Third Quarter & Nine-Month 2018 Results

Friday, 26th October 2018

Introduction

Anthony Mellor

Head of IR, Amundi

Yes, good morning to all of you. Thank you to be with us. Our CFO, Nicolas Calcoen, will present the results, and we will then hand over the floor to Q&A as usual. Nicolas, up to you.

9M 2018 Highlights

Nicolas Calcoen

CFO, Amundi

Thank you, Anthony. Good morning to everybody. We are here to present you the year-to-date results and the third quarter. Just to introduce, I would say that these results are very satisfactory, showing continued strong increase in our net result and resilient business performance in a market environment which is clearly less favourable that what it used to be.

Main indicators being for me, of course, the increase in the net results, 41% for the accounting net result. On a comparable basis, plus 11% compared to last year. And the strong net inflows of €48 billion for this nine first months of the year. So to enter a little bit more into detail, I would start, I would say, as usual, with a few words about the environment.

Business Activity

Less favourable environment

As I said, clearly less favourable. The equity markets in average for this first nine months are more or less stable compared to last year. You can see EuroStoxx is plus 1%, again in average nine months to nine months. Interest rates are still low but probably what is more important is since the beginning of the year, since the first market correction of February-March, we are in a much more volatile environment with the rising risk perception of political or geopolitical risk, higher risk aversion, which is clearly visible on the market.

Just to illustrate, if you look at the market of the open-ended funds in Europe, for the whole of Europe, last year the net inflows for the full year, which was a very good year, was around €800 billion, more or less €200 billion every quarter. This year is €150 billion for nine months, and almost all of this being done in the first quarter. Basically over the last five, six months, the net inflows in Europe, at least on open-ended market, are close to zero. So in this environment, Amundi continued to grow.

Assets under Management

And I am on the following slide, page 8, with assets under management that reached at the end of September, €1,475 billion, an increase by 0.6% compared to June and up by more than 5% on a yearly basis, with, as I indicated, €48.5 billion of net inflows since the beginning of the year and a bit more than €6 billion for the last quarter.

Net inflows primarily driven by MLT assets

Following page, an important element which is noticeable is the fact that these net inflows were primarily driven by long-term assets. As you can see, out of this €48.5 billion on the first nine months of the year, €42 billion were on long-term assets. And for the last quarter, we had almost zero flow on treasury products, so almost all of the inflows were on long-term assets with one exceptional one-off, which we already discussed at our last conference call. It is the fact that Fineco, an Italian distributor, decided to re-internalise the management of some mandate, a range of fund of funds; it represented an exceptional outflow of €6.5 billion. Except this element, we had positive inflows over the quarter of more than €12 billion, almost 100% on long-term assets.

Solid net inflows due to strong momentum in Retail

Following page in terms of clientele, you can see that these solid net inflows were done both by the Retail and the Institutional division, with a strong momentum in Retail over the first nine months of the year, with a bit more than €36 billion of inflows, excluding Fineco. But also with a good level of activity in the Institutional segment, especially on the last quarter with a bit more than €10 billion of inflows on the Institutional business.

Retail over 9M 2018: strong net inflows driven by all distribution channels

So I run now into more detail first on Retail, Page 11. As I indicated, strong inflows since the beginning of year, which is interesting. They were driven by all distribution channels with the French networks, but also the international networks and especially the Italian network. Third-party distributors, if you exclude Fineco mandate and the joint-venture, all posted positive inflows since the beginning of the year.

Retail in Q3 2018: resilient business performance

If you look more precisely at the third quarter, it shows that Italy had good resilience on long-term assets in an unfavourable environment. What we have started to see in the second quarter in Europe, as indicated, net inflows close to zero in Europe. And to some extent at Amundi there is clearly slow down on inflows compared to what we used to see last year, due to an increased risk aversion; but despite the environment, we managed to continue to post positive inflows.

So again, if you exclude the reinternalisation of the Fineco mandate, the net inflow on Retail amounted to a bit more than €2 billion for the quarter. And if you look just at long-term asset, positive inflows of €3.5 billion, generated by the French networks, still €1.5 billion on long-term assets. International network, a clear slowdown but is still positive, including in Italy. The Italian networks of Italy posted €0.7 billion inflows despite the environment. And third-party distributors, again excluding Fineco, €1.8 billion inflows over the quarter.

So decent, good level of inflows considering the market environment, despite the fact that on this quarter, the contribution of the JVs was minimal. You will remember that we had very, very strong inflows on the first half of the year. On this quarter, the inflow is limited; not any source of worry: we continue to have positive inflows in India, and in China, some outflows. You know that the market is more volatile. We have some limited outflows overall, but nothing worrying.

Institutionals & Corporates: strong business activity mainly in MLT assets

If I come to the Institutional business, Page 13. As I indicated, a good level of activity, €18 billion since the beginning of the year overall, a bit more than €10 billion just for the third quarter. What is interesting is that this activity has been generated mainly by long-term assets.

MLT assets: net inflows driven by all areas of investment expertise

Page 14, if we look at expertise, as I said, most of the inflow is coming from long-term assets. And what is interesting is that it continued to be generated by more or less all expertise or asset classes. All asset classes have positive results both from nine months and for the third quarter, again, if you exclude Fineco. And we continue to grow both on active and passive management, ETF in passive management. You know that in Europe, we are the fifth asset manager in term of assets under management in ETF. On inflows, we are the second one in Europe since the beginning of year, so we continue to gain market share.

Total net inflows still driven by the international segment

Finally, the last element on activity, page 15. The continuation of what we have seen over the recent quarters and recent years, most of inflows continue to be driven by activity outside France. In Asia, of course, very strong inflows in the JVs but not only. Also continued positive inflows in Italy. Regarding France, limited net inflows but with two different movements. Positive inflows of more than €9 billion in medium to long-term assets coming from Retail, coming from Employee Savings scheme and so on, offset by some outflows on treasury products.

Results

Accounting net income over the first nine months of 2018 up 41%

Moving now to the net results on page 17. For acounting net results over the first nine months of the year, an increase of 41% compared to the first nine months of 2017. Due to, of course, the integration of Pioneer. Remember, they started to be integrated in our account on the third quarter of 2017, but also due to the good business momentum. And this good business momentum is visible if you look at the combined adjusted net results, which allow us to give an indication of the increase in our net results on a comparable basis. And we see that our adjusted net results increased by 11% on nine months compared to last year, and for the third quarter, an increase of 5.8% compared to the third quarter of 2017.

Details combined income statements

What are the elements explaining the increase in our bottom line? Page 18. First element is, of course, our net asset management revenues, an increase by 3.2% globally on nine months compared to last year, first coming from net management fees increasing by 3.5% on nine months and performance fees slightly decreasing compared to last year in a more difficult environment.

When it comes to the financial income, of course, a strong difference compared to last year. Just to remember you, last year we posted strong financial income due to the fact that we basically sold most of our portfolio to finance the acquisition of Pioneer and realised some capital gain. This year, first, we have the cost of the debt issued to finance the acquisition. The portfolio is much more limited, and under IFRS 9, the mark-to-market variation of the value of portfolio goes to the P&L; and of course difficult market conditions. This mark-to-market evolution is slightly negative. That was the revenue.

On the cost, we continue to see clearly the impact of the integration of Pioneer with costs that are decreasing by 4% compared to last year, thanks to the rapid implementation of the synergies related to the integration of Pioneer.

A cost/income ratio of 51.2%, an improvement of 1.9 point over 9M 2017

You have the indication on page 19. You can consider that €71 million of these synergies are already taken into account in our P&L and regarding the staff reduction, 85% of the staff reduction are already done. So quick and efficient implementation of the integration, delivering quickly the synergies.

One last element may be to notice on the cost. Remember that from the beginning of the year, we accounted on our P&L the cost of external research related to MiFID. That is the element explaining that the non-staff costs are not decreasing, are stable compared to last year.

So revenues that are increasing, excluding financial income. Costs that are decreasing. Consequence is that cost income ratio is decreasing by close to 2 points compared to last year at 51.2% for this first nine months of the year. And given also the increased contribution of the joint venture, our net results increased by 11% compared to last year.

More specifically on the third quarter, main element to notice is that the net management fees continued to increase, in line with the increase with our assets, an increase in net management fees of 3.6% compared to the third quarter of 2017. So pretty well in line with the increase of assets under management.

Regarding performance fees, €6 million, so clear decrease compared to last year due to the fact that, given the market environment we are facing since the beginning of the year, the capacity to generate over performance is clearly lower. The costs are still under control, decreasing by close to 3% compared to the third quarter of last year, decreasing by 3.5% compared to the second quarter.

So, as a consequence, operating income amounted to €293 million. And the cost income ratio is at 52.8%. So the noticeable element here is that despite the fact that we are on a quarter where the performance fees are low, they are low because we tend to have generally lower level of performance fees on the third quarter. Additionally, this year is specifically challenging in terms of capacity to generate performance fees. So despite the fact that we are in a quarter where we have basically no financial income and very low level of performance fees, we managed to have a cost income ratio which remains below 53%.

So, all of these elements explain the fact that compared to the third quarter, our operating income is stable. Main elements are the performance fees and the decrease in the financial revenues. And considering the other element of our P&L, our net result, bottom line, has still increased by 5.8% compared to the third quarter of 2018.

Conclusion

So to conclude, we can consider that these results, both for the first nine months of the year and the third quarter, demonstrate solid business activity and a high level and rising level of profitability. So we consider them as a satisfactory result. We continue to be, I would say, in advance compared to our medium-term target and believe that the results demonstrate that even in a more unfavourable environment, these results demonstrate the whole business from an efficiency of diversified business model.

Q&A

Pierre Chedeville (CM-CIC Market): Yes. Good morning, good afternoon. Two questions from my part. Regarding performance fees, which clearly are disappointing this quarter; we have seasonal effect. But do you think that we have entered a new paradigm regarding the fact that, as you said, the environment is less bullish for asset management industry? First question.

Second question, could you go a little bit deeper in your explanation regarding net outflows in China? Because, of course, we clearly understand it was a huge performance during the first half but you also understand that the market today is not judging the first half but the Q3. And probably, there is a concern regarding this aspect of JVs, which was clearly a very good trigger for your company.

And my last question relates to a speech done by the CEO of BlackRock saying that he would like in the three coming years, I think, that Aladdin, which is the equivalent of Amundi services, would represent a 30% of revenues versus 10% today because he wanted to stabilise its business model. Is it something considering the current environment that you would like to accelerate in terms of development? Thank you very much.

Nicolas Calcoen: Thank you. So first question, are we entering in a new paradigm, new environment? The answer is clearly that the environment has been very favourable over the last two years. Now the environment is more challenging, more difficult. If you remember, beginning of the year when we announced our result and of targets, both in terms of inflows and results for 2020, many commenters were saying that we were too cautious, why should inflows be lower than what they were for the last year and so on.

I think a few months later, we probably have proven to have been right to be a little bit more cautious. What we said at that time is that we did not take any positive market effect and we consider that, of course, it would be good to continue to have €70 billion or €80 billion of inflows, but we could not count on it on a medium-term perspective. So we do not change our view.

The market is becoming more challenging. It has been more challenging for asset managers. We believe that in a more challenging environment, given our model and the diversity of this model, with the level of operational efficiency as measured by the cost income ratio, we are more able to face this environment. We have opportunities to grow and to gain market share in most of the market or almost all the markets of the business where we operate. That is why even if the environment is more challenging, we are still fully confident in our capacity to meet our medium-term targets.

Second question…

Pierre Chedeville: Sorry, my first question was not about the net inflows. My question was more specifically on performance fees. In the past, performance fees represented more or less 7%, and sometimes much above 12% of net revenues. My question was, do you think that in the new context that you have described, we should see, for instance, performance fees represent a less portion of net revenues, or do you think that it is too conservative to think like that?

Nicolas Calcoen: Well, as I said, clearly it is easier to have a good level of performance fees in a positive market environment. So yes, in the past, we have seen years where there was – I think, it reached €180 million, some years in good environment, in bad years much less. So I would say, yes, it is impacted by the market. There will be positive years. There will be negative years. But in average, there is no reason why we should not, in average, keep the same – we should not have the capacity to have the same proportion of performance fees that we did in the past.

Regarding China, again, we had very, very strong inflows in the first half of the year. There are limited outflows this quarter. I mean, it is just linked to the characteristics of the Chinese mass market, which is very volatile in term of inflows. The way it works in China is if you launch a new product, so in a few weeks you can have very strong inflows measured in billions of euros. And when the product is not active anymore, you can have strong inflows and then a new product will be launched and there are inflows. So overall, on the JVs, a reminder, our target was rather €10 billion of inflows per year. Okay, on this quarter, the net inflows are €0.3 billion. I think on nine months, it is still €24 billion. So clearly, let us not extrapolate just on one quarter.

Third element, yes, Aladdin and so on. Well, I will not comment on what BlackRock intends to do. But clearly, for us what we launched only two years ago, Amundi Services is something very, very important for us. It is still smaller. We are still in the take-off mode. So, of course, we cannot say that we target this activity to present such a percent of our revenues in the foreseeable future. But we clearly intend to develop this activity to generate more revenues and progressively this activity to become a third business line along the retail business and the institutional business. But again, we are still in the take-off mode. But so far, the take-off is going well.

Michael Werner (UBS): Two questions, please. We saw a very good mix shift towards those medium and long-term assets and away from treasury assets. And I think what was missing, from my perspective, in the presentation, which you had put in Q1 and Q2, was in Q1, you had put in the mix between active and passive flows. And in Q2, or the first half, you provided total ETF flows in the first half. So I was just wondering if you could give a little bit more colour when it comes to these medium and long-term asset inflows as to what portion was going into active products versus passive products, particularly for the Retail segment.

And then second, we typically see a bit of an uptick in costs in the fourth quarter for Amundi and I assume this has to do with the variable compensation. And I was just wondering, should we expect normal seasonality when it comes to costs in the fourth quarter of this year? And I also know that you will be using equity as part of the variable compensation for the first time really for a large number of fund managers, 200 I believe. And I was wondering if that is going to have an impact as to that typical seasonality. Thank you.

Nicolas Calcoen: On medium to long-term assets, so, globally as I said, we had positive inflows both in active and passive management. I can give you the indication. Passive management, I think, we are around more than €10 billion of inflows, meaning that it has continued to be a good contributor, but the majority of the inflows are still on the active management. And when we are talking active management, it is also quite diverse, equity, fixed income, but also multi-asset that are, of course, still very attractive in Retail.

If you take out the impact of the Fineco exit, which was in multi-asset, it's also structured product and it's also real assets. For example, we had, I think, €2 billion of inflows for just real estate and for private debt infrastructure and private equity, more than €1 billion, if I am correct.

Regarding your second question, variable remuneration. Well, overall our target is to have variable remuneration to represent between – the internal rule what we are planning is between 14% and 20% of the cost of operating results pre-bonus, so in average clearly close to 17%. So, this line of the cost should more or less evolve, again, like the operating income.

Michael Werner: And just a quick clarification. On the €10 billion of inflows that you had mentioned on passives, is that nine months, or is that Q3 only? And is that for the group overall, or is that for Retail? Thank you.

Nicolas Calcoen: No, it is for nine months, of course. It is for nine months. I think, it is close to €13 billion, in fact. And it is both in Retail and Institutional, probably relatively even, as we speak. Maybe a little bit more on the Institutional than Retail.

Jacques-Henri Gaulard (Kepler Cheuvreux): Just two small questions from me. The first one is you have a €12 million positive on your cost of risk and other. So I was wondering if you could just tell me what that is composed of. And if there is any sort of cyclicality or seasonality or any way we can effectively forecast this, or if it is just an adjustment line.

And b) while we are in questions like that, it is very interesting, Nicolas, what you mentioned about the mark-to-market impact on what is left of your securities portfolio. Could you give us roughly a sensitivity to equity market evolution and how much this portfolio evolves for, say, 5% going upwards on in the equities market? I guess, it is not part of your old sensitivity to the equities business, but just to have an idea for this line in particular. Thank you.

Nicolas Calcoen: Okay. So on cost of risk on the third quarter, it just was a reversal of some provision for operational risk. So we have no cyclical adjustment and we have no cyclicality or rule regarding this kind of line. Regarding the portfolio, a minor part is composed of seed money and the majority is still voluntary investment. So vast majority is invested either in treasury funds or fixed income funds. The sole amount that can be invested in equities depend on the composition of the seed money, and it can be done from time to time, depending on the kind of product that are launched. But overall, the sensitivity to equity is small because the majority is in treasury or fixed income.

Hubert Lam (BofA Merrill Lynch): Just three quick questions. Firstly on the management fee margin, it seems like it fell quarter on quarter. I was wondering if there is some seasonality around that or some mix shift on that. And whether or not, we should expect the fee margin, everything else being equal, to come up in Q4 because of that?

Second question, I just need some clarification also on performance fees. I just wanted to check: did you also say that performance fees are also seasonally weaker in Q3 because of fewer funds crystallising the fees in the quarter? And maybe, this would naturally depress performance fees in the quarter as well? And the last question is on excess capital, maybe you can give us an update in terms of how much excess capital you currently have?

Nicolas Calcoen: Okay, first point on the management fees. There is a little bit of cyclicality marginally in revenues. Typically in Q3 we have a little bit less of some revenues coming from transaction fees or advice on mandate. But if you look at the number for this Q3 compared to Q3 2017, you can see the revenues, excluding performance fees, that are increasing by 3.6%, which is pretty much in line with increase in the average asset under management, excluding, of course, the joint venture; the increase Q3 to Q3 is a bit more than 4%, 4.2%. So you can say that the increase in revenues, excluding performance fees, is pretty much in line with increase in assets.

Regarding the second question, on performance fees. Yes, clearly, here it is, of course, more variable because from one year to another year it is not necessarily the same funds which over perform. Sometimes it will be funds that have their anniversary date in the first half of the year that perform well. And sometimes, it will be on the second half. So it is difficult to make a rule, but we know that in Q3, we have a bit less funds that do come to their maturity date than in some other quarters. That is why I was mentioning that usually – but again no rule, but usually Q3 is, on average, a little bit slower. Clearly, this is more difficult this year again, considering market evolution. Since the beginning of the year, the capacity to generate performance fees was lower, and maybe also performance of fund managers was not that good compared to last year.

And excess cap, yes, so, as you know, following the acquisition of Pioneer, we did not have any excess capital when we closed the deal. It was one year ago, so progressively, we reconstitute the capital base, basically thanks to the results which are not distributed. So, over the next year, it should present hopefully €300 million – should represent €300 million per year. So we are just one year after the acquisition. So we can consider that we at least reconstituted €300 million of capital. It is excess capital or not? That judgement is not easy since we have still a limited margin compared to the overall regulatory requirement. Well, it is the beginning of reconstituting an excess capital, but the idea is basically, within 3 years, we should have reconstituted around €1 billion.

Haley Tam (Citi): So just two quick questions, please. Firstly on the Pioneer cost synergies. It looks to me that the €71 million you did at the end of Q3 is around 47% of the €150 million total target. So it looks bang in line with your previous guidance to get 60% by the end of this year. However, it does look as so you are running behind your guidance on the €190 million pre-tax cost to implement the synergies over 2017 and 2018. So I just wondered whether that is something that you have not done yet and that you would have thought on whether we should interpret there is perhaps some scope for more cost cuts at this stage?

And the second question was just on the sensitivity of the markets. I know it is not something you have done for a while. But I did actually see a Reuters' report this morning, where I think Mr Perier said that a 10% fall in global market, a €80-85 million impact on revenues. And I just wondered if you could give us your thoughts on that or any more colour by asset class?

Nicolas Calcoen: Okay. So first on cost synergies, yes, €71 million for nine months, it is of course pre-tax. So it represented 47% of the target of €150 million, which means that yes, we are in line. If you annualise that, it represents a bit more than 60%. Well, clearly not behind what we indicated.

Regarding the sensitivity of market, yes, a decrease in all equity markets of 10% represent a decrease in our net management fees on an annual basis of around €80 million, €85 million, on the top line, revenue line.

Haley Tam: Okay. Thank you. And is there any comment on the fact that you seem to be running behind your implementation cost of the synergies?

Nicolas Calcoen: the question is on integration cost, is it, Haley?

Haley Tam: Yes, on the cost of implementation, the cost of implementing the synergies.

Nicolas Calcoen: So sorry, my mistake. I thought you were mentioning synergies. Well, not exactly. On a cumulative basis, 2017 and 2018, we are at €164 million – because we booked, pre-tax, €135 million last year; on the first nine months €29 million. So we are today at €164 million, pre-tax again, and we guided for €190 million, so we are in line. We should be in line or maybe slightly below.

Arnaud Giblat (Exane): Yes, good morning. I have got three questions please. Firstly on the management fee margin, I will ask the question a bit differently. Sequentially your management fee has dropped €28 million. Roughly it looks like €5-6 million of that drop can be explained by Fineco, but this is still a drop.

And then when I look at your evolution of your AUM over Q2 and Q3, AUM went up across the board. And especially in the high margin retail and in equities, alternative, multi-asset, the high margin businesses grew faster than your low margin businesses in many markets and in the euro contracts. So a positive mix shift in AUM, AUM up in absolute terms in the high margin products, and yet management fees dropped. So I am struggling to understand – can you give us what are the moving parts we might be missing to understand the volatility in management fee margins? Thank you.

Nicolas Calcoen: Okay. As I said, it is limited, but there is some seasonality in the revenue, and you can look at this last year or I think even the previous year. So that is why we always tend to look at it on a more long-term basis than purely on a quarterly basis. And as I said, if you compare this Q3 to last year's Q3, the increase is 3.6% more or less in line with the assets under management. So I think that is the main element. On Q3, we have a bit less of transaction fees. You have probably this year also smaller number of accounting days (days for accounting revenues), which can explain the slight decrease compared to the second quarter.

Arnaud Giblat: Can I check what proportion of total management fees are transaction fees? Can you give us a rough idea?

Nicolas Calcoen: No, we do not disclose that. They are part of the fees that are charged to the fund and disclosed to the client, but we do not provide details.

Arnaud Giblat: Okay. And then I have got two quick follow-ups as well. So on performance fees can you tell us what the cost to income ratio associated to performance fees are? Do the performance fees drop all to the bottom line or is it just like a pay-out to staff and no more?

And Fineco, in the last quarter, you said when you announced the loss of the contract that this would be broadly P&L neutral because you would provide services to Fineco instead. At which point should we be expecting these revenues to kick in? Thanks.

Nicolas Calcoen: So, on the cost income on performance fees, there is no cost income ratio in performance fees because there is no automatic link between performance fees and bonuses. What we have is a bonus pool which is set globally for the company at a level between 14% and 20% of the pre-bonus operating income. So if we have less revenues, if we have less performance fees – all that kind of revenues – then we have less operating result, so potentially we will have a bonus pool which is slightly lower.

Regarding Fineco, the answer is that progressively the loss of revenues generated by the end of the mandate would be positively compensated by the new businesses. Two reasons: the first one is that Fineco is using Amundi Services as its IT platform, so it has already started. But it is, of course, small in terms of revenues but still a positive impact. And then we will progressively generate new activity which we, by the way, have already started – to generate new activities with Fineco which will delegate some funds to us. So it will be progressive and probably between one and two years to more or less compensate the loss of revenues coming from the end of the mandate.

Flora Benhakoun (Deutsche Bank): Yes, good morning. Three questions from me as well please. So the first question is regarding Italy. You mention in your slide pack that Italy represents 12% of assets under management. But can you tell us also how much it represents of your profit? And also run us through how the activity has been for you in Italy over the past few weeks after the recent events.

The second question is regarding cost and more precisely the cost flexibility. You have talked obviously about the variable compensation. If your revenues were to disappoint, given the current difficult environment, are there some other costs on top of the variable remuneration that you can potentially work on?

And the third question is just whether you would be ready to provide us with an update on the activity, especially in terms of flows, since the beginning of this quarter. Thank you.

Nicolas Calcoen: Thank you. So regarding Italy, in terms of AuM, it represents €180 billion, so around 12% of assets under management. We do not disclose the profit. The only thing I can say is that the mix is slightly more geared to retail compared to the rest of Amundi business.

Activity over the last few weeks, it is too early to tell. But important to notice is that since the beginning of the year, the inflows in Italy, if we exclude the Fineco exit, represent a bit more than €9 billion on the flows, and it continued to be positive for the last quarter. The net inflows, excluding again Fineco, were €2.5 billion in the third quarter.

Regarding cost flexibility, yes, of course, as you mentioned, the first element is the variable remuneration line. For the rest of the cost structure, there is no automatic link between revenues and costs. But we have the capacity to adapt our cost structure by adapting, for example, the salaries, monitoring the new investment we can make in the recruitments, negotiating some fees and so on. And I think we have demonstrated it in the past.

But, of course, in case of a difficult market environment, we do not necessarily immediately adjust all the cost structure. It depends on the view we have on the continuation of the business. That is why, when we announced our target, we said that the cost income ratio should be below 53%. Again, the target is not to be 53%, but we have the capacity to keep it below 53% even in a more difficult environment, for example, on this quarter where the level of performance fees is limited.

Flora Benhakoun: Okay, thank you. And just on the October performance in terms of flows, you do not want to comment on that?

Nicolas Calcoen: No, no, the same comment to our latest comment. The month is not ended.

Gurjit Kambo (JP Morgan): Hi. Good afternoon everybody. Most of my questions have actually been answered. So just maybe a high level question in terms of flows. In terms of joint ventures, I think you highlight that the flows here can be quite lumpy. What gives you confidence looking forward? Is there any new agreements you are looking at or anything in the pipeline you can discuss around that?

Nicolas Calcoen: Nothing specific in the pipeline. The confidence comes from the fact that even if there is a slowdown, the economy is still growing in India and in China, with people savings. And we have a good partnership, we have good products so we continue to expect to have a positive momentum in those JVs.

Then a possibility to open a new JV – why not? It is a model that work well in some cases, in some countries, as long as you have the right partner. So, if there is the possibility to open new partnerships, of course, we will look at it. But nothing specific in the pipeline.

Angeliki Bairaktari (Autonomous Research): Thank you for taking my questions. Two questions on my side. When I look at your medium to long-term flows in international networks, this was €0.2 billion, of which €0.7 billion in Italy, pointing to outflows in the other international networks. Could you please provide a bit of colour on the geography where the outflows are coming from? Are they in the UniCredit networks in Germany and Austria, in Resona or somewhere else?

And my second question is a bit more general. Have you perceived any change in client behaviour month to date or in the last couple of months in terms of asset allocation? For example, a preference to hold more cash or a pull-out of equity funds. Thank you very much.

Nicolas Calcoen: Thank you. So, on the first question, on the international retail network for the third quarter, yes, positive inflows in Italy, slightly negative in other geographies, mainly Japan Resona and HVB. Resona it is a context which is a bit difficult so we are working with them. But, at the same time, we have positive inflows with other distributors. Regarding HVB, there is some restructuring of the offer in the network. But here again, for the quarters to come, we are positive on what we can do and there are good beliefs in terms of offers to be delivered in HVB network.

Your second question was regarding change in client behaviour. Further what happened over the last few days or weeks, it is a bit early to tell What we have seen, if I take a little bit more perspective in the last months, there is more risk aversion, especially in retail, that has been visible and inflows, again, positive inflows that have slowed down.

Regarding institutional investors, they come to us discuss what the opportunities are and so on. But they continue to have money to be invested so they will continue to invest. And it is a bit early to say, but what we can say is that, for some of them, the market correction we just saw in recent months can be considered by some of them as a good entry point.

Angeliki Bairaktari: Thank you. If I may just follow up on Resona, you said the context is a bit difficult. Could you please elaborate a bit further on that?

Nicolas Calcoen: No, it is fine. There is nothing specific. It is just that the inflow has been limited over the recent quarters with Resona, which is a network which, we believe, has some potential. But it is also restructuring its network, absorbing some new regional banks. So that is just a question of the context of the network itself.

Anil Sharma (Morgan Stanley): Hi. Morning guys. I just had two questions actually. So in the passives and ETFs, it looks pretty strong market share numbers there. Just wondering what is it that is driving you to increase the market share there. Is it that you are cutting prices or is it something has changed on the distribution side there?

And then similarly in equities, again a very strong quarter. I am just curious as to what products you are actually selling and how sustainable you think that is, especially given what is going on at the moment. So if you could just help us think through that, that would be helpful.

Nicolas Calcoen: Sorry, on the second question, which area?

Anil Sharma: With equities.

Nicolas Calcoen: Equities, OK. So regarding passive and ETF, so, yes, we are gaining market share obviously. Not by cutting fees, there has been no such initiatives. But we continue, of course, to monitor our positioning and I can remind also the motto of the ETF business line, when it was launched: "smarter, cheaper". And we continue, of course, to monitor our pricing to ensure that it remains competitive. But no specific initiative to be mentioned in terms of fees cutting.

I think that we continue to benefit from, first, the fact that we are competitive. We have the good range of products, and we have also an increase in the pool of salesforce to promote these activities. And by the way, when I mention passive ETF, I would say passive ETF and smart beta which is also developing well.

Second question in terms of equity. We have, of course, net inflows which are done through passive and ETF, not smart beta,. But also some active so it is relatively well balanced.

Anil Sharma: Okay, just a quick follow up then. So does that explain some of the margin pressure that has been going on, the fact the equity flows are actually into lower margin products?

Nicolas Calcoen: It is both active and passive management. So, if you look at overall on margins, they are more or less stable globally, very slightly decreasing compared to last year with, again, a different element. We have continued to see pressure both on retail and institutional due to the market context, due to competition, due to the low interest environment, compared to the stock which is slightly more geared to passive management. But it is still compensated by the fact that the overall client mix is improving with no or very limited inflows in the insurance mandate, and positive flows in retail and in the rest of the institutional business.

Anil Sharma: Okay. So the very last question then. Could you give us a sense as to how much of that equity flow, what percent is active, what percent is non-active?

Nicolas Calcoen: Frankly, I do not remember. Again, it is both active and passive management.

Anil Sharma: Okay. All right, thank you.

Anthony Mellor: Thank you to all of you and the next results publication will be the full year 2018 release which is scheduled on the 13th February 2019. Thank you. Bye-bye.

Nicolas Calcoen: Thank you. Thank you to all. Bye-bye.

[END OF TRANSCRIPT]