Second Quarter and Half-Year 2019 Earnings

Conference call transcript

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Second Quarter 2019 Results Introduction

Yves Perrier

Chief Executive Officer, Amundi

Introduction

Thank you to be here for this presentation of Amundi results for the first half. Figures will be presented in detail to you by Nicolas. An introduction, maybe, in order to define the general picture.

I won't be very innovative compared to what I have said about the first quarter results, which means that for us, in our view, it is a very satisfactory result for four reasons.

The first reason, the fact that net income increased by 5%, or 3% if we consider the adjusted net income, that means in line with the objective that we have given in the three-year plan. Let me just pause a minute on this. This first half we have registered around €500 million of net income. When Amundi was listed in 2015, the net income was €520 million for the full year. That means that four years after the IPO, the magnitude of net income of Amundi is nearly €1 billion a year, when it was €500 million at the time of the IPO, that means that we have doubled the net income, thanks to the development of the company and to the acquisition of Pioneer. Second element is a cost-income ratio at 51%, the same as last year, which is a very good level.

Second reason of satisfaction is a good resilience of activity, margin and revenues, that means we have a nearly flat margin, and also in terms of activity, we have registered in the first half net outflows, but we have to remind two elements. One was known in the first quarter, which was the reinternalization by an Italian financial institution of a mandate for about €6 billion, and the second element is the seasonality with monetary funds, which is traditional in the first half. But except these two elements, we have for the first half €8 billion of long-term new money, which is quite good in a context where the environment has completely changed. In 2017, the amount of net inflows in the European market of open ended funds was €800 billion. If we take the last 12 months, it has been zero and it is a consequence of the risk aversion leading to the double correction of the market of last year, in February and in the last quarter.

Third reason of satisfaction, the completion of the integration of Pioneer. In this quarter, we have migrated the US IT platform. It was the last step of the migration from Aladdin to Alto, which is the IT platform of Amundi and we have merged the Luxemburg funds. This integration has been very successful from a technical point of view, having in mind that in 18 months, we have been able to migrate the all of Pioneer on our systems, which is quite impressive. In terms of synergies, we will be delivering €175 million of synergies in comparison with the objective of €150 million, and they have been delivered more quickly than anticipated.

The final reason of satisfaction for this first semester is the fact that we have continued to invest. Looking at synergies, we have reduced the staff with a gross figure of more than 600 people, but at the same time, we have recruited around 100 new people in different areas. One area is passive and smart beta asset management, and the figures that we have in this area show the effect. Second area, in real estate, to strengthen commercial team and the last part is on technology. That means that we have continued to do what we have done well in the past, which is to deliver productivity gains and to use a part of these productivity gains in new engines of development.

So, all in all, we are on track with our financial objective in terms of net income, and we have integrated completely and successfully Pioneer, and we have continued to invest. So even if the environment remains difficult, Amundi is really stronger in order to achieve the new step of development of the company. That is what I wanted to say as an introduction and so I leave the floor to Nicolas now.

Financial Results

Nicolas Calcoen

Group Chief Finance Officer, Amundi

Overview and market environment

Markets recovering after the sharp correction in Q4 2018…

Thank you very much, Yves and good morning to all of you. So, we start with just a few elements of context on the market over the last six months. In terms of financial markets, there are no big news here. Just to remind that on top of a very strong, sharp correction mentioned by Yves at the end of 2018, we have seen overall in the last six months, a significant recovery, first on the equity market with the most important European indexes increasing between, let's say, 15 to 20% over the last six months, as well as, again, a decrease in the interest rate with a majority of sovereign rates in Europe being in negative territory. So, a positive market impact. Just also to remind that looking at this figure, that if we saw on the equity side a strong recovery, if you look just at the average of the first half of 2019 compared to the first half of 2018, we are still slightly below last year, and it is important when you look at the impact it may have on management fees.

… but virtually zero inflows on the European asset management market

Overall, a strong market recovery on the financial market, but I would say European asset management market remained flat. Actually, there were zero inflows since the beginning of the year. You can see on this table: net inflow of around zero on open ended funds market, in terms of the first five months of the year. We don't have June yet. It was 60 billion for a market whose size is €11 trillion. So, we can say no inflows, a reflection of the persistent strong risk aversion from our clients, especially, with the retail space.

Assets under Management of €1,487bn at end-June 2019, up +0.7% in Q2 2019

In this context, we have assets under management for Amundi that increased over last six months by more than 4%, 4.3%, I think, and 0.7% on the last quarter, reaching at the end of June €1,487 billion. So a sharp increase after the decrease at the end of the year. We have a positive market effect on a cumulative basis over the first six months of €73 billion. So positive market effect, but in terms of inflows, a mixed picture, as described by Yves.

Resilient net inflows in MLT assets

Resilient inflows in medium and long-term access despite this persistent risk aversion, with some outflows coming from the treasury products, 13 billion outflows on the first six months in the year. Also the effect, already mentioned by Yves, of the internalisation of the specific mandate from an Italian institutional investor at the beginning of the year for a bit more than 6 billion. But if you exclude this effect, long-term assets posted positive inflows of 8 billion.

Outflows in Treasury Products in H1 2019

Going a bit more into detail. First from treasury, as I mentioned 13 billion of outflows on the first half, mainly, predominantly coming from corporate and joint ventures and in particular we are seeing at the end of this quarter, what we see regularly in the second quarter, outflows from corporate that are paying dividends and restoring their cash to pay their dividends. So, outflows coming from corporate and joint ventures. There were also some outflows coming from French retail due to the fact it's coming from the corporate clientele (SMEs) in this network. Some outflows also on the JV, from the Chinese JV, in the context of regulatory changes that challenged the activity of our JV this first semester.

Retail in H1 2019: Activity on MLT assets affected by persistent risk aversion

If I now concentrate on long-term assets. First, in retail, as I mentioned, a stronger, persistent risk aversion, but a slightly positive inflow over this first half, 1.4 billion coming mainly from the international networks, and in particular from the success of the discretionary portfolio management for the Italian network. For third-party distributors, for French networks we see some modest outflows, you know, in the context of persistent risk aversion that can be in particular measured by Unit Linked on the French market, within the life insurance (which remains the main vehicle for savings from French investors). We have seen over the last 12 months, and continuing over this first half of the year, a decrease of the share of the flows going to Unit Linked, and an increase of flows going to Euro contracts, clearly the effect of this persistent risk aversion over the recent months.

Regarding our joint ventures, we have positive net inflows over the first half of the year with very good inflows coming from India and Korea on medium and long-term assets, and we continue, especially for India, to develop very rapidly, but some outflows coming from the Chinese JVs in the context where regulatory changes challenged the activity for our joint venture.

Institutionals & Corporates in H1 2019

Regarding the institutional and corporates division, here also we have some positive flows on medium to long-term assets, despite the loss I mentioned of an Italian mandate at the beginning of the year. These positive inflows of MLT assets are 6.6 billion euros, and have been driven first by the mandate given by insurance companies, so it is the effect of the fact that more money is going to euro contracts, in particular from the French savers, and second some positive development of employees' savings in particular.

Net inflows by asset classes

The last element in activity, again, on medium to long-term assets, in terms of product expertise, asset classes: you can see that the activity has been driven by three main asset classes: fixed income, real assets and structured products.

So it is a reflection of long-term trends that we see in the market, for example the development of real and alternative assets on the real estate, but also on private equity and private debt, where we continue to see a significant appetite from investor searching yield. It is also the reflection of what we have worked on together with our distribution partners to design products that fit this context of risk aversion, in particular the development of structured products, the guaranteed funds which we believe were one of the adequate answers we could give to this strong risk aversion from investors, but also maturity funds, fixed income management for the insurance companies and we can also mention a significant success in emerging markets debt, where we have seen a strong appetite and where we have very good capabilities. On the contrary, we have seen limited outflows on equities and multi-assets, again, in this context of significant risk aversion.

Solid performances

Mid-year view on performance. Just to say that we have seen solid performance over this period. We have value indicators that we use to monitor performance. For example, we have decent five-year performance on open-ended funds: 75% of our funds are in the first or second quartile. We have also 77% of our expertise with a "buy" rating by consultants, and we have 60% of bond expertise and 59% from our equity expertise, that beat their benchmark.

Successful Growth Drivers and Product Innovations

To continue on product and on expertise, also to mention that we continue to see a good development in passive management, which remains successful. We have close to 7 billion inflow overall in passive management and smart Beta during the first half of the year. We benefit from momentum on ETF, 4 billion of inflows during this first half of the year. We are still the fourth asset manager of ETF in Europe in flows, and we will continue progressively, quarter after quarter, to gain market share. Also, a good development in the Smart Beta space of more than 2 billion over this first half of the year.

Also to mention that – but I already touched on that- real assets and alternative assets continue to develop with around 50 billion of AuM by the end of the first-half of the year, as well as our new activity in Amundi Services. Progressively we continue to onboard clients. We have now close to 30 clients using all or part of our Amundi Services offering.

Continued Development of Responsible Investing

The last element before going to the P&L and results, to mention the continuation of the implementation of our development plan for responsible investment. You know that responsible investment has been one of the pillars of Amundi since its creation. Last year in October, we launched a plan giving ambitious new objectives, in particular to apply wherever it is possible the ESG criteria for management, and we can say that we are delivering on this and we have an increase and recognition of our activity. For assets that are managed under our Responsible Investing approach, they are now close to €300 billion and over the recent months, we have launched and participated in new initiatives. Just to mention two, the partnership we signed with the European Investment Bank to develop what we call the Green Credit Continuum programme, aimed at developing green bonds beyond their traditional investment grade approach today. Also, the fact that we participated with seven other asset managers to the One Planet Sovereign Wealth Fund Asset Manager initiative at the beginning of July in Paris.

Results

Accounting net income up by more than 5% in H1 2019

We will now move to the results. To remind us, as Yves indicated that this semester, and this quarter, again, we saw an increase in our net results, in what we call the adjusted net income, which increased by 2.7% over the first half of the year to reach €505 million. Our accounting net results increased by more than 5%, 5.6%. So, we are clearly in line with our medium-term target.

Stable revenues

This has come first from the good resilience of our revenues; total net revenues are almost stable at €1,332 million, with net management fees that show a relatively good resistance and a slight decrease, 1.6%, which reflects the fact that we are almost stable. I will come back to this.

Performance fees that are at a good level, at €60 million for the first half of the year. I remind you that the level of performances we delivered at the beginning of 2018 was exceptional, before the market decrease at the end of 2018. We have a good level in the second quarter, 40 million only for the second quarter of 2019.

Our last element, financial revenues, a positive €33 million, reflecting the recovery of the financial market over these six months. You know that most of this financial income is the variation of the market value of our investment portfolio.

Nearly stable average margins

I was mentioning a good resistance for the average margin. You can see it on this slide; the blended global average margin is at 18.7 basis points on the first half of the year, slightly decreasing compared to first half of 2019, but in line with what we have seen at the end of last year. So margins that are almost stable, despite the fact that the inflows on retail were negative and thanks to a good product mix, in particular, in retail.

Cost income ratio

We have a stable expenses amount, almost stable compared to first half of 2018, allowing us to boast again a very good cost/income ratio, one of the lowest in the industry at 51.1% for the first half of the year, and 51.2% for the second quarter. So, a stable, low-level cost/income ratio.

This cost control, where does this come from? Basically, the continued materialization into the P&L of the synergies that come from the integration of Pioneer, that compensate inflation effect, the effect of forex and also compensate for the investments that we made to support the development; this is reflected by the evolution of our staff numbers, as mentioned by Yves. Compared to the end of 2016, which was just before the integration of Pioneer, total staff number decreased by 535, so a bit more than 10%. The synergy allowed us to reduce staff by 625, but also some reinvestment of 90 staff over this period, mainly in new areas of development, in areas in strong development such as real assets, passive management and also Amundi Services and our IT platform, and also in commercial teams in dedicated country.

Synergies Higher Than Anticipated

Last element, of course, I was mentioning the synergies to confirm that we know, we can say that the integration of Pioneer is over. Over the last quarter, we successfully performed the last two, I would say, important milestones of the integration, which were the last IT migration in the US and the merger of our cross-border range of products of our Luxemburg funds in June. So, we can, again, confirm the new target which has been revised a few months ago, a new target of run rate synergy, 175 million and we are well on track to fully see it in the P&L.

P&L

So, to finish on the results before I can give you back the floor for questions. If I continue on the P&L, you can see that the contribution from our joint ventures was almost stable over this semester, after a very strong increase last year with a positive contribution from India but a weaker contribution from China in line with what I mentioned about the activity.

Finally, we have seen a decrease in our tax charge by around 7%. I can mention that over the second quarter our tax rate was lower than normal, thanks to a positive one-off effect in Italy. Going forward, as we already discussed, our average tax rate should be for the year around 28%.

So, based on all these elements, as mentioned, for the year, we managed to get an increase of adjusted net result of around 3% and it is more than 5% for the accounting net results with just a reminder: we accounted some integration cost in 2018, but we did not have any more integration cost in 2019.

So, to conclude now, a satisfactory quarter and semester with an activity and margin that remained resilient despite a difficult market environment, despite this persistent risk aversion. Continued growth in results which are in line with our three-year target. I remind our target of 2020 was a net result for around €1 billion, €1.05 billion if you look at the adjusted net income and with the Pioneer integration which is now completed, with investment that we continue, we have good prospects for the rest of the implementation of our plan.

Q&A

Jacques-Henri Gaulard (Kepler Cheuvreux): Hello, Jacques Henri, Kepler Cheuvreux. Just one question really. Europe, becoming more and more complicated as a continent, show negative interest rate going on forever, once confronted it's all over the place. Isn't it tempting for you to revise your strategy generally and to say, okay, one, we reinforce the US or other regions a little bit more than Europe and that links to that, I guess in terms of consolidation, do you find people approaching you to, like, give up a little bit? Thank you.

Yves Perrier: Well, I would say that our strategy is quite the same since 10 years and we do not see any reason to change. Of course, the strategy is important but execution is even more important. That explains that you have to adapt.

Firstly, on the environment. It is clear that we are living in the context of low interest rate which is very negative for our financial services industry and personally, I think, it could be negative for the market because, if I try to summarise my position, I would say that regarding confidence, too low interest rate or negative interest rate can create uncertainty. I think that we have come to a stage where the downside is more important than the upside, and there are two consequences. The first direct consequence is aversion to risk, explained also in the context of the market. So, the customers prefer not to invest in fact, and you can see the evolution of deposits in banks.

The second consequence is that you have three ways to make revenues in the financial services industry. When I say financial services industry, I mean, banks, insurers and insurance, asset managers. One is on loan, the second is on the means of payment services and the third is on the savings. With gross remuneration of savings decreasing, with the same amount of fees, net remuneration does not reach satisfactory amount. So, all this will make a pressure, some pressure on industry revenues, I think you have seen it in Japan for a long time.

So, in this context, firstly, we are really optimistic for three different reasons. The first reason is that there is in this kind of context, a competitive edge to achieve efficiency levels and frankly speaking, we have made the demonstration that we are one of the best on this. You remember that we launched our ETF business with the brand "smarter and cheaper". I would say it's really smarter and cheaper and we have a competitive edge.

Secondly, there is no country where Amundi operates in Europe, in Asia, in US, where I do not consider that we have room to develop, to improve. In this context, we consider that we will go faster than our competitors with this competitive edge. In the US, we will seek to improve efficiency, notably IT operation. At the time of the merge, US had 75% cost income ratio, which is now 65%. So, we have gained 10 points, and still in the US, we have room to improve. At the same time, despite market context, it is not the end of the world and there is a room to manoeuvre, to improve and to conquer.

Arnaud Giblat (Exane): Good morning, it is Arnaud Giblat from Exane. Firstly, on institutional margins. Those have been coming down over several periods now. I am wondering if that is a consequence of fee pressure for the reasons you have just explained or is there something else going on there?

Secondly, could you give us a little bit more detail as to what is going on in China? Has there been a specific impact? What is happening and is that over?

Finally, you had some good inflows in structured products. Could you give us a bit more detail as to what these structured funds are? I mean, surely netting a zero-rate environment it must be hard to offer capital guarantee so I am wondering what people are buying. Thank you.

Yves Perrier: Okay, your first question is very good on the margin. Yes, we continue to see a fee pressure, and it is not new, especially, because of this continuing low rates context we just mentioned. It is partially counterbalanced by the fact that we are gaining market share but also we had enough time to develop a new segment of products where the margins are higher. So, if you look at the margin, if you compare to the end of last year, in fact, the decrease is not so significant.

On the question of China, at the end of the first quarter, the first semester, the outflow were related to a negative monetary seasonality. We experienced that effect which has occurred in the past, but the present outflows are linked to changes in the Chinese regulation for these products. Banks, you know, are using now more, let us say, balance sheet products against off balance sheet products but these products have low margins so the effect on the result is not so great.

If you look at the future, well, the development of the joint venture will continue for a simple reason, the size of the Chinese market and the size of ABC which the 3rd bank of the country.

On structured products, yes, we launched some in the semester. A demonstration of the reactivity of Amundi because in this context of aversion to risk, we rapidly launched in different markets, especially, in Italy, guaranteed products which fitted the attitude of the customers at this moment. Of course, with free risk rate at zero and negative, to manufacture a capital guarantee is becoming more difficult, but we don't manufacture only 100% guaranteed products but also some products that are protective, the "Protec 90%"; so it is a way also to make the customer more ready to invest.

Hubert Lam (BoAML): Good morning, it is Hubert Lam from Bank of America. Three questions. Firstly, sorry, going back to fee margin, we see that fee margin has gone down to 18.7 basis points today. I think previously you said you wanted to maintain it at about 19 basis points. I am just wondering if that target still holds or do you think the environment has changed, then maybe make it may come down from the 19 basis points you were looking at originally.

Second question on SocGen. I was wondering if you could give us an update on your discussions with SocGen and what your expectations are. Do you still expect them to maintain the same relationship with you as it is today?

Thirdly, if you can just give us an update on your excess capital, how much do you have excess capital today?

Nicolas Calcoen: Okay. So, on the capital as we have indicated, we did not have any excess capital following the acquisition on Pioneer. We are progressively rebuilding by just accumulating new results and the part which is not distributed. So, today, you know we are regulated as a bank so we follow solvency regulations applicable to banks. Today, we have a CET 1 ratio of 13.4%, which has been slightly increasing, thanks to the results but slightly compensated by the fact that during the recent months, we also implemented our share buyback programme to finance the LTI, and so it is a deduction to capital. That is why the increase was quite limited but going forward we should continue to accumulate new results and distribute 65% of it and we should be close to 1 billion of excess capital by the end of 2020.

Yves Perrier: On SocGen, the end of the SocGen distribution agreement is in November 2020. So far we have not begun to discuss but we are very confident on the continuity of this agreement for different reasons. First reason, we know that the people of SocGen, especially in the networks are happy with savings solutions and services of Amundi which are quite exceptional. There are not so many competitors able to provide it and so, first point is to look at the interest of the customers. Secondly, that we have, you know, mutual interests: SocGen is using the service of Amundi but also Amundi is using the services of the SocGen custody division and so on, in capital markets, so there is a balance. So I think it will be in the interest of the clients of SocGen, the shareholders of SocGen and the employees of SocGen to continue. It will be also in the interest of Amundi as well. When the interest is common, generally you will find a good solution.

The other question was –?

Hubert Lam: The margins.

Yves Perrier: Margins. To be simple, margins, frankly, are stable around 19 basis point. It is difficult to elaborate because the average margin by definition ex post it is the result of a breakdown between retail and institutional. It is a breakdown between passive and active , monetary fund as well. There are mix effects which can shift this. What we can say is that the individual segment margins will continue to be under pressure in retail, in institutional. That is the idea in which we are. After, the average margin is difficult to predict– we took an assumption of stability.

Nicolas Calcoen: Just to complement, as you know, we do not have a target in terms of margins for the obvious reasons indicated by Yves. We said it should be more or less stable. When we say that, it was around 19 bps. We are at 18.7. I think we are almost stable.

Yves Perrier: It is important to differentiate targets and assumption. We have a target of net income and assumption of inflows, margins and cost-to-income ratio. However, our commitment is about net income.

Gurjit Kambo (JP Morgan): Hi, good morning. It is Gurjit Kambo, JP Morgan. Just one question. If I sort of dissect your flows in another way, so if I look at the passive inflows and the real asset inflows, passive is annualising about 20%, the real asset is annualising about 10%, so combined that is about 9 billion of inflows. It is very polarised on passive and polarised on the real asset. The middle part clearly is in outflows. Are there new products or new strategies that you are looking at which can help perhaps the other parts of the business?

Yves Perrier: I would say that for the two – for passive, but passive includes ETF ; it includes also passive mandate for our institutional investors; it includes also Smart Beta which is the new intelligent passive. For passive and real estate, it is the fact that we have built an engine. For passive, we began in 2010. In real estate, we were in the business, but at the very low level in real estate, not in private debt, and year-by-year, we are running faster. In fact, if I take ETF, we are nearly at €50 billion of AuM. We were the third collector this semester in Europe and in the past we were the fifth. In real estate and also in private debt, our recognition is more important. We are now the number one in real estate in France, for example. So, it is the choice to push this or that, it is the fact that this business line, as you know, has more and more recognition.

Well, we have permanently innovation and new products. I will take an example in retail: during the last 12 months, what we have seen is an increased risk aversion, okay. What we have done is pushing structured products and also buy and hold funds, especially in Italy, which provide some income to the client at which they are not daily opened. In fact, we don't have the liquidity risk. In ETF, we permanently open new funds. For example, we have launched an ETC on gold, and so on and so on.

Nicolas Calcoen: It is also true on purely active management. In Emerging expertise, we launched also recently a dedicated funds called Silk Road; we launched recently multi-asset sustainable funds and we constantly launch new funds in all the expertises we are managing, passive, active.

Yves Perrier: We try to close at the same time some funds. It is more difficult.

Chris Turner (Berenberg): Hi, good morning. It is Chris Turner from Berenberg. I think you have just touched upon my question there which was in the last few months, we have seen issues that H2O would face in the UK, also with GAM, issues around liquidity. How do you think that impacts the industry broadly and where the industry goes and some of the structures to reflect the liquidity issue? Then specifically around the 1.4 trillion of AuM, I think 962 funds, what do you think needs to change at Amundi with respect to this kind of liquidity environment?

Yves Perrier: Your question of liquidity is not a new question. It is a key permanent question of our business for a very simple reason. It is the fact that what is a fund? The fund is daily open. On the liability side, it is equivalent to a side deposit, you can say if you want. On the asset side, you invest to a maturity which is longer, by definition, than on the passive side, so you have a mismatch with ALM. So we need permanently to manage this ALM risk. The way we do in Amundi is the following. Firstly, we manage this at the level of each fund, doing stress test, with this stress test with assumption of net outflows for a fund, and also capacity to sell the assets at a certain pace. When we have done this assumption and identified the mismatch, we define the bucket of liquidity fund by fund.

That is the first element which is a key element. Then, we organise other lines of defence which are at two levels: one line which is in some cases to buy a liquidity commitment from investment banks on some kind of assets. The second line, it is to have a strong balance sheet. In the balance sheet of Amundi, we have more than €2 billion of net tangible equity. We have also €1.7 billion of a financing line which can be drawn in exceptional situation. That is something which is fundamental in the risk management of our activity.

Here in Amundi, the way we are organised, we have the investment management platform with the CIO, and we have a risk department, which is completely separated. Before launching each fund, there is a strategy which is defined, presented by the front office and which is reviewed by the risk management. We follow permanently that the teams are within the guideline of our strategy.

Chris Turner: Do you think in an extreme situation you would use reserved cash balances and then note facilities to help a fund out?

Yves Perrier: Excuse me?

Chris Turner: You mentioned the capital that Amundi holds and you mentioned the access to credit lines that Amundi has. I am interpreting that as you are saying you have got that capital, therefore in an extreme situation you could help one of the funds that got into trouble?

Yves Perrier: Exact. That means that the first line of defence is managing the liquidity fund by fund. But I had some experience of a crisis; in some cases and some of you maybe have known the crisis of 2008, post Lehman Brothers and what happened to the liquidity and so on. It could be useful, optionally, to be able to have your balance sheet in fact to absorb liquidity problems during a short period. It is not an objective, but it could be useful –

Nicolas Calcoen: It is not an obligation.

Yves Perrier: It is not an obligation, yeah.

Angeliki Bairaktari (Autonomous Research): Hello, thank you. Angeliki from Autonomous Research. A few questions from me. First of all on the SocGen distribution agreement, I hear your point. I was just wondering, could you give us some colour on the flows that are coming from Société Générale over the last couple of years maybe? Are those in line with what we see in general in the French networks or are they less or more than Crédit Agricole for example? Any colour there would be much appreciated.

Then in general, you have given a lot of colour on French networks and the shift in the first half from the sort of unit-linked into traditional euro contracts. Could you give us some colour on what is going on in Italy at the moment, what are you seeing there? Some banks are arguing that low interest rates could help them sell more off balance sheet products as opposed to sort of deposits which bear lower remuneration under negative rates.

Also, what are you seeing in third-party distributor flows? They have not been that strong over the last few quarters. Any colour there would be much appreciated and expectations about the second half as well.

The last question, on institutional margins, do you see pressure coming from European players that are looking sort of to get mandates? Or is there also some pressure on pricing coming from US players that are looking to enter into the European institutional markets?

Thank you very much.

Yves Perrier: On SocGen and the French network: firstly, a permanent challenge that we face: our domestic market is France, the French market. When we consider the French market, except monetary funds, and we compare it to the European market, it is about 6% of the European market.

We have not the privilege of the American players to have a huge domestic market with good margin. The international development for Amundi is not an option. It is an obligation. What I am saying is not only the case for French asset managers; it is the case for banks and so on.

Secondly, this market has been the worst market from 2010 to 2016. For Amundi, the net outflows coming from our four French networks were €60 billion, net outflows, cumulative net outflows, of which 50 were coming from monetary funds, because the banks at this time, after the euro debt crisis, pushed deposits against off balance sheet products. There are not so many differences between Société Générale and Crédit Agricole in term of performances, it is quite equivalent.

The second question was?

Nicolas Calcoen: Italy, that shift between unit-linked and –

Yves Perrier: Ok, in France, unit-linked, the question of unit-linked; what we have seen is from 2015 to 2017 included, an increase of the share of unit-linked compared to the total net inflows in life insurance against the euro contract from, to be simple, 20% to nearly 30%. And in the last 12 months, it was not a good news, a decrease of the part of unit-linked (related to the aversion to risk) from 28% to 20%. We hope that now the market has stabilised, and we will have again a shift to unit-linked.

On the attitude of competitors, it is clear that the competition coming from the American players will continue. My guess is it will accelerate, because they have this privilege to be in a huge domestic market with a strong profitability, and it is the same for investment banking. They can expand internationally, accepting to lose some money. It is up to us to be a bit more clever, a bit more agile, a bit more, let us say, intelligent, but a bit more "good fighter".

Angeliki Bairaktari: On the institutional segment, do relations matter with your clients or is it all about the price, effectively, if a player comes and offers the lowest price?

Yves Perrier: No, no. The price is one of the elements, but it is not the unique element.

Angeliki Bairaktari: In Italy and third-party distributors, if you could give some colour on what should we expect in the second half in terms of flows?

Nicolas Calcoen: Well, generally speaking, on retail, we are continuing to see now the consequence of the two market corrections – but the prospects are a bit more positive. We feel that the risk aversion mode is still there, but we believe it should progressively change a little bit. What we are saying is about France, we would see something similar in Europe.

Yves Perrier: We are a bit more optimistic for the second semester. However, it is something which is an opinion.

Nicolas Calcoen: Maybe one additional element on third party. It is still partly difficult to evaluate to what extent it had an influence, but as I mentioned, we had in June the project of merging the Luxemburg SICAV, the ex-Pioneer funds and the ex-Amundi funds. Probably to some extent, from some of the distributors, they were on the wait and see mode, waiting for the project to be done before going back. It may have slightly negatively impacted our flows at the end of the last quarter, but it is always difficult to exactly evaluate to what extent.

Yves Perrier: Questions from the telephone line?

Operator: We have some question on the telephone. Your next question comes from the line of Pierre Chedeville from CIC Market Solutions. Please ask your question, your line is open.

Pierre Chedeville (CIC Market Solutions): Yes, good morning. Actually, not a lot of question. Just two precisions regarding your platform, Amundi Services, it seems that the number of clients you have now has increased in very significant proportion and I wanted to know if you are resizing up your revenue forecast. In my memory, you were about 50 million euros in 2020. Can you think you can do better with this diversification?

Regarding structural products, which seems to work well with the €2 billion inflows. I wanted to know, is it your teams that are designing these products or are they teams from CACIB? How does it work exactly? Because in my view, generally, structured products are designed by CIBs and sold in the networks, which seems not to be the case with Amundi.

Yves Perrier: It is not the case. In Crédit Agricole Group, the entity who designs the guaranteed product is the asset manager. To do this, the asset manager has to manufacture the capital protection either by buying the, say, bonds, free risk bonds or either doing a swap with an investment bank with an auction at best price. So the designer in Crédit Agricole Group is Amundi.

Your first question was Amundi Services. Amundi Services, presently it is three parts. One which is fund hosting, the second which is the sale of our dealing platform, and the third is ALTO, which is equivalent of Aladdin, and which is our software. The take-off is very good in fund hosting. It is beginning on the dealing platform and it has to be done on ALTO, to be clear.

I am very optimistic because we have now a very good example which is the fact that we have migrated. We have, with the acquisition of Pioneer, migrated from Aladdin to ALTO. When I discuss with the investment managers of Amundi, nobody tells me that ALTO is not at the same level as Aladdin. That means in terms of functionality, it is, at the minimum, equivalent.

Secondly, we have the capabilities but also we can integrate very efficiently without operational problem, because in IT, it is important to look at the functionality. That implementation is very important. However, the take-off has to be done. I am optimistic, and so when I mention this amount of revenue, I often say it is a magnitude and do not consider it as a target. It is conform to these figures. I am not sure that next year we will be at this level, and so I do not remember that it was euro 50 million euros in 2020. However, as a minimum, we do not revise up the figure.

Pierre Chedeville: Thank you.

Operator: Your next question comes from the line of Bruce Hamilton at Morgan Stanley. Please go ahead, your line is open.

Bruce Hamilton (Morgan Stanley): Thanks. Morning and thanks for taking my questions. Just returning to the liquidity point if I can ask a couple of questions. Firstly on what you think, if any, might be the regulatory responses to the issues of H2O with liquidity. If asset managers are going to put balance sheets behind funds in extreme time, do you think it therefore follows that the regulator will sort of rethink the capital requirements for the industry?

Then secondly, when you look at the H2O situation, how company-specific do you think those issues were and how much is it sort of symptomatic of broader challenges or concerns around liquidity and parts of the fixed income market? Thank you.

Yves Perrier: Well, I do not know how specific the file is to all or with the rest, the names, so also I cannot comment on this. I can just repeat what we have said. The way we manage liquidity management is fund by fund with stress test, which permanently assess the potential mismatch between outflows and the capacity to sell the assets in the market, plus the solidity of the balance sheet of Amundi. But, I cannot comment on specific file.

Bruce Hamilton: Do you expect any regulatory response in terms of higher capital requirements for the industry or were any changes to expect in the industry, where the mismatch between assets and liabilities is perhaps more extreme like open-ended real estate funds?

Yves Perrier: My position on this has been consistent for a long time. I have considered that the management of risk and the capital adequacy in asset management was not the same as for a bank. The question for example of risk is to be managed fund by fund. At the same time, an asset manager needs to have a solid balance sheet, a solid financial structure in order to face a very extreme situation.

This capital adequacy which has been defined for a very long time, is six months of expenses, for those asset managers which are not regulated as banks. Because Amundi is a subsidiary of bank, we have also a regulation of capital adequacy as a bank. Probably there will be discussion but I consider that risk regulation has to be done at two levels: one, at the level of fund, and the second is the level of the company as a whole.

Bruce Hamilton: Thank you.

Operator: Your next question comes from the line of Samarth Agrawal at Citi. Please go ahead, your line is open.

Samarth Agrawal (Citi): Hello. I just have one general question. Are you seeing some sort of risk aversion in your joint venture segment as well? I mean, they are still inflows but the level of flows does look subdued versus historical levels. Is it something structural or how do you think about that? Thank you.

Nicolas Calcoen: Could you repeat the question? Sorry we could not catch up on the line.

Samarth Agrawal: OK. I was asking, are you seeing some sort of risk aversion in your JV segment as well? I mean there are still inflows but the level of inflows does look subdued versus historical levels. Is it something structural or how do you think about that?

Nicolas Calcoen: On JVs?

Samarth Agrawal : Yes.

Yves Perrier: To be very simple, the evolution of JV: the three JVs are doing well, especially in India. However, in China there is something which is really specific which is the outflows on this equivalent monetary fund. But, if you look at the long term, we are confident that this JV will continue to be very positive.

Samarth Agrawal : Okay. Thank you.

Yves Perrier: Okay.

Operator: Your next question comes from the line of Flora Benhakoun at Deutsche Bank. Please go ahead, your line is open.

Flora Benhakoun (Deutsche Bank): Yes, good morning. It is just two quick clarifications, please. The first is just a follow-up because I think you mentioned that you expect to have an excess capital of close to €1 billion at the end of 2020. I just wanted to ask you how you would define excess capital. Is it compared to a 10% core tier 1 ratio?

The second question is regarding the slide that you present on the Pioneer synergies just to make sure I understand correctly. You are saying you are done with the integration. However, there are still synergies to come in 2019, 2020 and 2021 on top of this year. Is that correct? Thank you.

Nicolas Calcoen: First question on excess capital, yes, as I mentioned, we are regulated as banks, so we have to follow the solvency requirements as any bank. When I say excess capital, it is excess compared to this minimal requirement plus a small buffer, a usual buffer. Yes, it is excess capital, above, let us say, around 10% of CET1.

On the synergies, yes, synergies are continuing. We had some at the end of last year. We are still doing some synergies over the recent months. There will be a little bit more to come thanks to the end of IT migration. That is why we do not see yet completely the impact of the synergies in the P&L, but they will be the case completely next year in 2020.

Yves Perrier: Okay. Thank you. No more questions, so thank you all of you to be here and we wish you excellent holiday for those who will be on holiday. Thank you.

Nicolas Calcoen: Thank you.

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