Universal ManCo

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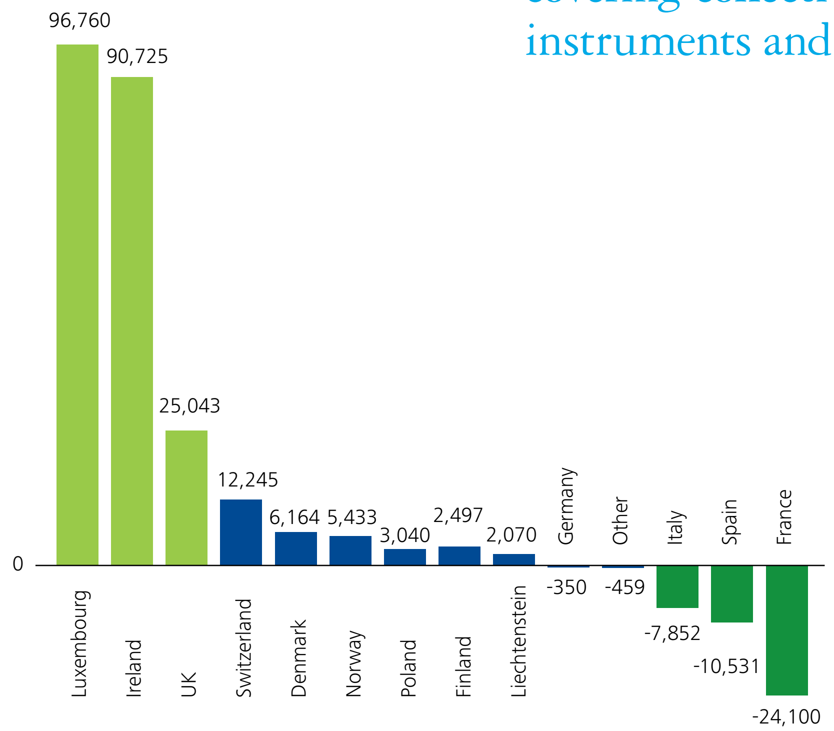
In 2012, managed asset growth recovered, with a 12.4% improvement. Eighty percent of this increase is attributable to the turnaround in financial markets, with net subscriptions amounting to €200 billion compared to negative flows in 2011 (€90 billion). However, not all products are equal in relation to sales flows. Country of domiciliation is a major contributing factor. Luxembourg, Ireland and the UK lead the way by far in this classification, with Italy, Spain and France bringing up the rear. It is true that all the indicators are negative in France, for both institutional (mainly pension fund losses) and retail (risk aversion) investors. Significant measures were taken to streamline product ranges and the search for critical size is a major objective for mid-sized entrepreneurs (managed assets of less than €3 billion).

New clouds are also on the horizon, as these countries must soon apply (January 2014) the Financial Transaction Tax (FTT), which is likely to create, assuming policy does not change, new disruptions for Asset Management in these countries (contrary to Luxembourg, Ireland and the UK which are in the non-FTT zone). To recap, the application of this new tax is likely to result in negative yields (considering current monetary market returns) for short-term UCITS and the disappearance of this investment segment that represents more than 30%[1] of French collective funds.

1 *Source: AFG (The French Asset Management Association)*

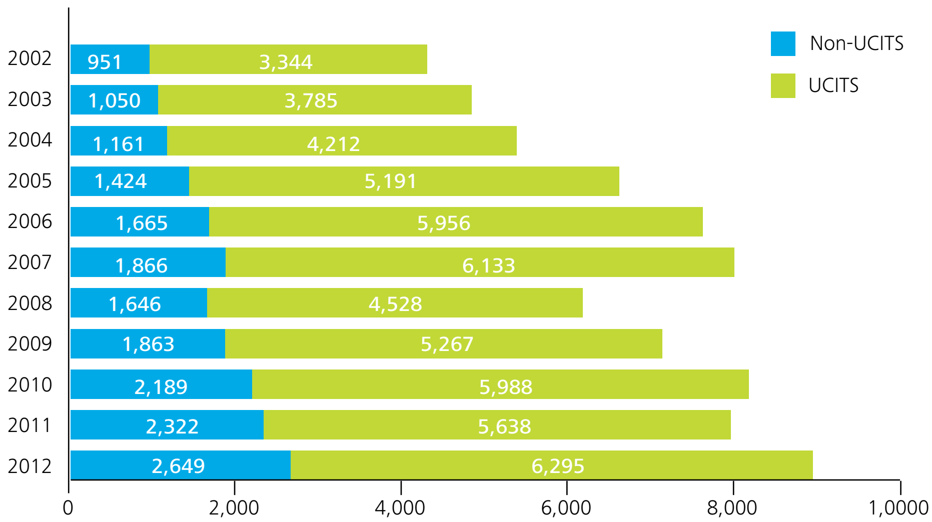
The asset management industry follows two directives: UCITS IV and MiFID covering collective investments in financial instruments and mandates, respectively

Net sales of UCITS
(€ millions)



EFAMA Quarterly Statistical release N°52 (Fourth Quarter of 2012)

Net assets of European Investment Funds
(€ billions)

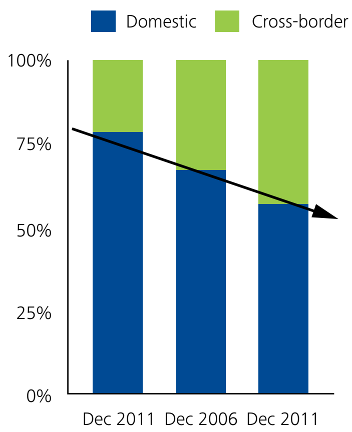


Comprehensive regulatory coverage

The asset management industry followed two directives: UCITS IV and MiFID covering collective investments in financial instruments and mandates, respectively. The AIFM Directive will supplement this framework in July with the supervision of management companies managing and/or marketing uncoordinated general purpose vehicles, hedge funds and private equity and real estate funds. Without disrupting their basic organisation, this Directive will enable management companies to embrace the competitive environment by creating a new organisational model. Under the current and future regulatory measures, cross-border entities could be set up:

- Since the UCITS IV directive came into force in July 2011, the creation of a management company passport has enabled authorised management companies in one Member State to act as the management company of a UCITS in another Member State. This passport provides asset managers with flexibility in terms of the country of domiciliation and fund administration

Industry shifts to cross-border



Source: Lipper European Fund market review 2012

- When the AIFM directive comes into force in July 2013, an intra-European passport will be set up for European managers of European AIFs. AIFMs will be able to obtain authorisation from the relevant European authorities to sell their managed funds to professional investors in Europe

Need to set up a European distribution as a minimum

What with the decline in operating margins and the increased competition due to the arrival of new players in a contracting market, the only possible way forward for the model is to expand the client base. By way of illustration and until recently, French entities were largely satisfied with a French market representing almost 20% of the European market. Recently, international market penetration and marketing have become a priority in order to remain competitive with European counterparts.

In this environment of increasing competition and regulatory change, management companies must optimise and streamline their organisation and business model in order to stay competitive.

This optimisation may have the following prerequisites:

- Economies of scale and elimination of duplication by pooling support functions
- Creation of standardised sales teams implementing a common strategy based on strengthened and dedicated resources
- Flexibility with regard to local interpretations between distributed product types and rules governing private and collective investment
- Improved governance and solid risk management
- A strong recognised brand associated with major vehicles symbolising expertise

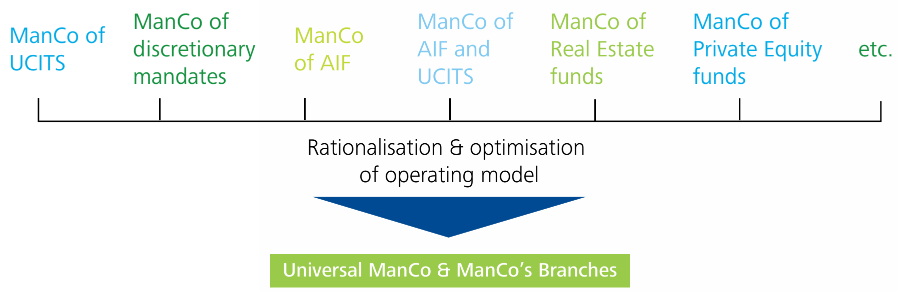
Universal ManCo concept

Management companies are organised according to their authorisation. Each authorisation covers activities classified according to the following hierarchy:

- Principal activities
- Secondary activities
- Related services

The regulator seeks to smooth out status incompatibilities and harmonise company performance capacities.

Market observation reveals a multitude of asset management groups comprising several management companies domiciled in Europe and distributing several fund types.



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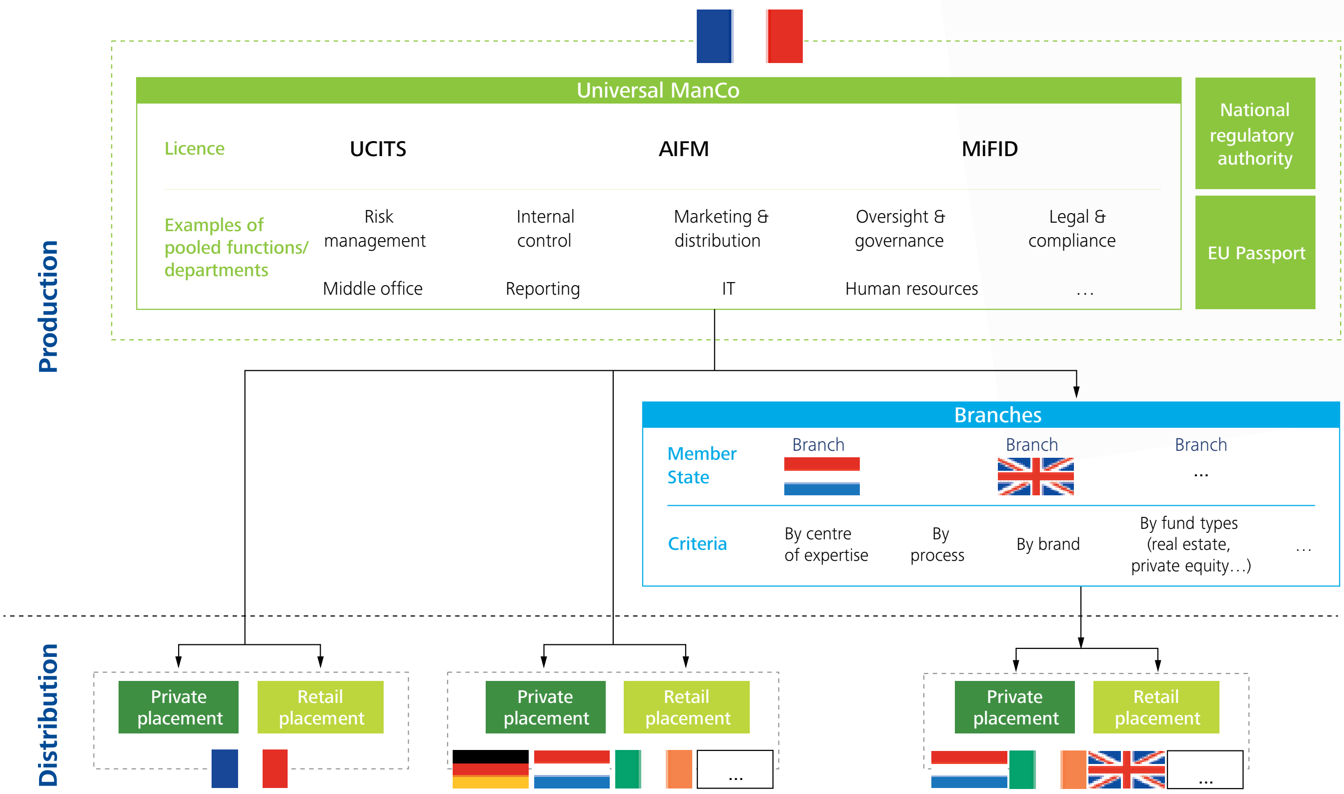
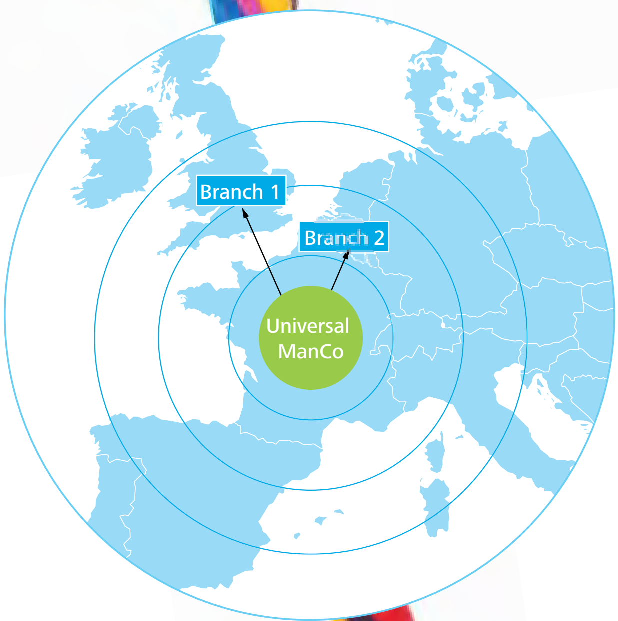
To optimise and pool the Group's resources and generate economies of scale, an analysis of Universal ManCo will now be necessary. Universal ManCo will be domiciled in an EU country, the selection criteria being the current country, taxation, strategy and group ambitions, international investments and offshore vehicles, etc. It will have the necessary authorisations for its main activities within the community. Where needed, Universal ManCo branches could be set up to distribute high added-value products or services requiring specific competencies and processes (e.g. private equity, real estate) in order to adapt to any local restrictions.

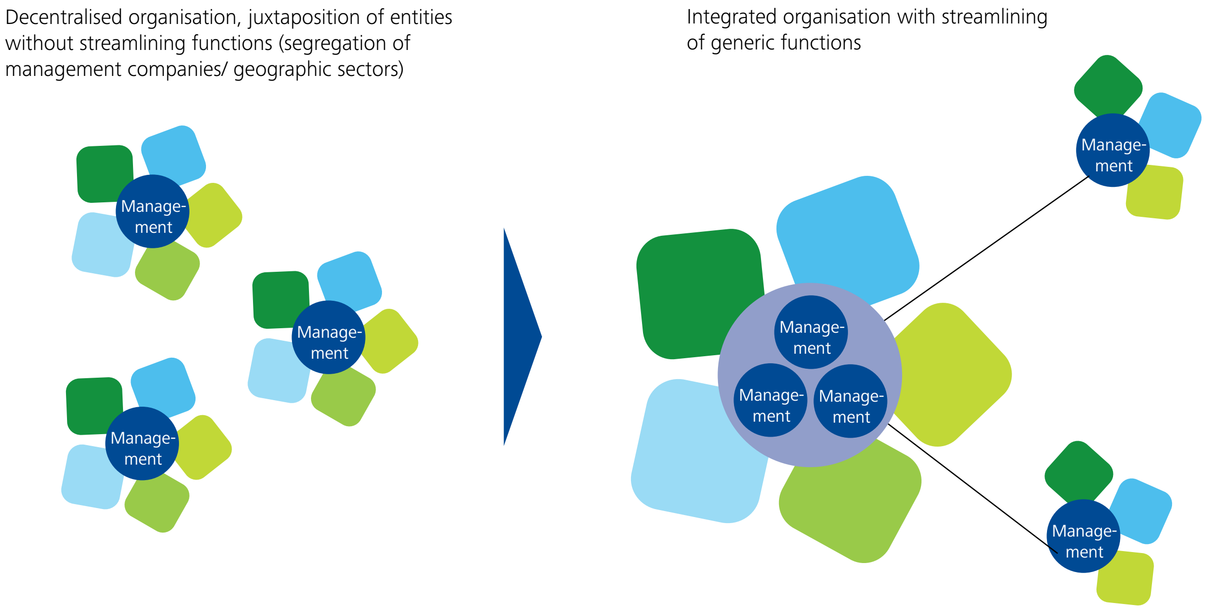
By way of example, Universal ManCo could integrate the following functions: risk management, reporting, internal control, monitoring and governance, compliance, etc.



The Universal ManCo concept provides great flexibility and numerous advantages



The goal is to integrate and pool the support functions and general departments in order to generate economies of scale, eliminate duplications and ensure better monitoring and governance of the entity. This streamlining will also generate indirect impacts such as efficiency gains by improving decision-making processes or the enhanced use of asset management talents.



Support functions	Risk functions	Transversal functions	Commercial functions	Marketing functions
- Creation of shared service centers for value (pricing, complex products, security transactions, etc.) and product databases - Reorganisation and mergers of middle office transactions/cash and reconciliation - Launch of performance calculation/attribution and reporting platforms - Trading table	- Optimisation of centralisation processes for market risk monitoring and reporting and monitoring of operating risks for local offices or group entities - Improved functioning of compliance and ethics departwments, pooling of regulatory monitoring processes	- Pooling and streamlining of IT expertise: developments, security, assistance and facilities management - Transformation of the finance function: data reporting and recording, management control and steering - Harmonisation of group practices regarding HR and related processes	- Creation of pooled cross-border marketing platforms - Set-up of centralised services for tender bid responses - Pooling of marketing expertise for global institutional clients - Creation of open architecture distribution platforms	- Harmonisation of the product creation process - Pooling of strategic marketing expertise: streamlining of the product range and overall management of the brand portfolio/invention process - Creation global CRM tools/ harmonised identification of liability flows - Optimisation of document management

The Universal ManCo concept provides great flexibility and numerous advantages.

From a product point of view, the creation and innovation process could be standardised. For standard products, the production of management processes or low added-value products could be automated by Universal ManCo to generate economies of scale. The goal would be to conserve and standardise a full range of products while adapting the product offering based on the specifics of each network. Conversely, specific or dedicated processes and products (private equity, real estate) will be developed at the branch level, the objective being to foster significant and recognised expertise with high added value. It will then be possible to identify and define expertise by brand and initiate processes and functions that are appropriate to requirements.

The Universal ManCo model will evolve based on regulatory changes (AIFMD, UCITS V & VI, and MiFID II)

Moreover, the streamlining of marketing and distribution functions at the Universal ManCo level will enhance client follow-up and service. In fact, integrating the client database at the Universal ManCo level would enable the structuring of enhanced client knowledge, and provide a response to the complexity of requests in terms of product-related services. In addition, the creation of vertical integration for retail clients would improve consulting services through closer client relation and monitoring.

This organisation will focus the best resources on the development zones, facilitate the application of a group policy and integrate human expertise at the heart of operating processes. Lastly, the size effect would generate economies of scale and lower overheads, thus boosting margins.

The significance of the tax options and the distortion of competition they generate, ultimately reinforced by the emergence of distinctive business zones with respect to financial transaction taxes, should thus benefit holders.

The Universal ManCo model will evolve based on regulatory changes (AIFMD, UCITS V & VI, and MiFID II). In addition, the potential savings generated by optimisation and streamlining will depend on the group's size, and above all the fund collection objectives.

However, several issues will require an in-depth analysis prior to an operational phase. Administrative hurdles, as well as local interpretations and practices will have to be fully considered with respect to the activity, culture and strategies of the management company.
The use of a management company passport could result in governance problems between the requirements and practices of the fund's member state and the management company's country of domiciliation.

The management company's consolidation could generate significant operating costs due to the closing of management companies (liquidation costs), employee relocation, the upgrade of processes, procedures and systems, reporting to investors, or the renegotiation of service provider agreements.

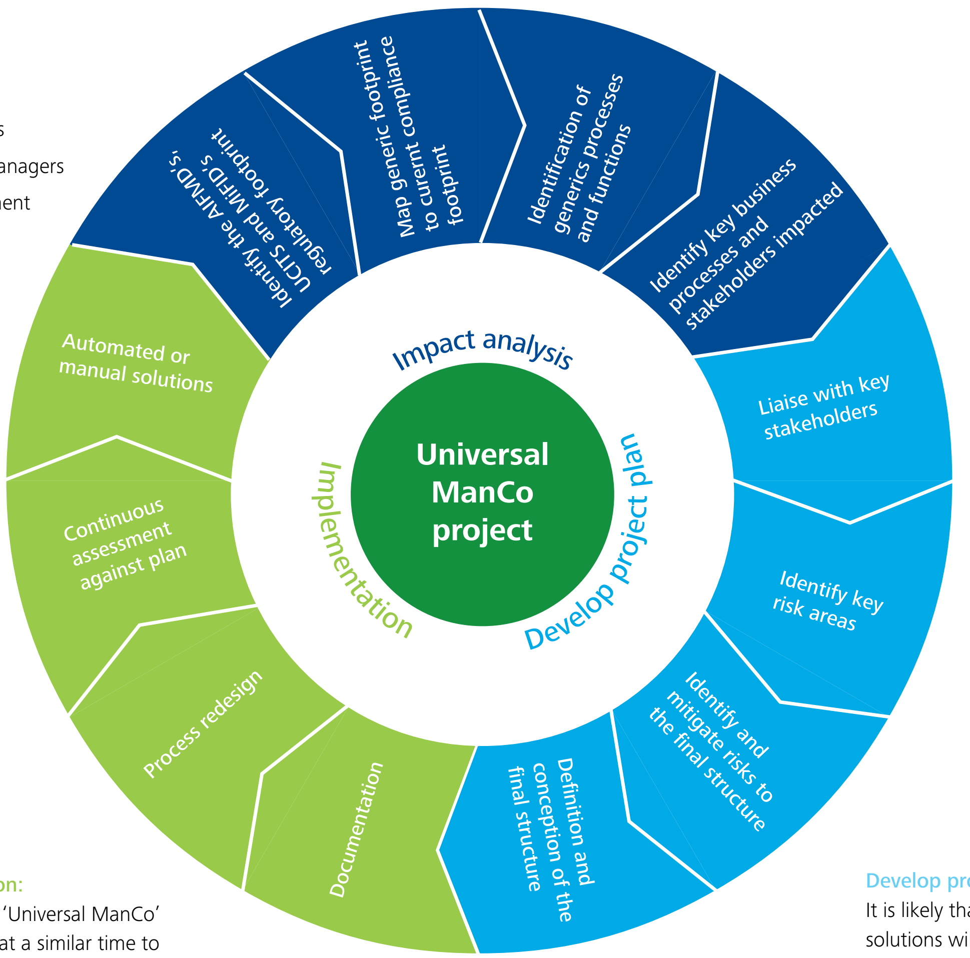
Finally, outstanding questions remain: What margin of manoeuvre will there be regarding the choice of service providers and specifically asset servicers? What is the tax impact on the funds, the group and the investors? How will the change be perceived by investors, and by certain Member States who risk the relocation of their industry? How will Universal ManCo communicate the benefits of the new operating model to investors and distributors?

Impact analysis:
One of the first steps is to identify the universe of funds that are within the scope of the AIFMD, UCITS and MiFID, etc.

An effective impact analysis relies on a strong understanding of how regulated activities map against its functional framework.

The impact analysis will need to cover all business areas:

- Technology
- Compliance
- Distribution
- Internal control
- Service providers
- Sub-portfolio managers
- Client management
- Governance
- Internal training



Project implication:
It is likely that the 'Universal ManCo' project will occur at a similar time to other regulatory changes being Implemented; resource scarcity may be a significant project risk.

Develop project plan:
It is likely that technological and manual solutions will be identified. It will be critical to understand the costs/benefits and how technological solutions to regulatory reporting in the EU work.

To the **point**:

- Management of Universal ManCo's equity: a consolidated management company requires less significant equity due to the absence of duplication, as found in connection with several independent entities, and the convergence of the AIFM and UCITS directives on this subject
- Management on a substantial basis: in connection with the AIFM directive, a management company should not delegate its functions to the extent that it becomes a 'letter-box entity'. As Universal ManCo combines both the primary and support functions in one entity, it could demonstrate the substantial basis of its management
- Management of a management company and its branches would enable better monitoring and governance of the entity
- Common policies and practices covering remuneration could be set up, in compliance with the UCITS, AIFMD and MiFID directives
- Conflicts of interest could be better supervised and managed through policies that are common to the group
- Service providers and delegated agents could be better managed via the introduction of selection and monitoring procedures