What has become of French boutiques?

French third-party management: accompanying the "French boutiques" boom

Chairman of the Association Française de la Gestion financière, had an interesting conversation with David Benamou (Managing Partner and CIO of AXIOM AI), Eric Franc (CEO of DNCA Finance) and Laurent Deltour (Chairman of Sycomore Asset Management) on "French boutiques", its implications and reasons of its success.

Eric Pinon

Chairman of the Association Française de la Gestion financière (AFG) Chairman of the AFG since May 2017, he is also a Senior Advisor at La Financière de l'Echiquier and a Director at Acer Finance, where he had been a partner since 2006. He started his career at stockbroker Michel Puget in 1978, and was once its chief executives until the merger with the Barclays group at the end of 1989. That same year, he created Europe Egide Finance, which he headed until its sale in 2003 to Banque KBL France, where he served as CEO until 2006.

David Benamou

Managing Partner and Chief Investment Officer of AXIOM-AI, a management company created in 2009 that now manages €1.1 billion in assets for private and institutional clients. The company analyzes the financial institutions sector and has developed a unique expertise in subordinated bank debt. There are currently four managers for eight funds. The company is held by its natural person founders.

Laurent Deltour

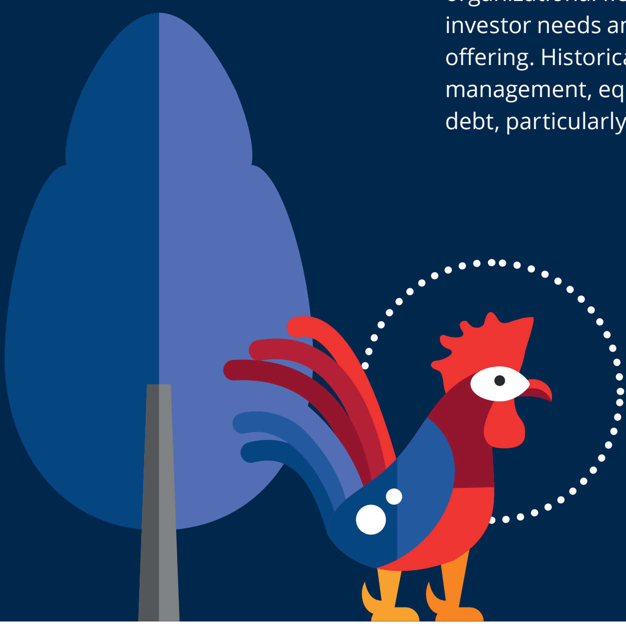
Chairman of Sycomore Asset Management, an entity created in 2001. The company manages over €7 billion in assets for private and institutional clients, based on four areas of management expertise (European Equity, Absolute Return, Eurozone Corporate Bonds and Diversified). Some twenty managers apply a proprietary fundamental analysis model that covers four strategies: Sustainable Equities, Thematic Equities, Flexible Strategies and Credit Crossover SRI.

Eric Franc

CEO of DNCA Finance, created in 2000 and serves private and institutional investors. The management company offers a range of 26 UCITS funds (French mutual funds and a Luxembourg-domiciled umbrella fund ("SICAV")) focusing on four major areas of management expertise (European Equity, Diversified, Convertible Bonds and Eurozone bonds). Over 30 managers oversee €25 billion in assets. In 2015, Natixis Global Asset Management acquired a 71% equity interest.

The creation of a portfolio management company status in 1989, followed by the Financial Activity Modernization Act in 1996 recognized third-party management as a distinct business line. Building on this legitimacy and the growing professionalization of the risk diversification and asset allocation processes underlying savings and investment solutions, French third-party management has become a flagship of the French financial industry, alongside banking and insurance. In fact, with €4.0 trillion in assets under management, the French AM segment holds the top spot in continental Europe, with an annualized growth rate exceeding 5 percent since the low point of 2008.

The French market has nearly 650 portfolio management companies encompassing all asset categories and management styles, including some of the leading AM providers on the international stage. However, the reason it stands out in the European landscape lies in the significance and vitality of its entrepreneurial network, which represents, in terms of both existing and newly created entities, two thirds of players and one third of management teams. Created by experienced and often widely recognized professionals, these companies represent a body of specialists whose success is derived from their capacity for innovation, organizational flexibility, familiarity with investor needs and, of course, a unique offering. Historically focused on private management, equity and company debt, particularly small-mid caps, and close client relations, these companies have gradually developed new expertise in unlisted, alternative, quantitative, structured, and absolute performance management, by communicating their knowledge via investment funds. In this context, the internationally recognized quality of French scientific training, particularly in mathematics, represents a substantial competitive edge for management teams in terms of financial innovation and technology.



One of the main challenges entrepreneurial companies currently face is achieving the necessary size to compete in international and/or institutional markets. This is all the more true in a context of intense competition and market tension that affect their margins with, on the one hand, downward pressure on prices and, on the other, higher costs relating to regulatory compliance (MIF2, PRIIPS, SOLVA2, GDPR, etc.), technological investment, and commercial development. While there is no one solution to meeting these challenges, business model adaptation and further reinforcement of ecosystem linkages are often required. This sharing of means and expertise is realized via company mergers, the pooling of resources (EIG), openness to institutional or distribution partner capital, the contribution of incubators, etc. Fintech offerings are also an asset in boosting the operational efficiency of management companies and client service quality. A number of "French boutiques" have already earned their stripes as pioneers in the field, with some 50 of them passing the €1 billion AM milestone, by opening foreign marketing offices or forging distribution partnerships, and by building strong brand images based on the impressive track records of emblematic funds. On average, over half the assets are managed for foreign investors who place their confidence in them, be they private or institutional, and this percentage is rising yearly.

Improving the competitiveness and appeal of the Paris financial center is the guiding mission of the Association Française de la Gestion financière (AFG). Working closely with the regulator (AMF) and the entire ecosystem, its goal is to roll out concrete measures aimed at broadening the visibility and distribution of French investment funds and management internationally. Supporting the "French boutiques" boom and focusing on savings markets will guarantee that our business continues to provide solutions that are tailored to our clients' needs and place third-party management at the forefront, based on the model in place in the English-speaking world.

Eric Pinon: Can you recap your entity's trajectory and the reasons for its success?

Damien Benamou: Axiom Alternative Investments was launched in 2009 by a team of investment professionals from both the investment bank sector and the asset management industry. At the time we had the strong view that the vast majority of investors had a very limited level of knowledge of the financial industry, its regulation frameworks, and its accounting principles, and that this had exacerbated the crisis. Having drawn the conclusion that investors would take time to come back to the sector, and in the meantime, would look for specialists, we decided to have a deliberate focus on financials, with a strong research component.

This has enabled Axiom to emerge and establish itself as a trusted expert with issuers, investors, the media, and regulatory bodies.

As timing often means (nearly) everything, 2009 was the perfect time to start out as the dislocation in financial instrument prices was unprecedented, with very few investors having the knowledge, the time or the risk appetite to invest in the space.

Starting in that context helped us to build a 12 percent annualized gross performance on our flagship fund since 2009, which is still one of the longest and best track records in the entire industry, year-to-date.

Laurent Deltour: There are several reasons for our success—and success in asset management is always a question of time and discipline.

We have been governed by a number of principles ever since the company was launched in 2001.

First and foremost, we have never chased assets. We believed—and maybe we were naïve in doing so—that if we delivered steady performances, clients would recognize the quality of our work and invest in our funds.

I said we were naïve, because even if a company offers great funds, in today's world, investors still need to be aware that this company exists somewhere in France.

Secondly, as stock pickers, we also believe that extra-financial criteria are as important as looking at balance sheets. Today, this is embodied in

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our SPICE investment philosophy. SPICE is an acronym for Society & Suppliers, People, Investment, Clients, and Environment. Today, extra-financial analysis is embedded across our range of funds and we can say that we are, by far, the leading responsible investment independent asset management company in France.

Finally, as with any other company, it is vital to retain talented individuals. To achieve this, especially with millennials, you need to give your employees a vision. This vision has to be shared throughout the company and be applied in everyday work. Our vision is to "humanize investment".

Eric Franc: The company was launched in 2000 by Xavier Delaye, Joseph Chatel (both formerly at Richelieu), and Charles Nouailhetas. Jean Charles Meriaux (former CIO of Edmond de Rothschild) joined the company in 2002. One of the reason for our success has always been our ability to attract excellent senior portfolios managers (Isaac Chebar and Igor de Maack in 2007, Cyril Freu in 2009, Carl Auffret in 2011,etc.).

The second reason is our capacity to find shareholders able to bring industrial partnership. Banca Leonardo (2006-2015) gave us a strategy access to the Italian market, while since July 20015 Natixis has given distribution support in Spain, Switzerland, and the UK.

EP: What difficulties did you encounter in your development?

DB: The general context in 2009 was the other side of the coin: our flagship fund started with a small initial amount. Convincing investors was a true challenge as the entire community was either flying away from banks or trying to estimate potential losses they would suffer from their remaining exposure.

Most institutional investors could not invest with Axiom as the company, by virtue of being independent, was perceived as fragile and the track record of our only existing fund was only a few months old. Family offices, high net worth individuals, and generalist asset managers were our first investors in a context of very strong volatility in the industry and our home region, Europe.

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We were often perceived as the underdog or the riskier choice when competing with large, generalist asset managers. As Axiom has now grown and won the trust of institutional investors in Europe and the US with a much wider risk/reward investment solution range, this is no longer the case.

LD: In 2001, we had no assets under management and the tech bubble has just burst. At the time, no one knew how long the crisis would last and our failure to secure seed money with an institutional partner was a major mistake.

We therefore had to build up the essential three-year track record before seeing any growth in our assets under management. Another difficulty that we encountered was the launch of our retail distribution business via the French IFA market. The timing was disastrous (2007—just in time to catch the bear market) and at that point our range only included long-only equity products and our two long/short strategies.

During the crisis, we launched a flexible product (equity and cash) and a global asset allocation product. Today, these are our two best-selling funds among IFAs. But it took us eight years to be recognized by the IFA community as a genuine partner.

EF: The difficulties came mostly from the various financial crises, although it gave us the opportunity to deliver strong returns in difficult times. We have always been thankful to our first clients, the French IFAs who were the first ones to appreciate our performance and the quality of our portfolio management.

EP: Are international distribution and retail the primary focal points of your inflows?
DB: Although Paris-based, Axiom's investor base has for a very long time been predominantly international. We have invested time and energy in developing this international footprint, targeting four key countries outside France. We established an office in London, and listed a fund on the London Stock Exchange. This even prompted one journalist to call Axiom the "Franco-British boutique"!
Our presence in the UK brought Axiom onto the radar of US investors.

Retail and high net worth individuals have indeed been our primary focus, as they have been the first movers in investing with us. Institutional investors who needed a minimal track record and who were at the same time suffering on their investments in bank subordinated debt took a much longer time to invest with us.

LD: Absolutely, like any other French asset management company, we have started to diversify outside of France.

There is no single recipe for success that can be applied to international development; furthermore, contrary to popular belief, Europe is not at all unified. There are many non-tariff barriers in different countries that make local presence costly and cumbersome.

To achieve any kind of success, it is important to be pragmatic and to adapt to the reality on the ground in each country. This is exactly what we have done, proceeding by trial and error. We made a failed attempt at running an office and local salesforce in London; we also had a third-party marketer for the Gulf region.

Luckily, we have been very successful in other countries such as Austria, Germany, Italy, Spain, and the usual French-speaking countries: Switzerland, Belgium, and Luxembourg. Our client bases are slightly different in each of these countries.

In 2017 our growth is evenly split between French IFAs, international clients, and our historical French institutional investors.

We are very satisfied with this set up, which allows us to walk on "three legs". However, we continue to favor long-term sales relationships, and tend to not chase growth for the sake of growth.

EF: We do focus both on local and international distribution. In France, historically we have had substantial market share with IFAs, but we have also developed strong relationships with private and retail banks, insurers and institutional clients. Internationally, we do a lot of business in Italy, Spain, Belgium, and Luxembourg. We are very careful not to go everywhere, we want to go step by step. Size alone is not the end goal for us. We just want to keep attracting new talent and providing good return on investment for our clients.

EP: Digital transformation—can it help you maintain your margins?
DB: Not for now. It is our research, our in-depth knowledge of the sector, and the access we provide to the more complex parts of the asset class that investors value. Robo-advisors, algorithm-driven strategies or risk premia strategies are, however, part of our business plan for certain area of our universe.

We have developed digital communication tools exclusively for social networks with a view to supporting our growth, we have also implemented new tools to facilitate the sharing of information and ad hoc documents.

LD: I cannot tell at this stage if digital transformation will help us maintain our margins over the mid-term. In our case, it is instead used to support our growth. Digital transformation is a major commitment and involves huge investment, both in terms of people and software. Our digital strategy is not limited to the field of marketing. We have developed digital communication tools exclusively for social networks with a view to supporting our growth, we have also implemented new tools to facilitate the sharing of information and ad hoc documents. Finally, digital developments have helped us to structure our recruitment process through the use of a unique platform, SmartRecruiters; we have also improved our staff assessment system thanks to BambooHR.

EF: We think digital transformation will greatly improve the quality of our reporting. Clients will therefore expect strong performances from their asset manager.

EP: What are the major strategic choices that enabled you to make a difference? Product, targeted clientele, marketing, customer service, aggressive pricing, etc.
DB: Being a specialist, being visible as experts to investors and the media in the European financial sector, and avoiding overcrowded investment areas have been key for us to emerge.

Building an entire product range on financials and offering investors a range of risk/reward investment vehicles helped us to grow and enlarge our investor base. Finally, our key edge has been our strong culture of focusing exclusively on financials. All functions, from sales, marketing, and middle office to risk management, understand our universe, instruments, and investment cases. This increases efficiency throughout the organization and maintains a very strong and cohesive company culture.

LD: The fact that Sycomore was not founded by one charismatic fund manager, but by four people with complementary backgrounds, is one of our main differentiating factors.

Secondly, as the investment industry is increasingly dominated by passive strategies, it is important to differentiate ourselves—not only in terms of alpha generation, but also by giving a sense of purpose to our clients. This is why our objective is to become one of the leading asset managers in Europe in the field of responsible investment.

In terms of customer service, we have always tried to be transparent and proactive. Ever since we began, we have been one of the few asset managers to send out the monthly reporting on the first day of the month. We have kept this commitment, despite the mounting complexity stemming from asset growth and the larger number of funds.

However, we have never practiced aggressive pricing. We believe that the work we do and the services we provide are worth a fair price; and we do not want to chase fast assets that can go out as quickly as they came in.

Furthermore, if we wish to continue delivering steady outperformance, we know that some strategies will have capacity constraints; entering a pricing war in these circumstances would make absolutely no sense.

EF: We are a conviction portfolio asset management firm. We differentiate ourselves through solid performance over the mid and long term. Our challenge is to keep hiring the best portfolio managers. We have to maintain the same culture, humility, entrepreneurial spirit, and client focus.