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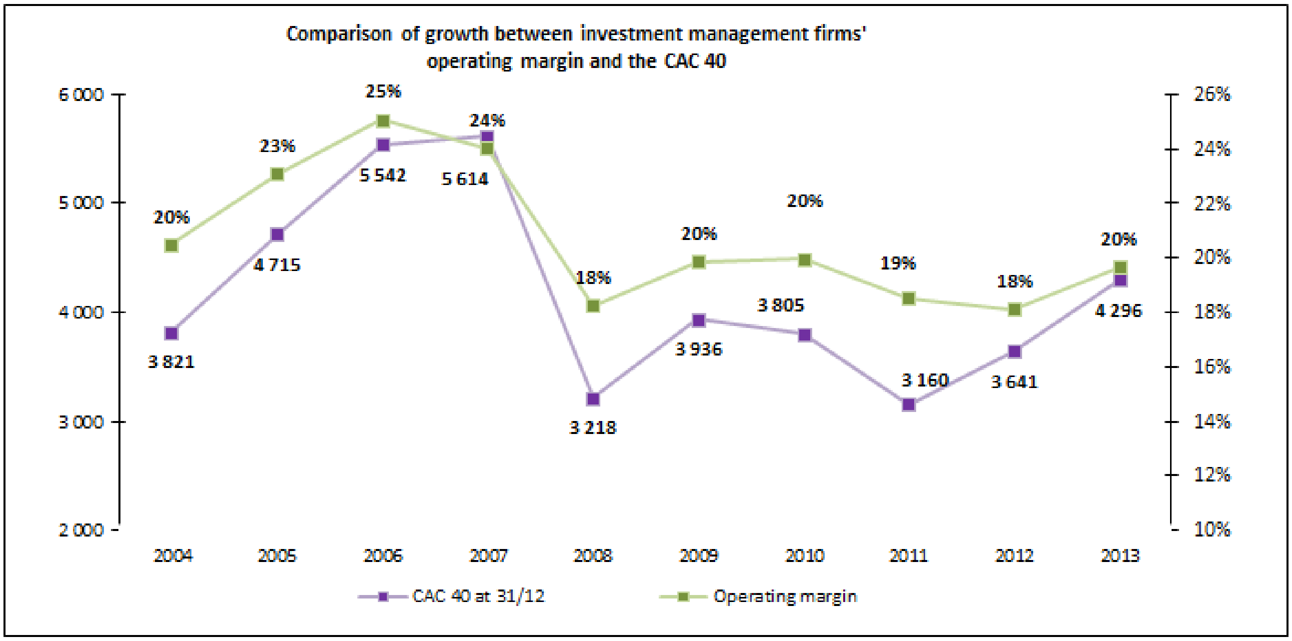
Key figures for asset management in 2013: 20% operating margin

After falling steadily between 2009 and 2012, the profitability of investment management firms rose by 11% in 2013. This increase has come in parallel to a sharp improvement in the own funds of these firms.

Improved operating margin in 2013

The profitability (or operating margin) of investment management firms is calculated as the ratio between operating profit and revenue. In 2013 it improved, reaching 20% (with the 5% growth in revenue offsetting the increase in operating costs(1)).



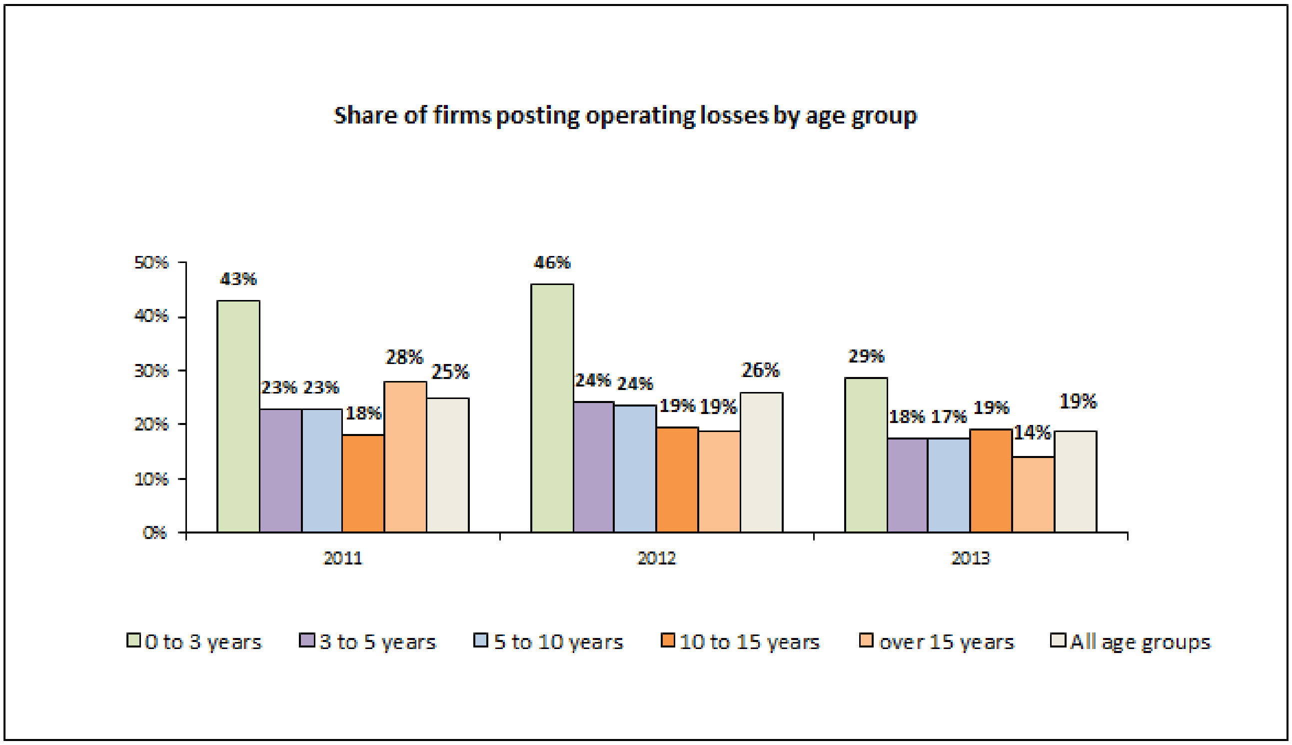
Source: AMF

The growth in equity markets, represented by the CAC 40, is closely correlated with the profitability of investment management firms. The performance and profitability of asset management companies appears to have a strong link with the performance of the financial markets. This observation could be explained by the nature of the products sold and the market configuration.

While "equity" products only accounted for 24% of French UCITS, their contribution to the revenues of investment management firms was inversely proportional, since they yielded higher margins than other products, in particular "money market" products which represented 29% of assets. Furthermore, assets held in equity funds enjoyed significant growth (+15% against 2012) thanks to the stock market revival. This growth enabled investment management firms exposed to this asset class to generate higher margins, thereby leading to an overall improvement in profitability in the sector.

Spotlight on... Operating losses by investment management firms, by age group

Over the year 2013, total cumulative operating losses by investment management firms came to almost €98 million and affected 107 firms, or 19% of those analysed. This proportion fell sharply compared with 2012 and 2011 (150 firms in 2012 and 143 in 2011).



Source: AMF

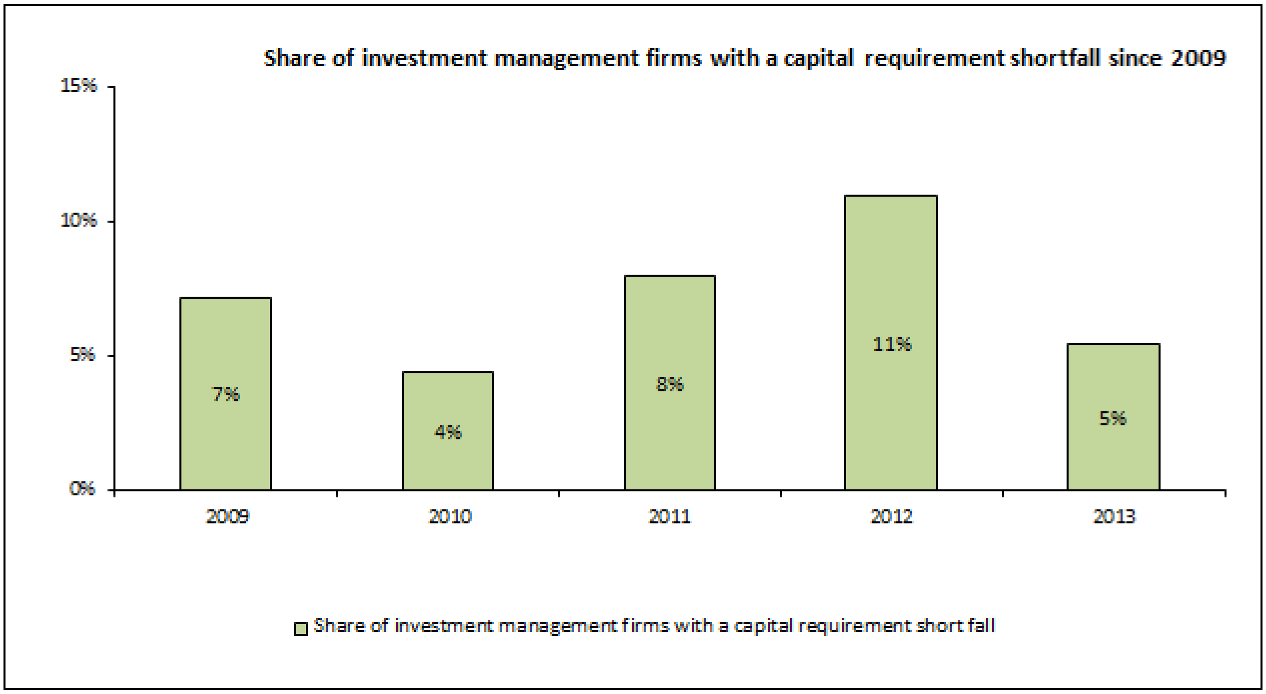
The overall share of investment management firms showing operating losses was down from the previous year, across all age groups. The proportion of loss-making firms out of those most recently accredited fell sharply in 2013: 29% of investment management firms with less than 3 years' existence were in this situation, against 46% in 2012. One of the main explanations for this drop is the AMF's increased vigilance with respect to the business plans drafted by newly accredited firms (in terms of share capital and assets under management at first closing, among others).

An analysis of loss-making investment management firms according to type of ownership structure shows that this categorisation has no bearing on losses: the proportion of loss-making firms is virtually identical, irrespective of the equity structure of the firm.

It is worth noting that among the 107 firms identified, 10% were newly accredited and had not yet commenced business at 31 December 2013. Additionally, 41% of the loss-making firms managed less than €50 million. The majority of companies that had difficulty raising significant assets also struggled to improve their profitability. While the majority of firms in this category are small, several mid-sized companies were also represented. For the former, strategic positioning and specialisation are the main challenge, while for the latter, operational profitability and margin shrinkage are the key preoccupations.

Spotlight on... Own funds and compliance with regulatory standards

Own funds are an indicator of the financial health and sustainability of activity of investment management firms. Among their various regulatory requirements, investment management firms must always have a level of own funds that is at least equal to the amount as calculated in accordance with Articles 312-3, 317-2 and 311-1A of the AMF General Regulation.



Source: AMF

Only 31 investment management firms, i.e. 5% of the 571 companies analysed, fell short of their capital requirement at 31 December 2013. This proportion was down sharply from the previous two years (11% in 2012 and 8% in 2011).

This reduction is largely due to the ongoing efforts of the AMF to monitor the level of own funds of investment management firms. Over the last few years the French regulator has implemented a number of actions to identify companies with insufficient own funds and has monitored their efforts to remedy the situation.

It is also important to point out that problematic capital requirement situations must be remedied immediately and systematically, and that at all events, the own funds of investment management firms are strictly segregated from the assets they manage for investors.

Source

As part of its supervision of the asset management sector, the AMF receives annual disclosures from investment management firms. These filings contain quantitative data on the assets managed and on the revenues and costs relating to asset management business conducted in France. The Authorisation and Supervision Division of the AMF's Asset Management Directorate uses this information to perform analyses. Despite the care taken in compiling and processing the data, there may still be a few inaccuracies due to late filing and data entry errors.

Reminder: key figures for asset management in 2013 – published and forthcoming
In early July 2014 the AMF launched this series of publications titled "Key figures for asset management". The four reports already published are available in Publications > Reports, research & analysis > Savings & service providers
A compilation of these reports enriched with further data and tables will be published soon.

(1) See the AMF website, Key Figures for Asset Management, published on 17 October 2014

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