strengthen its position as the preferred provider of savings solutions to retail clients in Europe. This integration will create a global player with a strong European identity, ranking

among the top 10 worldwide in the asset management industry in terms of AUM (c. €1.4 trillion in AUM). This will position the company as the undisputed leader in Europe and strengthen its European leadership in four domestic markets (it is currently the market leader in France, holds top three positions in Italy and Austria, and has a strong position in Germany).

D: Do the major players in this industry carry a systemic risk?

YP: In the context of liquidity crises, bank and insurance companies are prudentially regulated entities. In terms of the asset management industry, where companies manage money on behalf of their clients, funds' liquidity risks are also monitored and minimized through comprehensive regulation (UCITS/AIFMD) and the multiple liquidity management tools available to managers. In addition, Amundi has established internal rules and risk management policies to protect clients' underlying assets. Daily liquidity stress tests and swing pricing are examples of the policies that Amundi employs to anticipate this risk and to assure redemptions. Nevertheless, we believe that, in addition to strict risk controls at the fund level, a strong financial structure is a supplementary protection in the event of major shocks. ➔

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On European financial management

D: The Brexit deadline is once again driving the debate on the management of the financial markets and dividing the community. Is there a risk that the landscape of players will be singularly altered?

YP: It is too soon to have a clear view on the consequences of Brexit because the real negotiations have not yet started. The critical points are whether or not UK-based players will be allowed to retain the European financial passport, and how this will affect investment management.

D: For the most part, asset managers are facing a deterioration in their margins. Can technology rise to the challenge and reverse this trend?

YP: It is important to neither underestimate nor overestimate the impact of new technologies on our industry. Like in the banking sector, we need to be both 100% digital and 100% human.

New technologies can help to identify the right saving solutions to meet the client's needs and may prove to be a real asset as we devise and structure an advice and investment process. Nevertheless, the portfolio manager's interpersonal skills and ability to summarize information will still be key parts of client relation management.

D. Will financial education solve our famous risk aversion?

YP: First of all, the French tax system has to be reviewed to favor long-term investments such as equities. These deliver higher yields to investors who are willing to accept more risk, while financing the real economy. Up to now, the French tax system has been totally on the opposite side. But the flat tax proposed by the French government is a first positive step.

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Our role is not only to offer mutual funds, but also to develop and provide our clients with investment and saving solutions based on their risk appetite, objectives, and investment horizon. Retail investors do not ask for complex products delivering high yields. Their first objective is to retain their capital. They also require advice and high-quality services. The success of Amundi's development is based on these four pillars: client-centric organization to offer solutions that meet clients' needs, performance, an ability to provide advice, and the quality of its infrastructure (IT, middle office, etc.). Finally, we need European regulators to adapt their rules to encourage equity investment. For example, the constraints of Solvency II are too restrictive for insurers to invest in equities in particular when we compare these to the US rules on pension funds.

D: What is holding Paris back from becoming the "European Boston"?

YP: Paris has dynamic asset managers, as evidenced by the number of companies created in recent years, offering various profiles in terms of shareholding, business, and client base. With more than €3 trillion in assets under management, it is an international investment hub.

France is ranked number two after the United Kingdom. It also benefits from a favorable ecosystem and a regulator that is finely attuned to the development of asset management. Finally, it is based on the recognized skills of professionals and a regulatory system that favors in patriates. France is a very strong market with many recognized players: four French asset managers are among the top 20 worldwide and 670 entrepreneurial asset management companies operate in France with high-quality managers and a wealth of talented individuals. France benefits from several recognized boutiques specializing in strategies such as active management, private wealth management, alternative management, multi-asset management and private equity.

D: Any new projects after the IPO and the ongoing integration?

YP: Our ambition as a company remains unchanged—to provide our clients with high-quality advice on the one hand, and savings or investment solutions in line with their objectives on the other.

The IPO in 2015 was made possible by the fact that Amundi reached its target in terms of AuM, revenue, and profitability, essentially through organic growth, and implemented its plan to operate as an open asset management platform. Our equity story sparked a great deal of interest from institutional investors, especially large international long-only firms. We had an extremely intense, open and valuable dialogue, and I think that investors were surprised to discover Amundi's strong and profitable growth, industrial model, and unique expertise, in particular in the retail segment. Crédit Agricole SA remains the majority shareholder of Amundi, with 70 percent of the capital.

By incorporating the strengths of Pioneer Investments in July 2017, Amundi has taken an important step forward in its development, building on the principles set forth at its creation in 2010.

This integration created a global player with a strong European base and a unique industrial model built around two client business lines: the Retail clients division and the Institutional & Corporate clients division, both offering a comprehensive and well-diversified set of investment solutions designed to address specific needs all over the world. The successful and complete integration of Pioneer Investments is our priority right now and we plan to achieve this by the end of 2019.

In the meantime, our expansion plan is primarily via organic development, but we can be opportunistic on smaller acquisitions to add to either our expertise, distribution channels, or local coverage outside of France. ●

