

FTfm

Big banks losing share to indie fund groups

The big picture

The financial crisis has made investors shop around, writes **Ruth Sullivan**

Big asset managers, particularly those with large banking or insurance parents, have traditionally been the winners in Europe.

Economies of scale, distribution networks and plentiful resources have all contributed to their dominance, leaving little space for independent investment houses to compete successfully, especially in Spain, France and Italy where asset management is largely part of banking group activity.

But investors are asking just how good a deal they are getting. "An extraordinary change is taking place at the moment, born out of the financial crisis," says Diana Mackay at Mackay Williams, a consultancy.

Institutional and wealthy investors value asset manager independence more than ever before, says Ms Mackay. "They are not prepared to buy into banks' products and are much more discriminatory now."

Ms Mackay attributes shifting investor attitudes to caution and a desire to be in regulated vehicles. There is also a perception that independent asset managers' interests are better aligned with those of their clients than is the case with asset managers that are part of a large group.

The shift is "a big structural change in the industry. The groups building big sales in

European net fund sales*

Long-term funds (excl. money market)

Independent asset managers

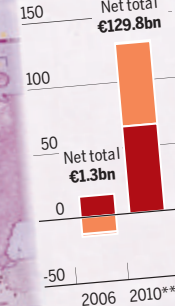
Others: €9.1bn

Banking and insurance



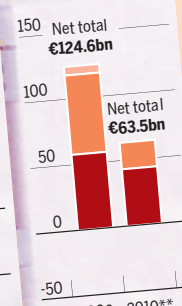
Bond funds

Estimated net sales (€bn)



Equity funds

Estimated net sales (€bn)



■ Independent asset managers
 ■ Banking and insurance
 ■ Others

* Mutual funds only
 ** To Nov 30
 Source: Lipper FMI

Europe are now the independents and not the big banks", she adds.

European sales of mutual funds (excluding money market funds) by independent asset managers for the first 11 months last year outstripped their bigger rivals, with net sales of €140.5bn (\$189bn) playing €125bn. This reverses the position in 2006 –

'The groups building big sales in Europe are now the independents and not the big banks'

the last full pre-crisis year – when banking group subsidiaries notched up €154bn and boutiques trailed with €106bn.

A factor driving investors towards niche asset manag-

ers is appetite for emerging markets, says Ed Moisson, head of UK and cross-border research at Lipper.

These clients are keen to invest in "specialist, emerging market products that cross-border groups have been able to provide at the right time and with established expertise", he says.

He believes this "played to the strengths of independent asset managers", leaving local banking groups "out of favour for most of last year".

In contrast, retail investors are still in deposits because banks are "not pushing mutual funds", he adds. This is particularly notable in Spain, Italy, and, to a lesser extent, France. Retail investors still prefer big brand names, ending up in deposit accounts which is "where banks want them to be", adds Ms Mackay.

The wind of change in Europe among institutional investors has allowed groups like Carmignac to come from nowhere to become big

players, she says.

Carmignac Gestion, founded by Edouard Carmignac in 1989, has enjoyed remarkable success as an independent house, becoming one of France's leading independent asset managers. Assets under management nearly quadrupled in the past two years, from €12.6bn in 2008 to almost €50bn by last September.

Mr Carmignac attributes part of this success to the asset manager's independent structure, strategy and management decisions, with Carmignac capital held by management and staff.

Other niche players include Mandarine Gestion, set up in Paris by Marc Renaud three years ago, which has built up assets of €1.5bn. "In Paris there is a vital boutique community that started in the 1990s," says Andreas Krebs, managing director and a partner.

He believes European investors are becoming more savvy, looking at neighbours

such as the Netherlands and the UK to see what other pension funds are doing. "Europe is appreciating the boutique model more," he says. "Investors were ready to put their money into small players and Mandarine, like others, has benefited from this."

Mandarine aims to increase assets under management to €2bn by the end of the year and up to €2.7bn by the end of 2012.

One of the biggest hurdles for boutiques is to get on the radar of fund managers and institutional investors. Mr Krebs maintains it is impossible to gain attention without at least €300m in assets under management.

Seed capital is essential for start ups, he says. "Without this you cannot build a track record."

The costs and skills required to meet the plethora of new European Union regulation is another obstacle. "It will be more difficult for start-ups to deal with this as they may not have the resources," says Tim Woolley, founder and chief executive of Polar Capital, a UK-based independent, quoted investment house.

In spite of difficulties, start-ups continue to emerge in Europe, particularly in France, with those already there expanding into the cross-border arena, says Ms Mackay.

Germany was in the vanguard of widening fund choice for investors, with banks and insurers offering a range of external funds for sale, making it easier for independent asset managers to compete.

Lipper data for FTfm's quarterly sales reviews last year show independent managers dominated the list of top 10 international fund groups by net sales. The only bancassurance player to appear consistently on the list was Allianz, which probably partly owed its success to Pimco, the fixed income manager.

Giovanni Bagiotti, chief executive of Allianz Global Investors Europe, says

investors still want "brand name, size and a cautious investment approach".

He believes standalone niche players have not succeeded in Italy because "there are few IFAs [independent fund advisers] and distribution networks are still controlled by banks".

Size and brand matter but are not everything. Ms Mackay says there is "value in the independent arena even if volume is small. Even if you never heard of the brand you should look at the products", she says.

She expects independents "will continue to win" in the year ahead.