# Amundi - Q1 2017

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**PRESENTATION**

**Nicolas Calcoen**

*Chief Financial Officer*

Good morning everybody. This is Nicolas Calcoen, CFO for Amundi for a presentation of the recent activity and the results of this first quarter. So, we'll start maybe by introducing this conference, this is a satisfactory first quarter for three reasons. First one, of course, is the activity and the result, the first quarter is showing continued business momentum and a significant increase in our results. I will develop that further. The second reason is the success of the significant events of this first quarter, the capital increase which has been a success, €1.4 billion raised as initially planned with significant oversubscription, an operation that has been achieved two weeks ago now. The third reason is the continued progress in the preparation in the integration of Pioneer, things are going as planned and we still expect the closing to take place in the middle of the year.

So, first to start with the result, I will start on page five, just a quick word about the market environment, which of course has been supportive in this first quarter, especially on the equity side, with an improving significant increase in the equity market in this year since mid-2015. You have the market, European equity market, that is 13% above the average level of the first quarter of 2016. So, a supportive market environment. Page six, in this market environment, we continue to benefit from a very strong business activity with record net inflows of €32 billion over the first quarter. €32 billion of inflows, added to positive market effects of €12.5 billion, now our assets under management are at the end of the first quarter at the level of €1,128 billion. This growth, page seven, was driven by strong sales activity on our two main businesses, retail and institutional. You can see, page seven, that inflows have been almost evenly divided between both client segments. Page eight, the retail segment enjoyed a strong level of activity, coming from all distribution channels. French networks, our historical partners, really benefited from €1.3 billion positive inflows. So, in the continuation of what happened at the end of 2016, we are seeing, I would say, at last, the recovery of the French retail network that we have been expecting for a while.

Our international partner networks also benefited from positive inflows, €1 billion coming mainly from Italy from the Cariparma network. The third party distributors posted significant inflows, €4.9 billion, coming mainly from Europe and from most of the countries we are operating in Europe, Italy, Benelux and so on. Last, but not least, continued strong activity in our Asian joint ventures, especially in China and in India. So, overall, a strong level of activity in retail coming from all distribution channels which is important, concentrated on long term assets. So, good quality inflows. Page nine, the institutional segment also recorded a very high level of inflows, €17 billion, mainly driven by treasury products. This is true both for corporate clients with a very strong activity on the first quarter, both in France and in Europe, but also from institutional clients.

If you look, page ten, at the asset classes, you can see that on the first quarter, net inflows were mainly concentrated on treasury products, €22 billion of inflows. Still, with medium-term assets accounting for close to €11 billion with positive inflows observed across all asset classes, coming both from active and passive management.

With just one point to be noticed, the end by the ECB of the mandate for the management of its ABS programme, a programme that was launched two years ago and the ECB decided to reinternalise this investment strategy at the end of March, leading to exceptional outflows of €6.9 billion. Despite these outflows, we nevertheless posted significant inflows on the medium-term assets

Page eleven, these inflows on the breakdown in between long-term and medium-term assets are put in perspective. You can see that we have regular inflows on long-term assets, of course, by nature treasury products are more volatile, and you can see that we have an exceptional level in the first quarter of 2017 for treasury products. It clearly means, and I think it's well reflected by this chart that part, of course, of these inflows are of an exceptional nature, due to the fact that some corporate clients can decide, when they have a special operation, for example, an acquisition to finance, to temporarily invest in treasury funds. They can redraw this kind of mandate really rapidly. That is to say, of course, you cannot consider that this level of inflows is corresponding to a recurrent level of activity. Page twelve, to end on the activity, you can see that we continue to benefit from significant inflows coming from many parts of the world. France, this month, accounts for a greater share of the inflows, due to this strong investment in treasury products. The level of activity outside France remains solid, €12 billion of inflows despite the end of this mandate for the ECB.

Coming now to the results, page fourteen of the presentation. This first page, page fourteen, illustrates that we managed to post resilient and continued and solid revenue and net income growth, in a contrasted environment. So, for this first quarter, our net earnings increased by 13.2%, excluding the expense that we started to spent to prepare the integration of Pioneer. The strong performance was driven by the increase in the revenues by a bit more than 9%, which is in line with the growth in the assets in our management over twelve months. Operating expenses are still under control, increased by 4.9%, but if you exclude the impact of the acquisition of KBI, increases limited to 2.5%, leading to a decrease by 2.2 pts of the cost/income ratio compared to the first quarter of 2016. The share of net income of equity accounted entities rose to €8 billion. We, therefore, posted an increase by 13% of the net income, which is in the level of €147 million excluding integration costs. Taking into account the cost relating to the preparation of the integration of Pioneer, the net income amounts to €143 million, an increase by 10.4% compared to the first quarter of 2016.

So, to conclude this preliminary remark. Just to confirm that this first quarter is a solid first quarter with high inflows, bringing our total assets over €1,100 billion. Very strong inflows but with a part which is non-recurrent, linking to part of these inflows on treasury funds and with a sharp growth in earnings. Maybe one word to conclude about the preparation of the Pioneer integration, to confirm that the process is well underway. The necessary authorisations are being obtained progressively, and the consolidation is prepared on schedule, so we still expect to be in a position to close the deal in the middle of the year, and in the meantime, the preparation of the integration is well in progress. Confirming the potential for value acquisition coming from the deal.

**Q&A**

**Nicolas Calcoen**

*Chief Financial Officer*

**Nicolas Calcoen:** Okay, so now we can open the Q&A section.

**Operator:** Thank you. Ladies and gentlemen, if you wish to ask a question at this time, please press star, one on your telephone keypad. Please ensure that the mute function on your telephone is switched off to allow your signal to reach our equipment. If you wish you wish to cancel your request, please press star, two. Again, please press star one to ask a question. Our first question comes from Jacques Henri Gaulard. Please go ahead.

**Jacques Henri Gaulard:** Yes, good morning everyone. I have a couple of quick questions. The first one, are you in a position, Nicolas to give us even a very high-level view of Pioneer's performance in Q1. Second thing would be, you talked about the improvement of the profitability of the Asian joint ventures, I was wondering if you could make a little bit of a point as to where you were there. Lastly, I take it you took some restructuring costs in the first quarter on Pioneer, but I guess you don't change your guidance about the €190 million of integration costs to be booked in '17 and '18. Last very quick question, I was wondering if by the looks of it, either Q1 or Q2 would be your last standalone quarter. Thank you very much.

**Nicolas Calcoen:** Okay, thank you very much. The first question on Pioneer, of course I'm not in a position to give precise detail as the closing has not yet taken place, and Pioneer is still part of a group which is a listed group, and I'm not in a position to comment on their communication. What I can say is that overall, in very general terms, what we have seen is in line for the first quarter of 2017, in line with our expectations or even slightly above in terms of P&L. Regarding the second question about the JV, we already discussed that, the JVs are continuing to grow very rapidly. The growth in assets is higher than the growth in terms of generation of revenues, which is, we believe, normal considering the state of maturity of these JVs and of the market where they are competing, very strong growth in that competing market with a strong focus on growing and gaining market share. At the same time, the issue of profitability is being addressed by the JVs, this objective is shared by our partner, so we expect to see a progressive improving of the profitability and, therefore, progressively to see the growth of the result to be aligned with the growth of assets under management. This will be necessarily a progressive action.

Regarding the restructuring costs, we just posted limited amounts of cost necessary to prepare integration, consultation fees, some IT costs. Overall, our guidance regarding the general restructuring costs doesn't change. The last question, I don't know yet what will be the exact date of the closing, but as we said we see it being at the middle of the year.

**Jacques Henri Gaulard:** Thank you very much Nicolas.

**Operator:** Our next question comes from Chris Turner, of Goldman Sachs, please go ahead.

**Chris Turner:** Yes, thank you and good morning, it's Chris Turner from Goldman's. Just two questions, if I may, firstly, if I looked at industry data on French mutual funds sales of unit linked life policies in France, then it looked like the first quarter had actually been very strong indeed. Given the strength of your bank partners, their market shares, we might actually have expected a larger step up in your French retail flow figures than we saw. Could you possibly just give some colour on your thoughts around that issue? Then, more straightforwardly, on costs, your cost/income ratio improved quite significantly this quarter, was that simply the effect of operational leverage, was that seasonality or has there been a conscious effort for you to cut costs again this quarter? Thank you.

**Nicolas Calcoen:** So, regarding the French market, yes. I mean, it's improving and it's in the continuation of the end of the 2016 and it is basically the materialisation of what we have been expecting. Which is, with the life insurance and the Euro contract part of the life insurance, traditional life insurance becoming less attractive. Progressively, more inflows going to, I would say, long-term assets, mutual funds. Basically, within unit link. So, when we have €1.3 billion, I think, of inflows, in fact these come from unit link, slightly higher on unit link. Should we expect more? As we already explained, we are convinced by the fact that there is and there will be and it will continue to be a record area of the French retail market for mutual funds. What we cannot predict is the pace and the magnitude of this change continuing, I would say the impacts of habits on the behaviour of retail clients. Regarding costs, no specific control actions, other than what we do on a continuing basis is to keep a good cost control. Of course, we benefit from the operational leverage due to the significant increase in revenues.

**Chris Turner:** That's very clear, thank you.

**Operator:** Our next question comes from Arnaud Giblat of Exane BNP Paribas.

**Arnaud Gibeault:** Yes, good morning. Three questions please, first, you had about €4 billion of inflows in ETF, I was wondering if you could give us a bit more colour around what's happening there. Which channels are these being sold through, are you booking these through the retail third party channels, and what sorts of margins do these run? Secondly, I just wanted to follow up on the JV question, I heard that, basically, you were saying that the lack of progress in profitability in JVs is due to revenues not growing as fast as a UM, did I hear that right? Or is it more of an issue of operating leverage not coming through yet? Finally, I was wondering if you could give us perhaps, some more detail around client feedback around the Pioneer deal. I have you specifically seen any loss of assets due to the deal? I mean, obviously from the numbers it doesn't seem as though that's the case, but have you had any of your funds put on hold? Or any of the Pioneer funds been put on hold by consultants? Thank you.

**Nicolas Calcoen:** So, first question regarding the ETF flows, I mean, we benefit from the growth of the market, I think overall the market is growing fast. We tend to continue to gain market share, in what channels, it's both retail and third party distributors and in the institutional space that we do have also-, we have inflows both in third party distributors and with institutional clients. Regarding the JV, I don't believe there's an issue in the operating model, I mean, two elements, three elements maybe. One element is the growth in revenues, especially in China has been very significant on lower margins, on products that tend to have a lower margin, especially some fixed income products. Second element, there's no specific issue in cost, it's just that JVs are developing very fast and they have to invest, they have to recruit, they have to do IT developments and you don't necessarily see the full impact immediately. Third element, which is more specific to endure, there was the regulatory reform a bit more than one year ago. They are changing the elements that can be, I mean, having an impact on the pricing policy and the kind of fees that can be charged to the fund, which had an impact last year, and we don't have yet the full impact on the account. I'd say it's more of a one-off effect.

Third question, regarding the impact of Pioneer on clients, from a client perspective. I mean, overall, the feedback we can get from clients is positive on the deal, we haven't seen any loss of assets at Amundi linked to the deal, we don't have funds that have been put on hold due to the deal on Amundi's side. On Pioneer, however, several funds were already on a firm watch, I guess until the deal is closed.

**Arnaud Giblat:** Okay, thank you very much.

**Operator:** Now, our next question comes from Anil Sharma of Morgan Stanley, please go ahead.

**Anil Sharma:** Hello. Just a couple of questions, really. Obviously, last year in particularly, you were a big beneficiary from negative interest rates in Europe with a lot of inflows into treasury assets. I'm just wondering what proportion do you think would be at risk if the European market interest rates continue to, kind of, walk upwards? My second question, I think in Q3 last year, you guys put out some new revenue initiatives with some targets, I just wondered if you could give us an update, nine months on now as to how you're progressing against that. That would be helpful, thank you.

**Nicolas Calcoen:** Okay. First element regarding the impact of interest rates on treasury funds. I mean, we benefited in a sense of low interest rates, no specifically low interest rates, but maybe on the fact that some rose in interest rates, went under the average for very short-term interest rates. We benefit as long as we are able to propose products that have additional, provide higher yield in a sense, in relative terms, higher yield than the short-term deposit or short-term interest rates. So, we don't feel that they're especially high-risk if the interest rates come back to positive territory at some point. What's important is the ability to continue to provide additional yield compared to deposit, which would be the case, in that case. I mean, what we benefit from is the fact that in a way, in a low interest rate environment, and I guess this low interest rate environment is supposed to continue for a while, to be able to continue this activity, you need to be organised, you need to have sizes. You need to have, I would say, distribution power, that's what we have, that's the way we have tried to organise ourselves and that's why especially benefit from this. We gain market share in Europe on treasury products.

You mentioned the new revenue initiatives, so I guess you were referring to the launching of service activity. We continue to develop it and we gained a few new clients over the last six months since we announced the initiative. The objective is still, for this activity, to represent some 5% of our revenues in five years, it's a target, it will be necessarily progressive. So, in term of impact on the P&L, frankly today it's still very limited, it's too early to say, but it's still very limited. We continue to have new clients joining the platform, I would say.

**Emile Sharma:** Okay, that's helpful, thank you.

**Operator:** Ladies and gentlemen, as a reminder. If you wish to ask a question, please press star, one. Our next question comes from Hubert Lam of Bank of America, Merrill Lynch, please go ahead.

**Hubert Lam:** Hi, good morning. I've got three questions. Firstly, on margins in the quarter, can you just give us some colour as to how they developed in the quarter, was it very similar to the prior quarter or was it better or worse? Second question on flows, should we expect greater inflows post the French presidential elections? I'm just wondering if you think that there's a lot of money waiting in the side lines until we get clarity on the French elections, that is when it can be deployed, once that's over. Third, just in terms of flow and cost targets, previously you had standalone net new money targets for Amundi standalone, I'm just wondering if we should expect a new update on the target once the Pioneer deal is completed. Thank you.

**Nicolas Calcoen:** Okay. So, on margins, I would say overall, they are stable, there's not new or continued pressure on individual margins, but an improvement in the mix. Especially, I've seen significant inflows in the retail space, and these inflows have been on long-term assets. Overall, margins that I would say, are stable in the quarter. Regarding the flows post-elections, before the elections, before the first one, we have not seen a significant impact on the elections, in terms of inflows, whether on the retail side or the institutional side. So, I would not expect any significant impacts post elections. Regarding targets, yes, at some point we will have to update our targets for the combined group. It will not be done immediately, we need to confirm our work in more detail, in the business plan for the combined entity. So, it's too early, of course, to update the target. It will be done in due course.

**Hubert Lam:** Great, thank you very much.

**Operator:** Our next question comes from Alex Koagne from Natixis. Please go ahead.

**Alex Koagne:** Yes, hi there. Just one question from my side. Coming back on the JVs performance, I mean, you said that the revenues are growing lower than the AUM, mainly due to the mix in terms of assets, as you are selling more bonds than anything else. The question is, do you see any demand for other products, other than bond products? In terms of costs, I guess you feel that you're investing because you're still developing the network, and so on. When should we start to see a slow-down in the costs due to the investment? Is that something for 2019 or more 2020 to 2025? Thank you.

**Nicolas Calcoen:** So, first, on the, I would say the product mix, we do also sell other products, what I said about predominance of fixed income products has been true for China. In India, for example, it's much more mixed with also significant inflows in equity or mutual asset funds. Regarding cost, I mean, they will continue to increase of course, to face growing demand and growing activity. What I'm just saying is that progressively, I cannot tell exactly at what will, but they should grow in line with revenue and I think they've already started to grow in line with the revenue line.

**Alex Koagne:** Thank you.

**Operator:** Ladies and gentlemen, as a final reminder. If you wish to ask a question at this time, please press star, one. We will pause for just a moment to allow everyone to signal. As there are no further questions in the queue, that will conclude today's question and answer session and now I would like to send the call back to our presenters for any additional or closing remarks.

**Anthony Mellor:** Okay, thank you to everybody. May we remind that we will have our AGM on 18th May and H1 results will be released on the 28th July. Thank you, goodbye.