Full-Year and Q4 2019 Results

Wednesday, 12th February 2020

Transcript of Presentation meeting

Welcome and Results Highlights

Yves Perrier

Group CEO, Amundi

Good morning everybody. Thank you for being here for this presentation of the annual results. These results will be presented, as usual, by Nicolas, and I want to give you a small introduction.

I would qualify this year as a very good year for Amundi and you know that generally I am not emphatic. It is a very good year for four reasons. The first reason is the dynamic of development of Amundi. You see the figures of net inflow which are over €100 billion. Of course, they are a bit inflated by development of the pension fund activities in India but, nonetheless, you see that we had a first semester with negative activity and we have a very strong second semester, and what is very positive is that in all areas, retail and institutional and in all expertise, active, passive, real assets and so on.

I want, after ten years of Amundi, to put this in perspective. Since the creation of Amundi in 2010, AUM has been multiplied by 2.5, over €1.65 trillion this year and this increase has been mainly driven by organic growth, which represents three quarters of this increase in AUM. Very often people ask me, 'Do you have a scale objective?' and I say, 'Scale is not an objective, even financial performance is not an objective. It is the consequence of an efficient business model, of the capacity of a company to grow and acquisitions are only done to accelerate this development.'

The second reason why we can qualify this year as a very good year is the fact that these developments continue to be accompanied by growth in profitability. The net adjusted income this year surpassed €1 billion, an increase of 6.6% and the accounting net income was an increase of 12%. During these ten years, each year, Amundi has registered growth in net income and it has been done in all the conditions of the market: good, bad. This year was quite a good year, especially the second semester. When you look at the evolution of the net income, since the creation of Amundi, it has been multiplied by 2.7 and since the IPO it has been nearly doubled.

The third reason of satisfaction for this year is the fact that we registered growth in activity, growth in profitability but we have also taken initiatives in order to boost the future growth: two major initiatives, that you will have read about.

First, Sabadell. Sabadell, it is part of an international strategy which is aiming firstly at Europe and especially in the Eurozone, our natural domestic market. We are number one in France. We are number two in Italy on open-ended funds. We are number two in Austria, number two in the Czech Republic. We are the second foreign asset manager in Germany. We will be the fourth asset manager in Spain. That means that we increase our footprint in Europe.

The second initiative is the creation of a new company in China, with Bank of China. You know that we have an existing joint venture in China with ABC. ABC is the third bank of the country, 400 million customers and we have, in this joint venture, a minority stake. This joint venture has registered a strong development since its creation.

What we are doing in China is to create a new joint venture with Bank of China, the wealth management part of Bank of China, in which we will have a majority stake. Bank of China is also the fourth bank of the country, more international and more turned to a segment of customers with higher net worth than ABC. To make a comparison, ABC is Crédit Agricole 20 years ago and BOC is BNP. We are the first foreign asset manager which has been authorised to have a majority stake in this kind of joint venture. That means that we will have something tremendous in this country: two partnerships with two main banks of the country which will benefit from the present potential of the market and even more from the future potential of development of this market.

We have taken this strategic initiative but during the period we have continued to invest in our teams in order to boost this future development. I will give you a figure. Last year we have recruited 400 people. Half of these people, their recruitment was the consequence of natural turnover; 120 were to reinforce internal teams in IT because we have diminished what is outsourced and reinforced internal IT resources. Our internal team represents now more than 70% of the total teams, which is exceptionally high. We have also recruited nearly 100 people to boost the development in passive asset management, in real assets and so on.

So, that means that, permanently, we have this strategy, to deliver these productivity gains, or efficiency gains, due to synergies of acquisitions but to reinvest to support the development.

The last reason for satisfaction is the fact that we are implementing our ESG plan in line with what we have announced in October 2018. This plan is along two axes: one which is summarised with this idea, that 100% of funds managed actively will integrate an ESG process in addition to the traditional financial analysis. The second is to contribute to financing the energy transition by a dedicated initiative. I want to mention three initiatives which give also a bit of a flavour of the innovation capacity of Amundi.

We have launched a fund with the IFC, a subsidiary of the World Bank, a fund invested in green bonds in emerging markets. We have launched an equivalent fund with the European Investment Bank, and more recently with the Asian Investment Bank.

So you see a year, to summarise, which is a year which continues the positive trend of Amundi but, at the same time, which puts the basis of our future development.

So, now, Nicolas, you can present our figures.

Results for FY 2019 and Q4 2019

Nicolas Calcoen

Head of Finance, Strategy and Public Affairs, Amundi

Rising markets

Thank you Yves. Good morning to all. Coming back to the numbers and to 2019, I will start, very briefly, with some element of context. This is not something, probably, surprising for you but just to remind you we operated, in 2019, in a more favourable environment, especially compared to 2018, with a rising equity market, on average an increase by 2 to 3%, whatever index you look at, between the end of 2018 and end of 2019 and declining interest rates. So, clearly a more favourable environment.

One point, maybe, which is worth noticing is we had, over the year, a significant increase in the market. However, if you look at average indexes for equities, the average level of 2019 compared to 2018 is up but only by 2-3%. So it means that the positive impact of this environment on the recurring fee is not as great, obviously.

Recovery of inflows in the European market

So the first element is financial markets which are back to a positive run. The second element is, if you look at the asset management industry, a progressive recovery of inflows over the year, especially on the long-term inflows, marking a return of, I would say, a less risk adverse mood from clients, progressively. You remember that, starting at the second quarter of 2018, we saw, basically, inflows stopped and no inflows or even negative inflows from the second quarter of 2018 until the first half of 2019. Progressively, we saw recovery, as you can see on this slide: page eight.

AUM of €1,653 billion at year-end 2019

In this context, as is indicated, we saw, in the last quarter also a significant recovery and a very high level of inflows. At the end of 2019, our assets under management reached €1,653 billion, so an increase by 6% compared to the third quarter and by 15% compared to the end of 2018, due to a positive market effect but, most importantly, to a very high level of inflows, €77 billion of inflows in this quarter alone.

These inflows include one specific element, clearly, which is the fact that our joint venture in India gained a very significant mandate from the most important pension fund in India. That represented inflows of almost €60 billion in this quarter. You may remember that, in the third quarter, we already won another mandate, the one with the pension fund from SBI, our partner. With this second one and the first pension fund in India, the JV is clearly on the path where, aside from the retail business, which is also developing well, they are developing very strongly in the institutional space.

An excellent quarter driven by high inflows in MLT assets

So, a specific element which, of course, boosts inflows of the quarter but nevertheless a very good level of inflows during this quarter because, if you exclude this mandate, our inflows reached €10 billion, despite the fact that we saw, at the end of the year, some outflows on treasury funds.

Retail

So, if I look more in detail: stronger long-term inflows, both in retail and institutional. In retail, first, a bit more than €3 billion on the fourth quarter, so we are clearly seeing the continuation of the recovery that started in the third quarter. After a difficult end of 2018 and some outflows in the first half of 2019, we saw in the second half of 2019 a confirmation of a good level of activity on third-party distributors but also flows that are going back to positive territory from international networks, in Italy, notably and in the French networks. In France we are seeing a shift back, I would say, to a bit more unit-linked sold in the networks. Whereas, over the last 12-18 months, most of the flows were focused on the euro contracts, due to a high level of risk aversion.

Institutional

In the institutional space also an acceleration of inflows. Again, we saw some flows that were around zero along the first half of the year, started to recover in the third quarter, a continuation in this fourth quarter, a bit more than €12 billion of inflows in long-term assets. This was due to all client types: institutional and sovereign clients, corporate clients, employee saving schemes, where we got a significant new client over this quarter.

One element to be also noticed: when you look at the insurance mandates, they are still positive but less positive, I would say, compared to the beginning of the year. That is again a reflection of what I said about flows going back in life insurance in France, going back progressively to more unit-linked and less euro contracts.

Expertise

In terms of expertise, as I have said, in the fourth quarter some inflows of €15-16bn in MLT assets, excluding JVs, and around €10-11 billion of outflows in money markets, which is quite usual. We know it is quite a volatile activity. We had almost €20 billion of inflows in Treasury Products in the third quarter, €10 billion of outflows in the fourth quarter. As we know, at the beginning of the year, it has already come back, so this is something quite usual.

If we focused on long-term assets, €16 billion of inflows, quite diversified, still some significant contribution from fixed income, especially emerging debt, which is still very attractive in our business but also real assets (private debt, real estate…) and equities.

Revenue and net income

If I come to the consequences in terms of results for this fourth quarter, a very good quarter with revenue that increased by 16% compared to the fourth quarter of 2018, due in particular to a very good level of performance fees, €85 million versus €21 million in the fourth quarter of 2018. So €85 million of performance fees recorded in this quarter, on the back of good investment management performance. Costs remain under control and with a favourable jaws effect, a cost/income which decreased by more than two points compared to the last quarter of 2018. On the other consequence, the adjusted net income increased by 22% and accounting net income increased by more than 36%, the difference being due to the fact that, at the end of 2018, we continued to record, for the last quarter, some integration costs, hence the difference.

Detailed Q4 income statement

We have here the detailed P&L: no specific points to mention; maybe one point on the expenses. You can see an increase by more than 10%, but there is nothing extraordinary there. The main element is an increase of the provisioning of variable remuneration at the end of 2019 due to the favourable market environment and the good performance fees. In Q4 2018, we had recorded a relatively low level of provisioning of variable remuneration and we have the reverse effect, a positive adjustment at the end of 2019. If you add some project costs linked to the strategic initiatives mentioned by Yves, in Spain and China, that explains most of this increase.

Record annual net inflows

Moving on to the full 2019 data now, the logical consequence of the recovery of activity over the last two quarters, overall we posted record inflows of €108 billion, including the two mandates I mentioned in India that represented €74 billion. Even excluding this element, a good level of activity, close to €35 billion of inflows, especially if you consider the difficult market context of the first half of the year.

MLT net inflows recovering both in retail and Institutionals

Looking a little bit more in detail, you can see that these inflows were 100% concentrated on long-term assets, which is obviously a positive element. This is visible both for the retail business, a bit more than €6 billion inflows over the year in long-term assets and the institutional business: almost €19 billion of inflows, despite the loss of a significant mandate in Italy at the beginning of the year.

Expertise

In terms of expertise, overall in the year the flows have been significantly concentrated on fixed income. In the context of the beginning of the year, of high risk aversion, it is quite logical. However, we also had very strong inflows in real estate and real assets in general, in structured products and even in equities. If you look at management style, what we can mention is, again, a very good year for our passive and ETF business, that recorded a bit more than €16 billion of inflows, close to €9 billion on the ETF business alone. This allowed us to be the fourth player, in terms of inflows, in the market in Europe in 2019 and a continuation of market share gains.

Solid investment performances

Before moving to the JVs, one word, I think, which is worth noticing on performance, to highlight the fact that we have good and solid performance. I would see, as the main indicators for that, two elements, in fact. First is the percentage of open funds that are in the first or second quartile on a five-years basis, so really a measure for long-term performance. Close to 80% of our funds are in the first or the second quartile. Overall, we have close to 200, 195 funds, that have a four or five-star, so are in the top categories of funds. This also shows that this good performance relies on a large spread of expertise and funds.

JVs

A few words on the joint ventures before moving to the results. I mentioned our record inflows: €84 billion of inflows, in large part due to these two mandates I mentioned, I will come back to this element. However, there was also a good level of activity, I would say, for the rest of the more traditional business, a very good level of activity in India, more than €10 billion excluding these two mandates and also in Korea. In China, over the year we saw some outflows but with two elements: some significant inflows in the historic business, offset by some outflows due to the impact of the regulatory reforms in China, the reform of the wealth management, which was part of the clientele of the JV.

Adjusted net income up 6.6% versus 2018

Moving on to the P&L and to the results, again, on a yearly basis, a good year, with an adjusted net income that increased by 7% and that overpassed the €1 billion and an accounting net income that increased by 12%. Again, the difference in the increase was due to the fact that we recorded integration costs in 2018. We are therefore very much in line with our objective. If you remember, the objective we set following the integration of Pioneer is to reach €1 billion of accounting net result in 2020, so at €959 million to be exact, we are close to it and we have still one year to come. On a more longer-term perspective, last year, in the framework of the announcement of the Crédit Agricole medium-term plan, we set an objective of an increase of the net result, on average, of 5% a year. This year we are close to 7%, so we are, let us say, a little bit in advance.

Net management fees stable

These good results are, first, due to an increase in our revenues, by 5%. If you look at management fees, they are stable, because they increased by 0.1%, compared to an increase in average assets under management of around 2%. So, yes, we have a slight erosion in margins, which is due to an unfavourable mix effect. In particular, if you look at average AUM in 2019 compared to 2018, almost 100% of the increase in the average AUM came from the insurer mandates, that are a much lower fee level, between 3-4bps.

Operating costs under control and an improved cost/income ratio

In terms of performance fees, just to continue on revenues, in the context of what I said about the fourth quarter, a very good level of performance fees, an increase of close to 50% compared to 2018. In the meantime, costs remain under control, an average increase by 3.5%, despite firstly a negative ForEx effect, due to the increase of the dollar mainly. That represents roughly 1.2% of the impact on our cost base. Despite the usual, I would say, price effect and in the context of better results, variable remuneration pool increased. It means that the significant investments we made in our development, Yves mentioned in particular the 100 new staff in priority areas of development, such as passive management, real assets, Amundi services, also the development of new IT projects to support development, plus a few costs I mentioned linked to the strategic initiative in Spain on China, all these elements, were more than offset by the realisation of the synergies.

Remember that we initially announced €150 million of cost synergies. We reassessed that to €175 million one year ago and we can confirm this target. This target has been achieved already by a bit more than 90% in 2019.

Investments in growth business areas

This is just an assertion of what we already mentioned regarding the priority areas of investments. So I can conclude this part on the results by mentioning again the increasing revenues and favourable jaws effect, leading to an increase in both the gross operating income and the adjusted net income of around 6-7%.

A 6.9% increase in dividend per share versus 2018

As a consequence of this result, in total alignment with our dividend policy, we can announce that we will propose to our general meeting in May, a dividend of €3.10, so consistent with representing 65% of our net income and representing an increase by 6.9% compared to 2018.

A solid financial structure

I can also take this opportunity to mention that our financial structure remains, obviously, very solid and improving year after year, with €2.7 billion of tangible equity at the end of 2019 and a CET1 ratio of 15.9%, well above the regulatory requirement. This is increasing compared to the 13.2% reached at the end of 2018.

2010–2019

You know that Amundi was created almost ten years ago, so we thought it would be good to put, I would say, this annual result a bit more in perspective and give a longer view. Reminding first the increase of assets, Yves mentioned that already, compared to ten years ago with the creation of Amundi, our asset under management multiplied by 2.5 and by 1.7 since the IPO. So in four years. So a very strong development mainly driven by organic growth, which at the same time allows us really transform what is Amundi.

Open platform

Amundi ten years ago was still mainly a captive asset manager servicing the networks of its parent companies and mostly in France. Today, the external clients, external to Crédit Agricole Group, represent almost three quarters of our assets. So strong diversification of the AuM.

And this diversification has been accompanied by a strong development internationally, if you exclude the insurance mandate which represent important level of AUM but not that significant in terms of revenues, one quarter of the asset outside France ten years ago and today, it is almost two-third of our asset that are outside France in our two main areas of development, Europe €350 billion of assets, excluding France of course, and Asia €300 billion of assets.

A player with a full range of expertise and solutions

And finally, we also developed in order to get full range of expertise of solutions. Initially, we were, I would say, only an active manager. We are still, of course, an active manager but we developed completely a full range of expertise, in particular for example in the emerging space, on US space, and we now cover all the expertise.

But in complement to this positioning, strong positioning in active management, we developed basically from scratch two platforms, the passive management platform that represents today more than €130 billion, and the real asset platform that represents €53 billion at the end of 2019.

High profitability in all market environments

This strong development has been accompanied by parallel development in terms of results and it is quite striking the parallel between the growth in activity and the growth in results. As you can see, our net result was multiplied by 2.7 in the last ten years and by 1.8 since the IPO, and will incremental increase year after year over this last ten years and also high profitability in all market context.

Significant value creation for shareholders

As a consequence, quite logically, value creation for shareholders was significant. Market cap was doubled since the IPO, I would say, mainly through increase in the value of the share since the share price increased by close to 70% over the last four years, and our dividend per share increased by 50% compared to the time of the IPO.

A pioneer in responsible investment

Last but not least elements, again, as Yves already mentioned, we continue to position more and more ourselves as a responsible investment company. We believe we are more and more organised as a reference player in that regard. You may remember that we made at the time of the creation of Amundi this positioning of the responsible investment as one of the main pillar of Amundi engrained in the DNA of Amundi from the very beginning. And since then we have continued to reinforce this positioning, which can be illustrated, I would say, in term of numbers by the increase in the assets that incorporate this approach, more than €300 billion last year, but also illustrated by the numerous initiatives that we launched, Yves mentioned some recent one with the EIB, the AAIB and so on, and also participation with many global initiatives.

ESG ambitions at end 2021: update

A bit more than one year ago, in October 2018, we announced a new plan to reinforce further this positioning and a bit more than one year after the announcement of this plan, we can say that we are basically on track in terms of analysis development of issuers that are covered by our teams, in terms of engagement of voting policy that have been reaffirmed along two main priorities, and also in terms of assets managed with ESG approach, we have the objective to have by end of 2021, 100% of our open ended funds are incorporating an ESG approach with the highest score in the universe.

And today, at the end of 2019, we are already at around 50%. And in the meantime we develop new initiatives such as the one I was mentioning, EIB, AIIB, or social initiative and social fronts that are growing compared to the previous year.

New partnerships in Europe and in China

Strategic partnership with Banco Sabadell and acquisition of Sabadell AM

Before one word again going forward on the two major initiatives we launched recently before moving to Q&A. Yves already alluded that. One, three weeks ago we announced a new partnership with Sabadell Asset Management, a ten years distribution partnership associated with the acquisition of Sabadell Asset Management.

This will clearly help us to accelerate development to strengthen our presence in Spain, which is the fourth market for savings for asset management in the Eurozone so very significant market and a growing one where we would be moving to the fourth position adding our existing assets to the one managed by Sabadell AM, and partnering with one of the leading bank in Spain, Banco Sabadell, the fifth bank in Spain.

We will manage to, I would say, deploy our retail approach to this network and reinforce what we can propose to Sabadell clientele.

A value-creating deal

In terms of financial impact, I had the opportunity already to present this element. We are clearly well into the, I would say, framework and discipline for M&A. The price we are paying, €430 million, represent a multiple of 13x the expected results of 2020 before synergies and after synergy around nine times the result. So very, very reasonable and in line with our financial criteria, obviously a deal which would be accretive on day one and representing a return on investment above 10% within three years.

Asset management in China

Second major initiative in China, this new partnership with the Bank of China with the authorisation given for the first time for an asset manager to create joint company, where we will have the majority of the capital and which will allow us to have two very strong partnership, one with the BOC, one with ABC. So two of the four major banks in China to develop and benefit from the breadth and the expected growth of the savings in China.

Q&A

Haley Tam (Credit Suisse): Firstly, just on the French network flows and the benefit that you saw from the unit-linked product shift. I think you saw €0.5 billion of medium long-term asset flows in the French network in Q4. And I think from the industry data it looked like there was €12.8 billion in unit-linked products in France. So I just wondered if that 4% market share was a number you would recognise is actually natural level or if there is anything particularly subduing that in Q4? And also I think 41% of euro contract flows actually went into unit-linked product in the end of December, so just wondering if that is something you think could get better from there?

And the second question I suppose just quickly in terms of your tangible equity and your capital position. The €2.7 billion of tangible equity. Could you tell us what that is in terms of your surplus right now?

Nicolas Calcoen: So on the French network, yes, we had positive inflows on long-term assets of €0.5 billion. I do not know exactly what is the other numbers you mentioned for the market at €12 billion. I do not see what it is, but if it is overall market data probably it include money markets fund, all funds sold to institutional investors, so to be checked. I do not really know the number but 4%, no, it is not market share in France.

Yves Perrier: And I think €12 billion for the quarter for long-term assets in France would be very surprising for the present time because it is not the guidance, as Nicolas mentioned. Maybe about the context of the French market, I think that we enter in better context, taken the assumption that global market is stable and so on for the following reasons.

The first reason is that all insurance companies now have a more and more strict policy about the euro contract, take the example of Crédit Agricole Group: we have decided in September to limit the possibility to invest in the euro contract without a minimum percentage of unit-links. And so the unit-links will continue to grow significantly which is favourable of course for us.

The second reason is the so-called PACTE reform which has created new product, which is named in France as PERI with very good incentive when you subscribe (tax deduction), which will be a good substitute to traditional life insurance contract.

So we anticipate, provided that the global market remains favourable, a better momentum for the French market.

Nicolas Calcoen: And regarding the second question on equity, as I mentioned, maybe we can see the slide: our current core equity tier-1 was 15.9%. So if we consider that in average what we are targeting is to keep a core equity tier-1 above 10%, which is above the minimum requirement set by the regulators, it will represent €700 million of excess capital, if you define it that way at the end of 2019. Just to keep in mind that.

And going forward, keep in mind that we will have the impact of the Sabadell deal, which is expected to represent roughly 400 bps. But at the same time, we regenerate capital, thanks to the part of the result which is not distributed, which going forward is €300 million or a bit more than €300 million. So we should be at the end of the year, despite the Sabadell deal, still with a good position in term of capital.

Arnaud Giblat (Exane): I got three questions please. First on retail margins. I estimate that your retain margins went from 46 basis points in H1 to 42 basis points in H2. Is there anything one-off in nature in that? And do you expect retail margins to recover, everything else equal, in the next period?

My second question is on ALTO. So you have got Aladdin. You have got Charles River. You have got Simcorp that are growing revenues double digit every year. There is a big market out there for providing technology. What can you do to accelerate the growth of ALTO? Are there any external opportunities you can look at?

And my third question is more broadly on M&A. Do you expect further consolidation in the European markets?

Nicolas Calcoen: So on the margins, maybe we can show the slide. And I will come back more precisely on the retail. Overall what we saw is an average margin that decreased by 0.4 point, basically half of it is due to the mix effect between insurance and retail mainly, and the rest is a decrease in retail, which is due to a mix effect in term of product (active versus passive management). And further on, just slight erosion year-after-year. If you also look for quaterly data, I know that there is always a lot of focus on quarterly or half year data. The only point I will make, but you probably know my answer, is that too much attention should not be paid at quarterly or half year data, because of course most of revenues are very recurring and linked to the AUM, but part of the revenues are transaction fees that have not incurred regularly over the year.

So it happens that this year we had a bit more guarantee fees at first half of the year and less in the second. We also had lower level of transaction fees on all assets, including real assets at the end of last quarter. So again do not take the data of the last quarter as necessarily what you should do in your model, if I may say so, for the year to come.

Yves Perrier: To be more simple, I would say this year I do not see a significant shift to the average margin due to pressure on price. So the question of mix by definition we do not control them. In fact it depend on the pace of development. Our guidance in our plan was to see a slight erosion of margins.

On the question of Aladdin services, what we call Amundi Services, we have three parts in fact. It is fund hosting. It is the sale of the service of the dealing desk, and third is ALTO, which is the equivalent of Aladdin. Everything is doing well, dealing also and for ALTO in the recent period we have been very concentrated with Pioneer integration; for us it was important to be successful, to deliver synergies but also to make the demonstration that we have something equivalent to Aladdin.

We have signed two to three small companies in Alto. So the pace of development is difficult to say. It could depend on our capacity to mobilise the people. And when I mention that we have recruited 120 people in our IT platform, replacing people who leave is part of this investment to be able to serve our clients. At the same time, we have a new client, which is Sabadell, because of course we will move Sabadell Asset Management. And a new client probably, which will be Bank of China Asset Management. So all in good stats, lot to do, but it is doing well.

On the question of consolidation, I will make a traditional "langue de bois" answer. How would you say in English? As you say, firstly, the more important is Amundi's organic growth. Acquisition can never be a substitution organic growth.

Secondly, I never look to a company saying it is good because we will increase the AUM. I look at a company to be acquire if it reinforce the business model of Amundi; when we have done Pioneer, we have reinforced Amundi in three dimensions: distribution capacity, emerging markets and the US expertise, and people; 2,100 people joined Amundi. When we are doing Sabadell, it is distribution capacity in Spain and visibility in Spain. When we are doing BOC, it is to take a strong position in a huge market. So, that is not a question of scale; scale is not the objective, it is a consequence of your performance.

Having said that, there will be probably opportunities, and reaction after the Sabadell was interesting because it has been perceived as a win-win deal, of course, win-win deal for Amundi but also for Sabadell, because the market has integrated that Sabadell will be reinforced with a partnership, with a leader like Amundi, in terms of expertise. Because, you know, in continental Europe, most of the asset managers are subsidiaries, captive of banks or insurance companies and these asset managers, despite they are not at the critical size, they bring profitability to these banks or insurance companies, without a significant amount of capital.

So, people are hesitating about this, and I see that if I believe what investment bankers are telling me, that now people are thinking about this, and so on. Often it creates an opportunity but what is sure is that we are probably the player who is the most able to create value for two reasons. The first, it is leaning to our business model. When we do the Sabadell deal or the Pioneer deal, what do we do? We plug additional network on our organisation of investment platform, IT and so on, so we are able to deliver the service. And the second reason is we are a bit experienced the way to manage the integration, which is a key question about this, but after, it is a question of opportunities.

Hubert Lam (Bank of America): Three questions. Firstly on your joint venture with Bank of China; when shall we expect to see the benefits of that come through, in terms of the first inflows? Is it 2020 event or next year?

Second question again is on joint venture; you are getting these large mandates in India over the last couple of quarters; what is the relative profit margin of these assets? Are they similar to the current book or are they lower than the back book?

And similarly with the new Chinese assets you expect to get, do you expect the profit margin to be similar or not? One last question is on the SG distribution agreement. Any update on that, given the timeline?

Yves Perrier: So the timetable for the JV with BOC, the following: the first step was the authorisation by the CRBC which was obtained in 23rd December. So, second step was the filing which is anticipated for the end of June and then the pace of development will be defined at this stage. During the period to come we are working for the filing and we are working to define the operational setup, including the key people for this joint venture. And I can tell you that we will send some people of either Paris or London in this joint venture. So, it is a bit soon to give you a business plan, the figures.

But to give you some indication, about the business model of what we are going to do. In fact, we will do with BOC, what we are doing with SBI in India, the same that what we have done in France with our parent company. So, at the beginning, the AM company is dedicated to the network, it brings the funds, savings solution, service and so on, and progressively it has become an open platform, that is the story of Amundi that has been presented by Nicola, who works now for Amundi, three quarters of the AUM are outside the parent company.

What we will do with BOC, is just the same. At the beginning, the bulk of the business would come with BOC, but this platform will be open to the Chinese market, both in retail and institutional. And the idea of a AuM which would be bought by BOC in the first two years after creation, will be something around €15 and €20 billion, and you take a cost to income ratio, and you have an idea of the additional EBITDA, net income to expect. This is not a commitment, but it is something like, let us say €15 million per year, two years after launch. That means that the value creation is huge, tremendous, because the amount of money that we put will be around €65 million, because it is created from scratch.

And if you take the joint venture in India, if we had to make a valuation, you have a situation that is comparable, the valuation is tremendous, because considering in this country, the potential multiple are rather 40 than 15. That is for BOC.

Considering Société Générale, I recall you that these agreements end at the end of this year exactly, November; what I can tell you is that I am quite highly confident in the renewal of this agreement, which have many parts. Now, one part is distribution by the network of Société Générale, of Amundi products, and the second is the fact that we use the service of Société Générale Securities Services for custody.

Nicolas Calcoen: And I think there was a question in India on the mandate; obviously, it is an institutional mandate, a very large size mandate, so it is very low margins, not comparable to the rest of the business.

Yves Perrier: It is very low margin and of course, so you cannot derive the net income connected to this, but it is very important also to note about our JV SBI FM: when we created Amundi, SBI was the seventh asset manager in India, while SBI is the first of Bank of India with 20% market share. At the end of this year, SBI FM would be the second, and I take you the bet that at the end of next year, it will be the first. And as SBI has been also well performing, that means that it served the SBI network but also now the institutional client, and if you have the mandate, then you can propose expertise and so on, just like, you know, the euro contract mandates of Credit Agricole: the margin is very low, but you have additional business in fact for this, and we have begun to sell Indian expertise further outside India, we use the Indian team to drive this in our emerging market desk. So it is part also of the global capacity of Amundi's role.

Angeliki Bairaktari (Autonomous Research): Thank you very much for taking my questions. Three questions on my side; out of the 5.4 billion net flows in 2019 in retail, could you tell us how much of that is passive, and also compared to the 2018 flows of 4.4. So, I am just interested to see the penetration of passive products in retail flows, especially because I understood that you said part of the margin erosion is on the back of that.

Then a second question: in January, the European Union introduced a green classification system, and also some rules about the distribution of asset management and disclosures related to sort of ESG etc., how do you expect this to affect the industry overall? Do you have a competitive advantage, because you have been a front-runner in terms of ESG investment?

And third question, a follow up on the unit link sales, I suspect that Credit Agricole Assurances has actually sold more than 0.5 billion of unit linked AUM in the fourth quarter; is there a time lag between the sales in the insurance business and then how much you recognise in terms of French retail flows? Thank you very much.

Nicolas Calcoen: So, the first question was under the retail flow and on the passive. So passive overall, we had €16 billion of inflows, a little bit more than 8 billion in ETF, so ETF it is partly institutional, partly retail, but partly retail, third party distributors, and so on, and the rest institutional. And the rest of the passive business is mainly mandate, so it is mainly institutional. And the third questions, about unit links, Credit Agricole has done more than that; we are talking about net flows, not gross flows. And the second question-

Yves Perrier: About ESG. I will take some time, try to very clear in a debate which is a bit confused. Firstly, we have never seen the question of ESG as a marketing question, and I have never spoken of an ESG market. We have thought about ESG as a question of conviction, the conviction that a cycle ended with the financial crisis of 2008. And this cycle was a cycle where for companies, everybody progressively has considered that there was only one objective, which was to maximise the shareholders' value for shareholders; that was the mandatory answer.

And we entered in a new cycle, and we have been very anticipative in this, where everybody is going to consider that a company has a role for its shareholders, but also it has a role for the society as a whole, and it is defined then by environment, social and government. It is a matter of fact, and everybody is moving. The beginning has been interesting for investors and especially in the Scandinavian area, then Europe. And you have seen that recently the American board of large corporates made a statement saying that companies had a role not only for the shareholders, but for the American society and for the US, and they do not say the citizens of the world, but the American society.

When you are speaking with institutional investors, now there is no institutional investor, which has not a concern with this question of implementation of ESG.

What is the Amundi vision? The first vision is to say what is our role in this? We have considered two roles. As shareholders of company or bondholders, we have a role to send a signal to corporates, to incentivise them to take into account this objective of the society also this objective of environment and social. And the way we do this is by rating them through this criteria, and not go from A to G. The company is excluded from the portfolio. A company which has a good rating, A, will be over-weighted, a company with a bad rating will be under-weighted. And by this way, it creates a strong incentive to the company on this. And we have said that 100% of our active fund will be in this. And it is done in the best in class, approached sector by sector. We do not exclude the sector, we do not exclude oil or gas, but we will compare in the sector, let us say Total versus Exxon, and so on, and they will be underway, like this.

The second axis is to raise money in order to finance the energy transition or some dedicated initiative, for example social initiative and so on. And the two examples I gave with the partnership with IFC, European Investment Bank and AIIB are clearly this: we raise money which are dedicated to the financing of investment, because a question of energy transition, the most complicated is not to get out of coal, it is to invest in other energies, clean in order to fulfil the demand in fact for energy.

And if I want to make a comparison, I would say that for us, it will be the same as the programme for a car manufacturer. When you buy a car, you buy it for its design because its safety, its speed, its price, but also you will not buy a car that does not respect pollution rules and so on. That means that an Amundi firm, of course, it will deliver the main objective, financial performance but, at the same time, the customers will know that in our investment process, we have taken into account this. And, I think that it will be part of the brand for a company, and you know that it is very different that the idea that we put some fund and so on, that is all the funds, all the way we invest, integrate the process.

The second for institutional investors, we help them to implement this, so it is a complicated topic. We have been working on this since ten years; we have created a dedicated committee with very various personalities to think about this, and it is not so simple and it is questionable and so on. And what I can tell you is that we are recognised, in many areas for the referring player. I take two example, the Ministry of Finance and Economy of Japan, has asked us to be adviser in the special project group that they have been to implement ESG. I made a special speech at the board of ECB, of discretion and so it will be a market; I would say that it is something which will become mainstream for everybody in the future. And, we do it – this could clarify humble way, you know, the finance sector can accompany this question of energy transition; it can help to a better social cohesion, but it is not a substitute to government.

Angeliki Bairaktari: Just to follow up on the ESG, just very quickly, practically do you see a divergence over the last few months between the flows directed to ESG funds at Amundi versus non-ESG funds? And then these new rules, if I understand correctly, that have been introduced by the European Union, they set effectively a classification system, which is going to be unified for all asset managers; is that going to create any further costs for you, because it would be different from the A to G rating? And lastly on the passive, is it fair to assume that a lot of the third-party flows that you had in retail this year were on ETFs or no?

Yves Perrier: So far we can consider that the question of ESG has no effect on retail, for me, for the present. It is very limited effect, and in the future, the question will not be, I do not believe, about ESG product or non-ESG product. We will have all to take into account this. On the institutional side it is very different: do you know the demand of investors now? You have to take into account the ESG. If you are not able to have this, you are excluded. It is not sufficient to win, but it is sufficient to be excluded.

On ETF we have created for example, the first low carbon index. We are working to develop indexes, which integrate an ESG effect. We have produced very interesting studies which demonstrate that integrating these ESG factors is not opposite to financial performance. On the contrary, companies who have good rating in ESG, over perform, in fact, others.

Jacques-Henry Gaulard (KeplerCheuvreux): Two questions, the first one, running a partnership in one country is difficult enough, I know that, running two partnerships in a huge country like China, how are you going to deal with conflicts of interest, because it is bound to happen, even if it is not exactly the same markets? Question one.

Second question, if I look at your cost base, the price effect increasing the variable comp which is 3.3% seems to be the performance impact; is it fair to assume that? Because the best way to try to forecast performance is probably on a net basis, revenues minus cost, so if I can have a little bit of a guidance on that would be great thank you.

Nicolas Calcoen: On the last point, this cost effects is first the usual price effect, increase in wages and so on, plus it is a bit high this year, thanks to the good results. The full year results are increasing, but it is not automatically linked with performances; we do not have automatic rules that way, but of course when we have higher performances, higher revenues, higher results, we have higher bonuses.

Yves Perrier: But maybe I can add something to what was said. We have a key ratio, which is the distribution ratio which is the level of variable remuneration, compared to the gross operating income before variable remuneration, and this year we were at 18%, a bit lower than last year. Our policy is a distribution ratio between 15% and 20%, depending on the year, and this year was quite interesting.

On the question of China and on a potential conflict of interest, we are already doing this in France with Credit Agricole and Société Générale. I will add not only Credit Agricole and Société Générale, but between Credit Agricole and LCL, because you know that they are brother and sister, but in the family it is not all the way so simple. So, it is no more complicated, the same in Italy and Austria. What I can add, of course, is that when we entered discussion with BOC, we informed ABC of this, and when the deal was done, I met them in Beijing, and in fact they were proud that we have been chosen by BOC, which is let us say a bit more sophisticated banker than ABC, because it confirms the quality of the choice they have been doing with us, in fact. So, no problem of interest conflict.

So life is beautiful. Thank you again for being here and good day.

[END OF TRANSCRIPT]