

“FRANCE IS BACK”

INDEFI's latest institutional market research in France demonstrates the attractiveness of a fast-growing outsourcing market. In addition, it combines the features that are likely to define the future of third-party institutional asset management in Europe.

**€380BN
IN ACCESSIBLE
ASSETS,
GROWING AT
+8% PER ANNUM**

Out of the ~€2,500bn in assets managed by French institutions, third-party outsourcing has reached a new peak at the end of 2017. More than 15% of assets are now entrusted to non-affiliated managers. This is a 1.5x increase since the beginning of the decade (+€130bn in absolute terms).

This trend has developed out of the need of French institutions to seek new sources of yield and diversify their asset allocations. This is particularly true of insurance companies which form the cornerstone of the market with 75% of managed assets.

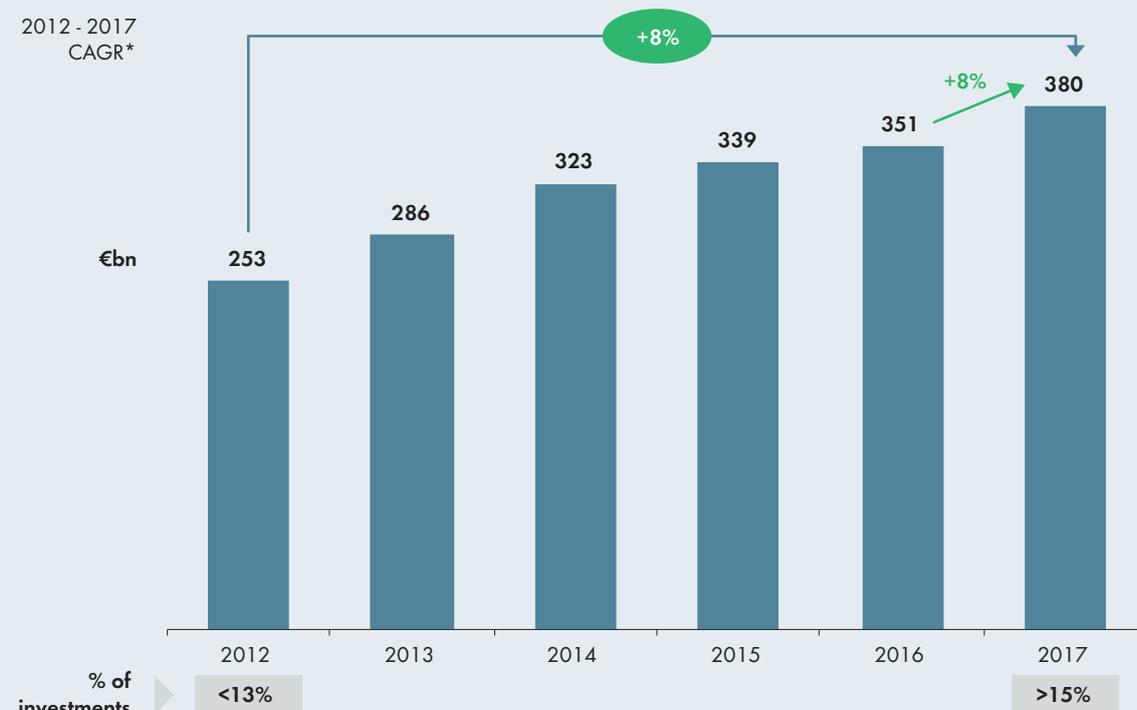
While equities were commonly used by institutions to generate yield, their role has been fundamentally challenged under Solvency II. They have progressively been replaced by a range of asset classes, the expert nature of which leads institutions to outsource to third-party specialists.

Such pockets of growth for third-party managers include:

- Fixed income diversification including high yield (US, European) and emerging debts;
- Private debt, including senior corporate loans, direct lending, infrastructure and real estate debt and new strategies;
- Systematic volatility-controlled equities (i.e. factor investing);
- Private equity and mezzanine;
- Infrastructure;
- International and specialist real estate.

The opening up of French institutions to these asset classes accounts for approximately half of the increase in third-party outsourcing over the past five years.

Evolution of third-party outsourcing (2012 - 2017, total bases of institutions)



Note: (*) Compound annual growth rate.

FRANCE HOLDS (A FEW OF) THE KEY(S) TO THE FUTURE

Our research highlights key trends in the market which will contribute to defining the landscape of third-party institutional outsourcing in Europe in the forthcoming years.

1. Insurance outsourcing

Pension fund markets are facing headwinds due to consolidation, enhanced regulatory oversight and efficiency pressure, leading to increased insourcing and a massive switch to passive management. In the meantime, insurance outsourcing offers an attractive growth relay for third-party managers. The French market epitomizes this trend. Insurance outsourcing has more than doubled since the beginning of the decade and grown twice as fast as pension institutions (+13% five-year CAGR vs. 6%). Furthermore, it now represents about 40% of outsourced assets and over 50% of the accessible revenue pool. It also dictates product innovation, fueled by the switch to private assets and (Solvency II-driven) investment solutions.

2. Factor investing

Deeply rooted in engineering and quantitative methodology, the French institutional market is at the forefront of the quantitative evolutions which are redefining the boundaries of competitiveness in equities as demand migrates from mere alpha-seeking to enhanced risk control. Factor investing has thus taken hold with French institutions and is expected to keep growing provided the connection with Solvency II constraints can be successfully made.

3. Sustainable investments

Finally, the French institutional market is experiencing a comprehensive conversion to ESG investments. It is driven by the first compulsory ESG-climate regulation applying to investors (and asset managers) in Europe, born in the wake of the 2015 Paris Agreement. The regulation galvanizes leading institutions towards increased ESG factor integration, impact investing and should culminate in the definition and implementation of so-called 2°C investment strategies. The EC sponsored High-Level Expert Group on Sustainable Finance is exploring a potential extension of such objectives to the rest of Europe. France provides institutional asset managers with a particularly innovative testing ground in this area.

We would be happy to further review development opportunities for your business and discuss with you and your teams how INDEFI can help in growing in this attractive yet demanding market.

ABOUT INDEFI

INDEFI is a strategy advisor for the investment management business in Europe. Our exclusive focus on top line growth in one industry, the use of our own field research and the skill diversity of our consultants form the bedrock of our consulting philosophy. This gives us an unparalleled vantage point from which we aim to serve our clients - asset managers, private equity and infrastructure investors (and their portfolio companies) - with understanding, insight and actionable advice. We provide strategic business growth advice to our clients which can cover markets, products, client groups and a combination thereof.

We would be pleased to work with you on your business strategy in Europe, for specific product categories or international client groups.



Richard Bruyère
Managing Partner
+33(0)1 5688 3473
richard.bruyere@indefi.eu



Ric van Weelden
Senior Partner
+33(0)1 5688 3470
ric.vanweelden@indefi.eu

18, rue Royale 75008 Paris - France | www.indefi.eu