INTRODUCTION

FRENCH BANKS OPT FOR MULTI-FUND DISTRIBUTION ROUTE

Against a background of expected consolidations, French providers are continuing to innovate within their product ranges, particularly through multi-manager funds which have provided a back door into open-architecture. Yuri Bender reports

The French funds market is currently the fastest growing in Europe, according to cross-border funds consultancy Feri FMI, with €61bn of total sales during 2005 – double the amount sold in 2004.

Although it is the usual suspects – Crédit Agricole, Société Générale and BNP Paribas who made much of the running, Feri's figures also show that the partially state-owned Caisse d'Epargne group, which owns a chain of 35 co-operative savings banks, still has a strong position, derived from its history in retail banking.

All the talk in the French banking and asset management world is currently about a proposed merger between some of the units of Groupe Caisse d'Epargne, the fourth largest bank in France, and the Banque Populaire mutual group.

"WE HAVE HUGE CREDENTIALS IN THE AREA OF EMERGING MARKETS"
VINCENT CAMERLYNCK, BNP PAM

The futures of the two asset management companies affiliated with the two groups, respectively Ixis Asset Management (which runs €430bn) and Natexis Asset Management (€100bn), are also bound up in the talks.

A merged French funds power house, under a new 'Natixis' brand would run more than €530bn, and would be ahead of current leader Crédit Agricole Asset Management in size. It would also have the advantage of a strong retail-led savings and investment mentality, as both groups are from a mutually owned tradition, running money for mass market customers in the French regions. Representatives of both groups are currently forbidden to discuss the proposed merger in any form.

The merger talks also put into the spotlight Daniel Roy, currently chief executive officer of Natexis Asset Management. He was formerly CEO of CDC Ixis Asset Management, but was forced to look elsewhere when his former group was taken over by the Caisse in 2003. French fund industry watchers have long been forecasting that Mr Roy, a real heavyweight in the European investment world, would end up at the helm of France's biggest funds player.

Ironically, the Caisse, and its newly rebranded Ixis Asset Management funds franchise,finally revealed aggressive expansion plans for both French and global business, after dust had only just settled following previous management and shareholder changes.

The bank currently delegates €15bn from its retail fund arm, Ecureuil Gestion,to its Ixis sister company. The most popular product sold are guaranteed products. European diversified and French equity funds are also sold, although performance in the former has suffered in recent years.

Possibly the brightest deals at Ixis have been in the life insurance sector, where the fund house signed a contract last year to run €140m for independent advisers serviced by Generali's French multi-management subsidiary, Federation Contientale.

Ixis has also done well from its links with the multi-management group at Crédit Agricole Asset Management during 2005. It won a deal to manage senior loans assets,which are handled by its Loomis & Sayles affiliate.

Selling through life companies and their IFA distribution platforms is currently a much safer bet than targeting French retail banks for distribution, says Sébastien Masson, head of French distribution at Ixis Asset Management. He believes French retail banks are particularly difficult to deal with for French fund houses, who

Camerlynck: hoping to take a significant amount of money from new Bric fund

Roy: forecast to end up at the helm of one of Europe's biggest funds players

Masson: Anglo-Saxon brands make it easier to sell to retail banking networks

always have competing retail banking networks.

"It's much easier to sell to retail banks if you are Fidelity or another Anglo-Saxon group, as you have no rival interests, but the brand is very important," says Mr Masson. Ixis collected €500m in multi-manager products from French clients in 2005, and this is by far the hottest area of growth, believes Mr Masson.

"More than €1 in every five in France is invested in multi-management products, and all the good asset management companies have multi-management subsidiaries," he says. The multi-manager approach is one particularly espoused by Banques Populaires, whose investment banking and fund franchises, both currently under the Natexis brand, are expected to join the Ixis group. Natexis funds are currently among the most prominent in league tables of product sales.

"The strategy on which we have based our development has remained in place," said chief executive of Natexis Asset Management, Daniel Roy in an interview conducted before merger talks began. "Natexis AM is developing its capabilities in long-only products responsibly to provide asset allocation, TAA and advisory. But we are also distributors of other people's expertise, when we believe we don't want to do it by ourselves."

While Natexis has now totally outsourced its US equity management, it maintains a strong European long-only equity range, although its fastest expansion is through the externally managed assets in its Natexis Asset Square multi-management subsidiary, also headed up by Mr Roy.

"We prefer to be cautious. Things can work much better in France through the fund of funds approach," says Mr Roy. "It is a big mistake to underestimate the capacity of local banking networks to keep a passive clientele and sell their own products. But this is a big issue today, as important in the UK as in Continental Europe, as the man in the street is paying more and more attention to the real quality of a product.

"Funds of funds and sub-delegation will eventually be the winner. One day this will account for 20 to 30 per cent of retail assets, and open architecture will be the future of retail banking."

While just 4 per cent of total assets at Natexis are currently managed externally, through funds of funds or sub-advisory agreements, this amounts to 7 per cent of long-only money. "This is a significant number, compared to our main competitors," reveals Mr Roy. "And of our main retail funds, 50 per cent is managed externally in our funds of funds."

But while the home market is a place of fierce competition between the French combatants, all of the main groups are increasingly using their French-based manufacturing expertise to compete in the savings markets of Europe and beyond.

More than 60 per cent of the €20bn plus in new inflows recorded at SGAM, SocGen's asset management arm, during 2005 went into equity and alternative solutions, according to its global head of distribution, Jerome de Dax. He describes SGAM's US equity large cap relative value fund as "one of our blockbusters", has also witnessed a significant upturn in inflows to Japanese equity products, and is expecting to benefit from new approaches to his dynamic cash management solutions. This is a peculiarly French concept, where safe money market funds are given a little injection of hedge-style arbitrage to spice up performance. The accent during 2006 will be on absolute return, Indian equities, and a new balanced product, combining specialist strategies, while closely monitoring risk.

Indeed most growth at SGAM appears to be through external distributors. "Our retail banking channel is still on hold," admits Mr de Dax, although the market is expecting him to launch a suite of products for internal, retail customers later this year.

"It is still a challenge for us to balance our business model. This was not a successful issue for us in 2005, but will be a key issue for 2006," says Mr de Dax. "There is a need for a new, high-calibre product range dedicated to the SG network. But this is very deep work, so it is taking more time than we thought."

BNP Paribas Asset Management, which has been particularly aggressive in its US and Asian expansion, is also expected to give additional resources to staff in Southern Europe, the Nordic countries and the UK, where its operation has been growing quickly and quietly of late.

The funds house is aiming to attract assets to its Bric (Brazil, Russia, India and China) strategy from institutional clients, but launch of a Luxembourg-registered product for distributors has been delayed until mid-2006, to allow its Indian acquisition to be completed.

HUGE CREDENTIALS

"We have an effective franchise in Brazil too, with management of domestic equities, plus strong interests in China," says Vincent Camerlynck, recently appointed as global head of sales at BNP PAM. "All of our Parvest range is sold through private banks, retail banks and progressively to institutional clients. We have huge credentials in the area of emerging markets."

This is clearly an area which will be popular among European distributors, who currently have very limited capacity for clients to invest in these markets, and often direct them to investment-banking led structured products. Only HSBC's mammoth fund has any serious track record in the cross-border arena, though GSAM's Bric fund is also leaping off the launch-pad.

Mr Camerlynck will not reveal his final targets for gathering assets, though the popularity of the concept means they will be much higher than usual. "We will have a high focus on this fund, and hope to take a significant amount of money, with €1bn definitely a minimum target," he says. "But we will continue to sell this product for the next couple of years. This is not a six-month effort. We have laid foundations in the Bric-related world for the next few years."

Rather than putting all of its faith in targeting "preferred provider" berths at a select band of universal banks, which is the direction some US competitors are moving in, BNP PAM is staying on its existing path, "strengthening distribution globally," although Mr Camerlynck does not rule out any slight shift in distribution priorities once he has properly got his feet under the table in the groups's Avenue Kléber headquarters.

His initial dialogue with his audience of distributors also reveals a demand for liquidity related funds and renewed interest in international equities, particularly US and Japanese stocks, sometimes through actively managed funds, and at other times through the device of structured products. A strong demand is also emerging for socially responsible investment products.

"A much broader range is being proposed than in the last couple of years," reveals Mr Camerlynck, who details the work which BNP PAM has been doing in expanding its range, while others have been rationalising theirs. "What strikes me today, is that while we have a philosophy of having a large offering, our difference to other asset managers is that we recognise that you can't be perceived to be good at everything."

BOUTIQUE APPROACH

Rather than try and sell products as a core or satellite option to distributors, Mr Camerlynck's innovation is to sell every product as if it is managed by a boutique investment house, but backed by the risk controls and sales force of a major French institution.

"We don't think a lot of people have that set-up," believes Mr Camerlynck. "This yielded results for us in 2005, and we are very optimistic for results in coming years in that direction. My view is that it's not about core-satellite; it's more about how products are managed. Even core products can be identified as boutique rather than generalist lines."

For many groups such as BNP Paribas, the market is not purely about manufacturing any more. BNP's assets are expanding faster in the areas of sub-advised externally managed products, while they have also moved into pure distribution through the acquisition of the FundQuest platform in the US in 2005, which is now being rolled out across Europe, and already has a presence in the UK. "Our philosophy is clearly reflected through the acquisition of this open architecture platform," says Mr Camerlynck.

Table one: Group ranking by total net assets in French products in 2005 (€m)

Master group	Total net assets	Growth latest yr	Net sales latest yr	Sales as % of asset growth
Cr Agricole	134,090.0	20,514.9	13,016.3	63.4
Soc Générale	78,931.7	8,513.1	3,978.1	46.7
BNP Paribas	68,772.0	6,826.3	4,293.7	62.9
Csse d'Epargne	62,984.1	2,942.4	342.2	11.6
Bnqs Populaires	56,543.8	8,995.7	5,675.2	63.1
Total	**401,321.6**	**47,792.4**	**27,305.4**	
Total market	**731,478.8**	**108,456.1**	**60,613.7**	**55.9**

Source: Feri Fund Market Monitor