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## **Key figures for asset management in 2015 - Management company financial data and profitability**

**French management companies' operating profit has risen steadily since 2013 to reach a record high of EUR 3,096 million in 2015. This positive trend was the result of growth in operating revenue (up 11.5% year on year), which offset the rise in operating expenses (up 8.4% year on year).**

### **Turnover grew further in 2015**

Since 2012, asset management companies' turnover has increased by 23.7% to stand at EUR 13.9 billion. Similarly, operating expenses have risen by 17.4% to EUR 10.8 billion in 2015 versus EUR 9.2 billion in 2012. Sector-wide operating profit reached a new record of EUR 3.1 billion, a positive swing of 51.9% from 2012.

*Source: AMF*

A close examination of these amounts shows that, in 2015, 79.8% of total operating revenue generated came from management fees. These fees rose by EUR 943 million relative to 2014 and accounted for 65%<sup>(1)</sup> of the growth in turnover. This change is consistent with the increase in assets under management by French asset management companies between 2014 and 2015 (up 4.8%).

Higher payroll expense accounted for 34%<sup>(2)</sup> of the rise in operating expenses. In 2015, payroll for French management companies as a whole grew by EUR 289 million year on year

to EUR 2.7 billion.

## Breakdown of operating revenue

A breakdown of operating revenue shows that management fees represented the lion's share of asset management companies' turnover (79.8% of total operating revenue in 2015), as they did in previous years and in the same proportions.

In addition to these fees, management companies have other revenues which break down as follows:

- ancillary revenue, accounting for 10.3% of operating revenue (consisting of turnover fees, UCITS/AIF trailer fees and UCITS/AIF subscription and redemption fees);
- incidental revenue, accounting for 7.4% (consisting of brokerage fees charged for order receipt and transmission activities, revenue from activities associated with investment advisory services, fees associated with the subcontracting of activities, revenue from the management of unit-linked arbitrage mandates, and revenue from the venture capital fund management business); and
- other revenue, representing 2.5% of asset management companies' total turnover (comprising provision reversals, expense transfers and operating subsidies).

## Erosion in the share of management fees abated in 2015

After falling for seven years in a row, the share of management fees in total operating revenue rose slightly. Management fees represented 79.8% of operating revenue, a 0.7-percentage-point increase year on year, and stood at EUR 11,119 million.

As in previous years, management fees were generated mainly by the investment management business (92% of total management fees charged) and, to a lesser extent, by discretionary management fees (8% of total management fees charged).

*Source: AMF*

The share of incidental revenue within the components of operating revenue has continued to rise in the last few years, increasing by 3.6 percentage points between 2009 and 2015. In 2015, incidental revenue represented 7.3% of French management companies' turnover, or EUR 1,023 million. Activities relating to order receipt and transmission and to management

of unit-linked arbitrage mandates generated 0.9% and 3.3%, respectively, of incidental revenue in 2015.

Furthermore, revenue relating to investment advisory services was generated primarily by boutique firms and companies owned by credit institutions (59.3% and 19.6%, respectively), with these companies also accounting for a large share of revenue from the venture capital fund management business (46.6% and 24.4%, respectively).

Unlike incidental revenue, the amount of ancillary revenue decreased between 2014 and 2015 (down 0.2%). In 2015, ancillary revenue consisted of turnover fees (34.7%), UCITS/AIF trailer fees (13.8%) and UCITS/AIF subscription and redemption fees (27.3%). For 2015, only 197 companies out of a panel of 592 reported turnover fees.

A closer analysis by ownership structure shows that the breakdown of revenue items in turnover is not uniform for the different types of management companies.

*Source: AMF*

Investment management fees represented the largest share of revenues generated for all asset managers. They accounted for 76.5% of turnover for management companies that are subsidiaries of credit institutions. As management companies that are subsidiaries of insurance and mutual companies have a substantial share of the discretionary management market (35.7% of total assets under management), most of their revenue came from this activity (18.7%). For boutique firms, 12.5% of revenue came from incidental revenue, which consisted primarily of turnover fees (40.3%) and UCITS and AIF subscription and redemption fees (30.8%).

An analysis by ownership structure also makes it easier to compare and understand the connections between assets under management and revenue generated.

*Source: AMF*

As seen in the chart above, companies that are subsidiaries of credit institutions accounted for 63.9% of total assets under management and 51.8% of total operating revenue generated by the industry in France, as this revenue came mainly from management fees linked to assets under management. This correlation is also borne out for companies that are subsidiaries of insurance companies, which accounted for 12.6% of operating revenue derived mostly from management fees.

Unlike these first two categories of ownership structure, boutique firms accounted for only 6.3% of assets under management but earned 29.5% of operating revenue, of which 72.4% came from management fees. This can be attributed to the fee rate used by this type of company, which is higher than that of companies that are subsidiaries of credit institutions due to the different types of clients targeted and the nature of the assets under management. Small entities gravitate towards retail investors owing to their niche/technical-type management approach.

## Fee rates up slightly

The increase in operating revenue and, in particular, in management fees was reflected in a slight rise in French management companies' fee rates in 2015.

### Focus on investment management

The increase in management fees between 2014 and 2015 was due largely to the rise in investment management fees, which topped the EUR 10 billion mark to stand at EUR 10,226 million, a 12.5% increase. Taking a closer look, French and European UCITS/AIF management fees rose by 10.6% in 2015 to EUR 9,806 million while third-country and other AIF management fees increased by 82.3% to EUR 420 million. However, the positive shift in these fees did not have a significant impact on fee rates, given the rise in assets under investment management (up 6.8% in 2015).

In 2014, the inclusion of assets managed by securitisation companies in accordance with the AIFM directive pushed investment management fee rates down. In 2015, these rates rose by a slight 0.027 percentage point, due mainly to growth in investment management performance fees (up 31.4% year on year). A comparison of the change in the investment management trailer fee rate relative to the fee rate applied shows that the spread between the two rates continued to fall, following the trend in recent years.

*Source: AMF*

An analysis of the investment management fee rate charged by management companies based on their ownership structure reveals substantial differences. Boutique management companies charge the highest fee rate (1.529%), as they operate on niche markets that are more focused on equity and balanced funds for retail clients.

At the other end of the spectrum, management companies that are subsidiaries of credit institutions charge the lowest fee rate (0.406%). The first explanation for this rate is the large amount of assets managed by these companies; they are thus able to achieve certain

economies of scale and consequently reduce their fees. Second, many of these companies manage a large volume of funds — money-market funds in particular — for which fees are inherently more modest, and have institutional clients that are generally charged a lower fee rate.

Focus on discretionary portfolio management

For the discretionary portfolio management business, the simultaneous rise in management fees (up 14.7% year on year) and assets under management (up 2.4% year on year) pushed the fee rate up by 0.006 percentage point. This rate has been stable since 2009.

*Source: AMF*

Individual management fee rates rose across all types of companies in 2015. However, as with investment management, the discretionary management fee rate varied by ownership structure. It was almost 10 times higher for boutique firms (0.503%) than for companies that are subsidiaries of insurance groups (0.059%). This trend remained stable and can be attributed to the very different types of clients the various entities have: boutique firms are generally small in size, provide highly personalised private management and offer higher returns than the type of management provided by asset management companies that are subsidiaries of insurance groups. The latter's assets under management consist primarily of the general assets of their shareholder, and they charge lower rates accordingly.

Performance fees rise

Performance fees stood at EUR 678 million in 2015, split between investment management (EUR 632 million, up 30.4% year on year) and individual management (EUR 46 million, up 17.9% year on year). Asset management companies that pay for some of their activity based on the performances of their products charged more variable fees in 2015, proof that products under management performed better during the year. The number of UCIs charging variable fees has continued to rise in the last few years.

It should nevertheless be specified that the share of performance fees in total operating revenue remained negligible as they accounted for less than 5% of total turnover of French management companies in 2015.

*Source: AMF*

## **Breakdown of operating expenses**

## Operating expenses rise but break down along the same lines

In 2015, total operating expenses rose 8.6% year on year to EUR 10,829 million. This change was due to an increase in certain payroll expense and other external charges items. In the last six years, operating expenses have grown at a rate of 12%. Payroll expense accounted for 34% of the rise due primarily to the increase in the number of employees (up 2.6% between 2014 and 2015, of which financial managers up 0.6%). Other external charges made up 39% of the rise in operating expenses due to the 29.5% increase in management fees paid for financial management delegation.

*Source: AMF*

Despite these changes, the breakdown of the various operating expense items in 2015 was similar to that of previous years. The main expense items for asset management companies are still payroll expense and trailer fees recorded as operating expenses (36.5% of operating expenses).

Although the amount of payroll expense was higher in 2015, its share in total operating expenses held steady at 25.2%.

*Source: AMF*

Payroll expense, which includes wages, salaries and payroll tax, was EUR 2,734 million at end-2015, up 11.8% year on year. This increase can be attributed to the growing workforce (up 2.6% year on year) as well as to an improvement in employee compensation.

## Profitability returns to pre-crisis levels

The following chart compares the change in the operating margin<sup>(3)</sup>.

The operating margin (or profitability) of asset management companies is calculated as the ratio of operating profit to revenue.

of asset managers and that of the Paris stock market. Such a comparison provides a visual illustration of the relationship between trends in the French equity market, represented by the CAC 40, and the performance by the asset management sector. It shows that management companies' profitability has reached a new high since 2007, before the financial crisis, of 22.2%. The trend was the same for the French equity market in 2015 (up 9.5% from 2014) with the CAC 40 exceeding the 4,500-point mark.

*Source: AMF*

An analysis of management companies' profitability based on the size of their assets under management shows that, on average, entities that manage less than EUR 50 million have a low if not negative operating margin, while companies managing EUR 50 million to EUR 150 million had an average operating margin of 12%. Those with EUR 150 million to EUR 500 million in assets had an average operating margin of 17% versus 25% for companies with more than EUR 500 million in assets under management.

### **Focus on... loss-making asset management companies**

The aggregate amount of asset management companies' operating losses in 2015 was nearly EUR 87 million and concerned 105 companies, or 18% of companies analysed. This percentage declined from 19% of companies analysed in 2014 and 2013.

*Source: AMF*

The share of troubled companies in operation for five to ten years fell sharply between 2014 and 2015, from 22% to 12%. The reason for this trend is that, having reached a certain stage of maturity, they are better able to cope with a less favourable economic climate. The number of newly authorised companies (in operation for 0-3 years) reporting an operating loss has started to stabilise (95 companies in 2015 compared with 94 in 2014), as AMF staff are increasingly vigilant about the soundness of the business plans presented at the time of the initial authorisation.

### **Focus on... AIFM reporting**

The AIFM reports received between 2014 and 2016 can be used to assess the change in AIFs' exposure to different financial instruments over the last few quarters.

*Source: AMF*

The data collected show that AIFs are overwhelmingly exposed to collective investments; this exposure remained flat between Q4 2014 and Q2 2016 and averaged about EUR 177 billion.

The other significant finding is that exposure to derivatives trended down from Q1 2015 to Q3 2015 to EUR 154 billion. This trend sharply reversed starting in Q4 2015, when derivatives exposure moved above EUR 180 billion (up 22.7% between Q3 2015 and Q2 2016).

Over the period under review, AIFs' exposure to both the real-estate and money-market asset classes stood on average at EUR 55 billion. In Q2 2016, exposure to money-market

products exceeded EUR 60 billion, as opposed to exposure to real estate, which came to EUR 53 billion in the same period.

### Source

As part of its monitoring of the asset management sector, the AMF collects annual information forms from asset management companies (AMCs). These forms contain quantitative information about the assets managed and about the revenue and expenses associated with asset management in France. This information enables the Authorisation and Monitoring Department of the AMF's Asset Management Directorate to perform analyses. Since the AIFM Directive entered into force in July 2013, European AIF managers have also been subject to a new reporting requirement. The information gathered mainly concerns the portfolios' exposure to different types of risks and is collected on a quarterly, semi-annual and/or annual basis. Although every care is taken when compiling and processing the data, due to the late receipt of some of the forms and possible data entry errors, the analyses may nevertheless contain inaccuracies.


### Key figures for asset management in 2015

Each year, the AMF publishes a series of five articles entitled "Key figures for asset management". These publications are available from the Publications > Reports, research & analysis > Savings & services providers page on the AMF's website. The key figures cover the following topics: the landscape for management companies, their profiles, assets under management, financial data and, lastly, the control mechanism. A compilation of these five publications, plus additional data and tables, is published at a later date.

### Notes

- 1 • Rate obtained by taking the ratio between the 2014-2015 change in management fees and the change in operating revenue.
- 2 • Rate obtained by taking the ratio between the 2014-2015 change in payroll expense and the change in operating expenses.
- 3 • The operating margin (or profitability) of asset management companies is calculated as the ratio of operating profit to revenue.

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