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Key figures for asset management in 2016 - Management company financial data and profitability

After rising for three years in a row, the operating profit of the French asset management market fell slightly in 2016 to EUR 2.845 billion from EUR 3.096 billion in 2015. This decline was due both to an increase in operating expenses (up 1.3% year on year) and a decrease in operating revenue (down 0.8% year on year). The sector remains financially sound, however, with an increase in overall net profit. This report presents an overview of asset management companies' financial data and profitability in 2016.

A slight decrease in operating profit in 2016

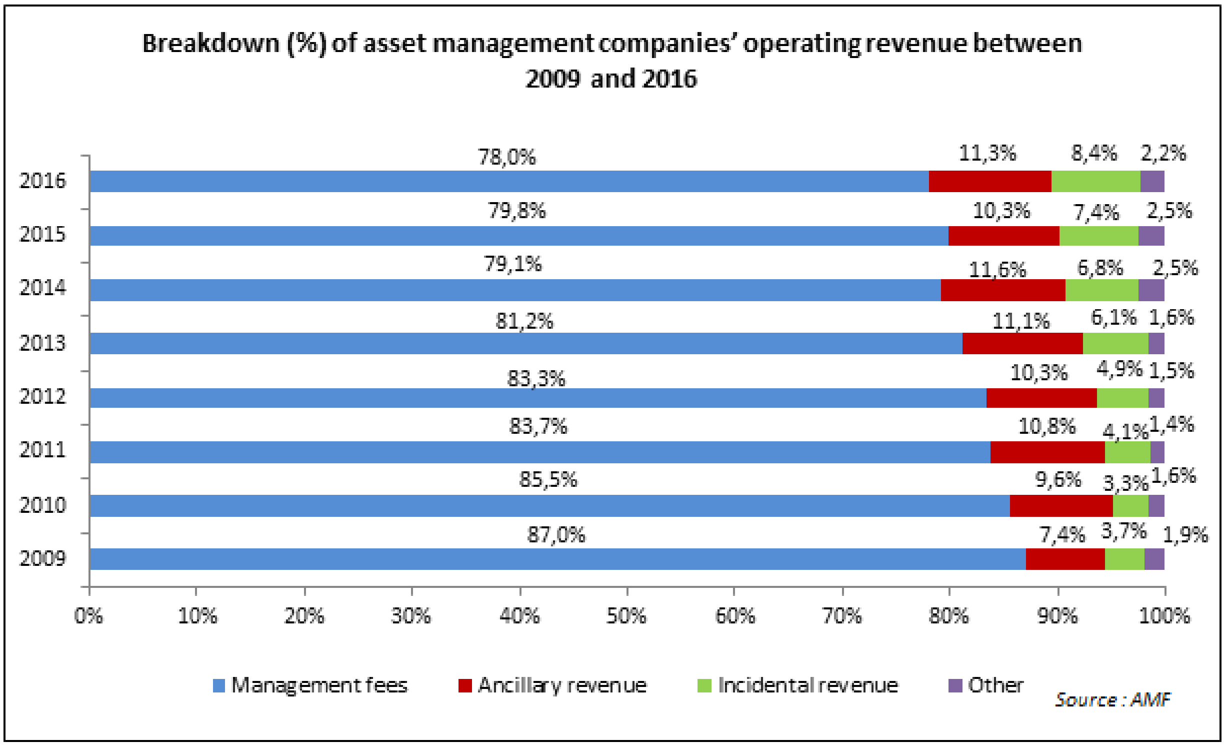
For the first time since 2012, asset management companies reported a decline in their total turnover, which stood at EUR 13.812 billion at 31 December 2016. This level is nonetheless still well above the 2012 figure (up 22.7%). Operating expenses have continued to rise in the last four years (up 18.9%) and reached EUR 10.967 billion at end-2016. The combined change in these two items caused operating profit to fall by 8.1% over 2015.

While assets managed by asset management companies grew by 6.2% in 2016, management fees did not move in the same direction and were the main factor behind the decrease in operating revenue. These fees fell by 3.1%, or EUR 339 million, in 2016 to EUR

10.778 billion. In particular, the amount of investment management fees declined by 3.3%, compared with a 0.2% decrease in discretionary management fees.

The increase in operating expenses was largely due to remuneration items. Payroll expense and human resource secondment costs accounted for 39.6% and 24.7%, respectively, of the increase in operating expenses.

Focus on the breakdown of operating revenue

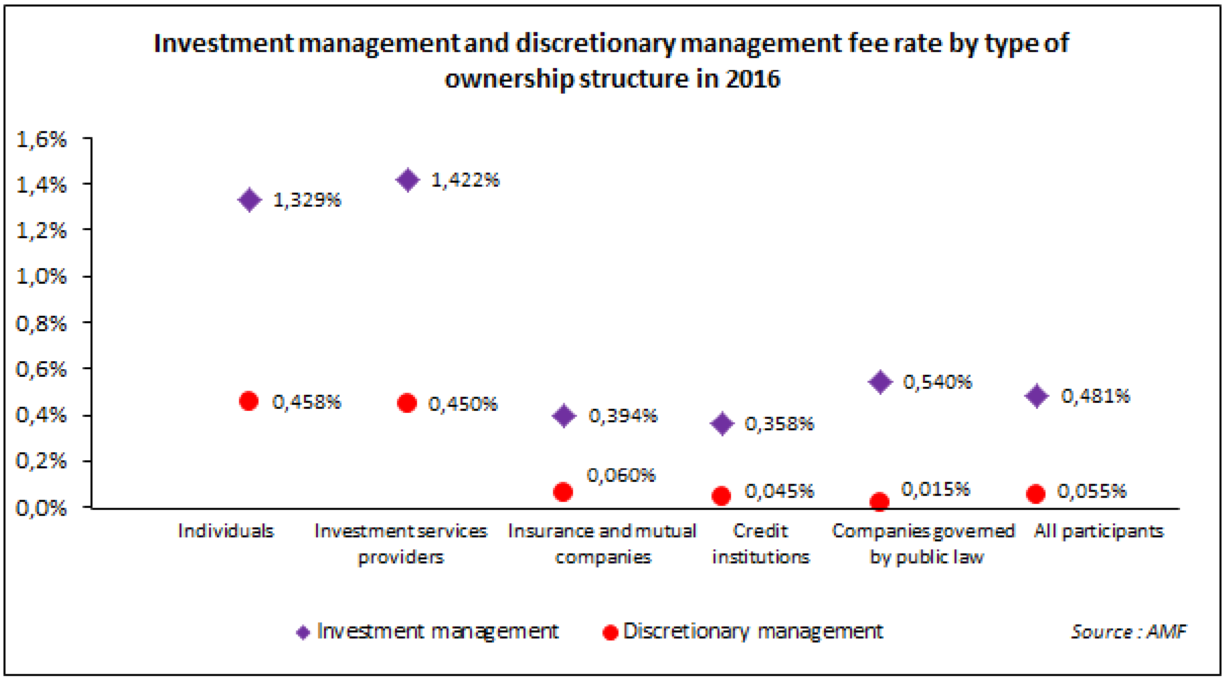


Note: Ancillary revenue is made up of collective investment undertaking turnover fees, subscription and redemption fees charged, and trailer fees on collective investment undertakings (fees that the management company charges in the course of its business, when its clients' portfolios are invested in collective investment undertakings managed by another company).
Incidental revenue includes fees charged for activities relating to advisory services, marketing of collective investment undertakings, order receipt and transmission, management of unit-linked arbitrage mandates, fundraising and venture capital fund management advisory services.
Other revenue comprises provision reversals, expense transfers and operating subsidies.

Management fees predominate but their share is trending down with the decline in fee rates and performance fees

An analysis of the breakdown of operating revenue highlights the high proportion of management fees. In 2016, they represented 78.0% of total operating revenue; 91.7% of these fees were generated from investment management and 8.3% from discretionary management. This item has eroded sharply in recent years, however. The proportion of management fees in total operating revenue is at a historical low and fell by 9 percentage points in 2016 relative to 2009.

French and European UCITS/AIF management fees and third-country AIF management fees fell by a respective 3.5% and 17.6% year on year, while "other AIF" (venture capital firms, groupements fonciers forestiers (woodland investment funds), real estate investment companies, etc.) management fees increased by 45.1%. This positive trend is due to strong growth (63.9%) in 2016 in assets in the "other AIF" category, which reached EUR 28 billion compared with EUR 17 billion in 2015.



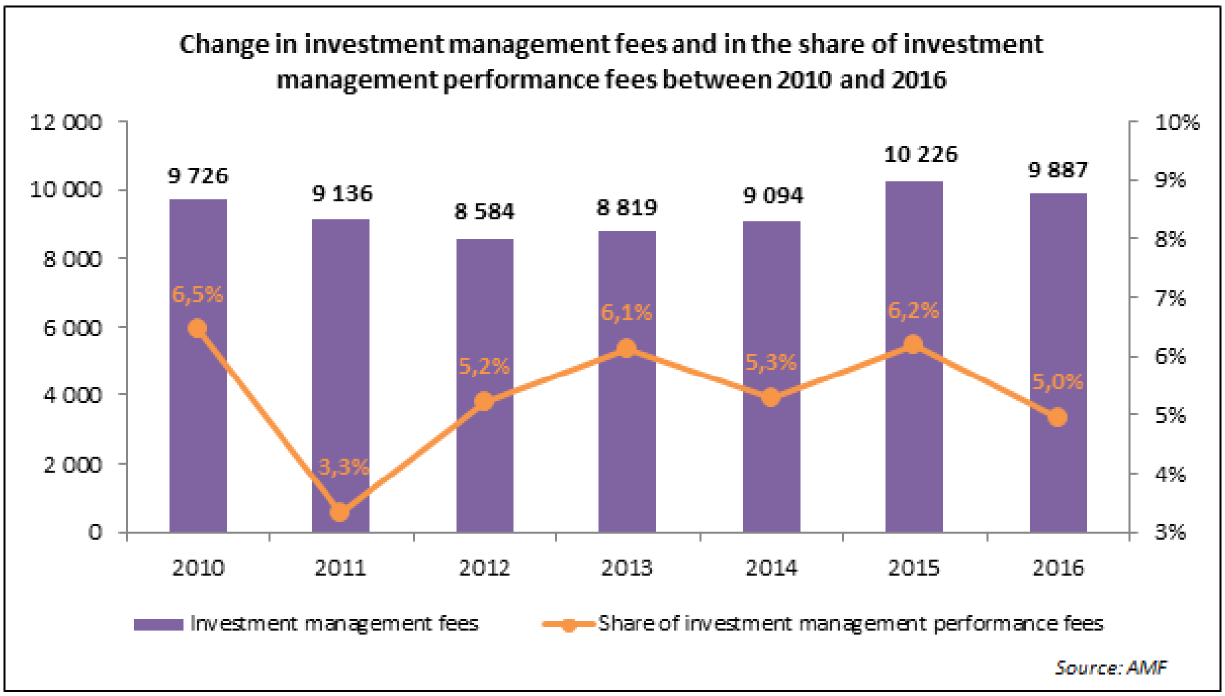
The decline in operating revenue, and in management fees in particular, resulted from a decrease in the fee rate (excluding performance fees) charged by management companies in 2016. The overall fee rate for investment management fell from 0.539% in 2015 to 0.481% in 2016 and for discretionary management from 0.057% to 0.055%.

The fee rate charged by management companies varies widely by type of ownership structure. Investment services providers and boutique firms charge the highest fee rates for investment management (1.422% and 1.329%, respectively) and discretionary management (0.450% and 0.458%), which can be attributed to their high proportion of retail clients and their niche strategies. The pricing for the private equity and real estate activities, in particular, which represent a significant share of the activities of boutique firms, is inherently higher than for more traditional management approaches.

In contrast, management companies that are subsidiaries of credit institutions and of insurance and mutual companies charge the lowest fee rates for investment management

(0.358% and 0.394%, respectively). These rates reflect the large amounts of assets under management and the types of management that allow these entities to achieve economies of scale and, as a result, to charge lower prices. These companies also have a large institutional client base (intragroup management of the general assets of an insurance company, for example) for which the fee rate tends to be lower.

The contraction in management fees in 2016 can also be explained by the decrease in performance fees charged by asset management companies for both investment and discretionary management. Performance fees were EUR 522 million in 2016 compared with EUR 678 million in 2015, i.e. a 23.0% year-on-year decline.



Investment management performance fees have risen and fallen since 2010. They decreased by 22.6% year on year to EUR 489 million in 2016. These fees represented 5.0% of total investment management fees and 3.5% of total operating revenue.

Similarly, discretionary management performance fees, which were EUR 32 million in 2016, were down to some of the lowest levels since 2011. They represented 3.6% of total discretionary management fees and 0.2% of total operating revenue.

Ancillary revenue on the rise in recent years

Ancillary revenue, consisting primarily of collective investment undertaking (CIU) subscription and redemption fees and turnover fees, represented 11.3% of asset management companies' turnover in 2016, or EUR 1.567 billion.

These are UCITS/AIF subscription and redemption fees and, to a lesser extent, other ancillary revenue (e.g. custody fee retrocessions) which in recent years have driven the growth in ancillary revenue. CIU subscription and redemption fees have risen by 98.1% relative to 2011. Other ancillary revenue has increased by 44.2% in the last five years. In contrast, turnover fees and UCITS/AIF trailer fees have fallen by 5.7% and 23.0%, respectively, since 2011. The decline in CIU trailer fees was particularly significant between 2014 and 2016 (35.2%), which reflects management companies' anticipation of inducement rules with the entry into force of MiFID II in early 2018.

Incidental revenue makes up an increasingly large share of operating revenue

Incidental revenue represented 8.4% of total operating revenue in 2016 compared with 4.1% in 2011. The amount increased 2.4 times over the period, rising from EUR 486 million to EUR 1.164 billion.

The breakdown of incidental revenue varies greatly from year to year. For example, other revenue not related to the asset management business represented a major share of incidental revenue in 2016 but the amount of this type of revenue decreased by nearly 50% from 2015. Conversely, revenue related to the venture capital fund management business (fundraising, target company advisory services, etc.) rose by 60.7%.

Focus on the breakdown of operating expenses

Growth in most operating expense items, breakdown remains stable

In 2016, total operating expenses increased by 1.3% year on year to EUR 10.967 billion. With the exception of trailer fees, all other items contributed to the increase in operating expenses.

Other external charges made up 64.6% of the rise in operating expenses. This item consists in part of the share of management fees paid for financial management delegation and charges related to accounting, administration, valuation, statutory auditor and depositary services for CIUs.

Payroll expense, which was EUR 2.789 billion in 2016, made up 39.9% of the growth in operating expenses; as could be expected, this was due to the growing workforce (up 3.4% over 2015). This item also represents an increasingly large percentage of operating expenses (22.1% in 2011 compared with 25.4% in 2016) while the share of trailer fees has shrunk in recent years. This could indicate that firms are starting to adapt to the stronger rules on inducements introduced in MiFID II.

Although operating expenses have kept the same distribution framework, the entry into force of MiFID II will unquestionably have an impact on management companies' business models.

Focus on asset management company profitability

Management compagny profitability down in 2016 after rising for three years in a row

For the first time since the financial crisis, the trend lines representing the performance of the CAC 40 and the overall operating margin[(1)]

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

of asset management companies have reversed. The profitability of the French asset management sector fell by 1.6 points in 2016 to 20.6%, while the French equity market, represented by the CAC 40, continued to rise (up 4.0% in one year).

The decrease in management company profitability is due, first, to declining fees, notably performance fees, and, second, to more intense competition in passive management which contributed to the decrease in management fees. The decorrelation between the performance of the CAC 40 and management companies' operating margin in 2016 may also stem from the growth in balanced funds with a strong focus on bonds. Additionally, growth in assets of equity CIUs slowed in 2016 to 1.0% from 3.4% in 2015.

(*) For example, this data point can be understood as follows: 10% (or 90%) of boutique firms have an operating margin of more than (or less than) 40.4%.

Management companies with the most negative margins are small entities while management companies that are subsidiaries of credit, insurance or mutual institutions are those that, due to economies of scale (amortisation of fixed costs), are able to maximise the profitability of their structure.

More management companies are loss-making and more of them are also reporting negative interest incom

The overall interest income of asset management companies has risen steadily in the last three years (up 148.4%) to reach EUR 693 million in 2016. In contrast, the number of management companies reporting negative interest income has increased by 14.3% year on year, reflecting more dynamic management of excess capital.

Asset management companies' total operating losses reached close to EUR 102 million in 2016, compared with EUR 87 million in 2015, and concerned 22.7% of the population. This percentage is higher than in 2015 (17.7%) but nonetheless remains below post-crisis levels (25.3% in 2011).

The differences by type of ownership structure are quite stark. More than three out of four (76.1%) loss-making management companies are boutique firms. Moreover, this percentage has increased relative to 2014 (72.5%). To a lesser extent, 10.4% of investment services providers and 9.0% of subsidiaries of credit institutions generated an operating loss in 2016.

A closer look at loss-making asset management companies' years in operation reveals wide disparities. The percentage of newly authorised (in operation for less than four years) companies in difficulty was 40.9% in 2016. This represents a sharp increase over 2015 (28.0%), which could be due to growing domestic and international competition and to the sector consolidation that new management companies are facing.

In contrast, the percentage of the most mature loss-making companies (in operation for more than 15 years) fell sharply, from 28.0% in 2011 to 18.3% in 2016. These figures point to the soundness of the industry, as companies continue to enjoy a low debt burden (EUR 302 million).

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. 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 2016
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 • The operating margin (or profitability) of asset management companies is calculated as the ratio of operating profit to revenue.

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