



Press release

Review of 2006 – Outlook for 2007: The French asset management industry confirms its leading international position

Paris, January 11th 2007

Speaking to the press, Alain Leclair, Chairman of the French Asset Management Association (AFG), and Pierre Bollon, Chief Executive Officer, looked back at the events of the past year and discussed the main projects and policy areas to be addressed in 2007.

With nearly **€2,450 billion of assets** under management at year's end, the French asset management industry expanded 14 per cent in 2006, for its fourth consecutive year of double-digit growth. This applies both to collective investment management, up 17 per cent to nearly €1,450 billion, and discretionary management, with estimated growth of 10 per cent. As a result, the industry has **grown by a factor of five in the last ten years**, from €511 billion in 1996 to some €2,450 billion last year.

The main reason for 2006's steep rise is a 55 per cent increase in **net new business**. Inflows to investment funds reached a record €106 billion, twice the 2005 figure of €59 billion. **France and Luxembourg** together accounted for **more than 90 per cent of total fund subscriptions in Europe**, with 40 per cent for France and the remainder for other countries via Luxembourg¹. **Equity oriented funds** were the main beneficiaries of this new business – even more so than in 2005 – with inflows of €63 billion. An analysis of assets under management by fund category shows a steep increase for **regulated funds of hedge funds (FoHFs), up 62.6 per cent** to €6.5 billion. This growth was spurred by the introduction of innovative legislation in France and also by burgeoning demand from institutional investors for FoHFs, which are uncorrelated with general market trends and provide access to new asset classes.

At international level, French firms have solidified their leadership position for fund management in Europe. They have more than 20 per cent of the European market, which is almost as large as the US market in terms of assets under management. **Major French management companies** have built up strong momentum in recent years. The five largest firms now rank among the top 25 asset managers at world level, operating not only in Anglo-Saxon countries but also in new fast-growing markets in Asia. The asset management business of these firms' foreign subsidiaries alone is estimated to be worth more than €1,000 billion, adding to the €2,450 billion managed out of Paris.

¹ Based on European Member States, except Ireland (data non available)

At the same time, **small and medium sized management companies** have been remarkably dynamic. This is a specific feature of the French business model. Some 60 entrepreneurial management firms have been set up over the past four years, including 20 or so in 2006. Some forty of these firms – so-called "financial gazelles" as mentioned in a report submitted by the AFG to France's Small Business Ministry – have achieved annual growth rates in excess of 30 per cent.

As a result of these developments, the French asset management industry has asserted itself as one of the main sources of high valued-added jobs. It is part of an ecosystem with a value chain comprising a multitude of associated businesses. For every person hired by an asset management firm, estimated three jobs are created at service providers and distribution networks.

Although positive market conditions made 2006 a banner year, our industry, which is cyclical by nature, is facing numerous challenges going forward International growth and a need for retirement savings in most countries are creating a substantial market and therefore an opportunity. But in order to be able to face such a challenge, management companies will have to invest massively, both to enhance technological developments and to hire highly qualified staff. Competitive challenges are bound to intensify and regulatory pressures will remain strong, particularly since the impact costs of regulation are not yet measured in advance.

Development of long-term savings – Investor protection

Pension financing is a major challenge for our society. On 30 December 2006, the French Parliament adopted a law on profit sharing, employee stock ownership and workplace saving. The new act, based on many of the proposals put forward by AFG, gives further impetus to the development of profit sharing arrangements for all employees. We estimate that for 2007 as a whole, assets under management in workplace savings schemes will grow by well above 20 per cent, from €9 billion to €85 billion, with nearly €1 billion of this invested in group pension schemes or PERCOs.

Because of this surge in long-term savings, attention logically focused on **asset quality criteria** in 2006, in terms of both Socially Responsible Investment (SRI) and corporate governance. Two institutions – the state pension reserve fund (Fonds de Réserve pour les Retraites) and the civil service supplementary pension fund (Etablissement de Retraite Additionnelle de la Fonction Publique) – have now incorporated sustainable development and SRI criteria into their investment policies. In the field of corporate governance, AFG is preparing a new version of its code, with updated sections on remuneration and other matters. Also, we warmly welcome the issuance of a decree establishing the use of record dates, which we had been calling for.

Reorganisation of the European financial area to achieve better regulation

AFG, working closely with the European Fund and Asset Management Association (EFAMA) of which AFG is a member, played an active role in 2006 in the European Commission's effort to go ahead towards a fully fledged European market for asset management benefiting from major economies of scale. We were therefore gratified to note that the **White Paper** published in November 2006 **by the European Commission** addressed most of the issues we had identified as important. These included easier registration of UCITS, fewer barriers to fund mergers, the creation of European master-feeder funds and the introduction of a full European passport for investment management, allowing firms to manage funds domiciled in another Member State. The year 2007 will be crucial in this regard because this is when these intentions must be translated into concrete action, especially through practical proposals for amending the UCITS Directive. Progress must also be made in the discussion over funds that are not currently harmonised, i.e. real-estate, private equity and hedge funds.

Furthermore, 2007 will see the implementation of the Markets in Financial Instruments Directive (MiFID), a sprawling piece of legislation. Although MiFID could potentially lead to greater administrative constraints, it may also provide the opportunity to overhaul some aspects of French regulation, enabling our markets to operate more smoothly. AFG has taken steps to influence the legislation now being drafted, especially by measuring the likely impact costs, and to prepare its members for the forthcoming changes that the directive will entail. To that end, we have gathered AFG commissions concerned by MiFID and constituted a cross-functional working group, which will be supported by PriceWaterhouseCoopers.

This will be the essential test to determine whether the AMF, is ready to apply the principle of "better regulation" in its future activities. It will also test the competitiveness of our financial industry – a reality check that we have long been anxious to see. Our industry is aware that much has still to be accomplished and we are naturally willing to engage in an active partnership with the AMF. For the implementation of the Delmas-Marsalet report on financial product marketing, which in principle will not overstep the competitive limits laid down by MiFID, the industry will focus on drafting a code of conduct. For this, it will of course work with the professional associations representing distributors of savings and investment products.

AFG plays a leading role in the "Finance and Asset Management" competitiveness cluster

AFG is one of the founder members of the global competitiveness cluster specialised in finance and asset management, shortly to receive official approval from the French Government. It will be in charge of several of the cluster's key projects, in collaboration with Paris Europlace. These include:

- A data aggregator for savings and investment flows in Europe
- A centralised database for French and European UCITS funds
- An incubator for "financial gazelles"
- University chairs in regulation economics and in sustainable finance and SRI

Our industry is clearly making a growing contribution to the rapid growth of the "intangible economy".



The French Asset Management Association (Association Française de la Gestion Financière, AFG) represents France's asset management industry. French professionals manage assets of €2,450 billion, of which €1,450 billion in collective schemes (for which France is European leader) and the remainder under discretionary mandates, particularly in the form of life insurance.

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