Europlace

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Few important points about the French Asset Managers

- In France, there are close to 500 Fund management houses, with over 12,000 funds (OPCVM, SICAV…). More than 10% of the PFA are invested into mutual funds. This is a very mature industry where investors have an extensive choice of various products and providers.
- In Europe in general and in France in particular, most of the biggest FM houses derive from Commercial banks with a retail network (Natixis AM, CA AM, SGAM and BNPP Investment Partners in France)
- Traditionally, French managers focus their efforts on a multi-specialist approach rather than on size. Big is not always beautiful !
- In addition to the regulators, Fund houses are closely monitored by third-parties to reinforce transparency in their investment processes and performances.
- In today's global economy, Asset Managers must demonstrate that they have adequate controls and safeguards to manage Assets belonging to their customers. They also need to :
  - promote a better understanding of the interest of long term investments;
  - focus on the quality of Assets selected and on the investment processes (transparency);
  - ensure transparency in the responsibilities of marketing of their products (suitability and education).

Back to the fundamentals

- The QDII scheme is a good illustration of what French Asset Managers could bring to the Chinese investors: specialisation, diversity, experience of dealing with retail investors with different levels of sophistication and knowledge.
- Nevertheless, especially in such highly volatile markets, both Asset Managers and investors should be back to some of the basic fundamentals of investment.
- The core fundamental is probably to attach more importance to the diversification of exposure !
- Most Academic research has shown that for a long-term investment goal, strategic asset allocation plays an key role in the evolution of a portfolio's return. Wealth managers have been promoting this golden rule for numerous years but it can be sometimes forgotten.

"Diversification is protection against ignorance:

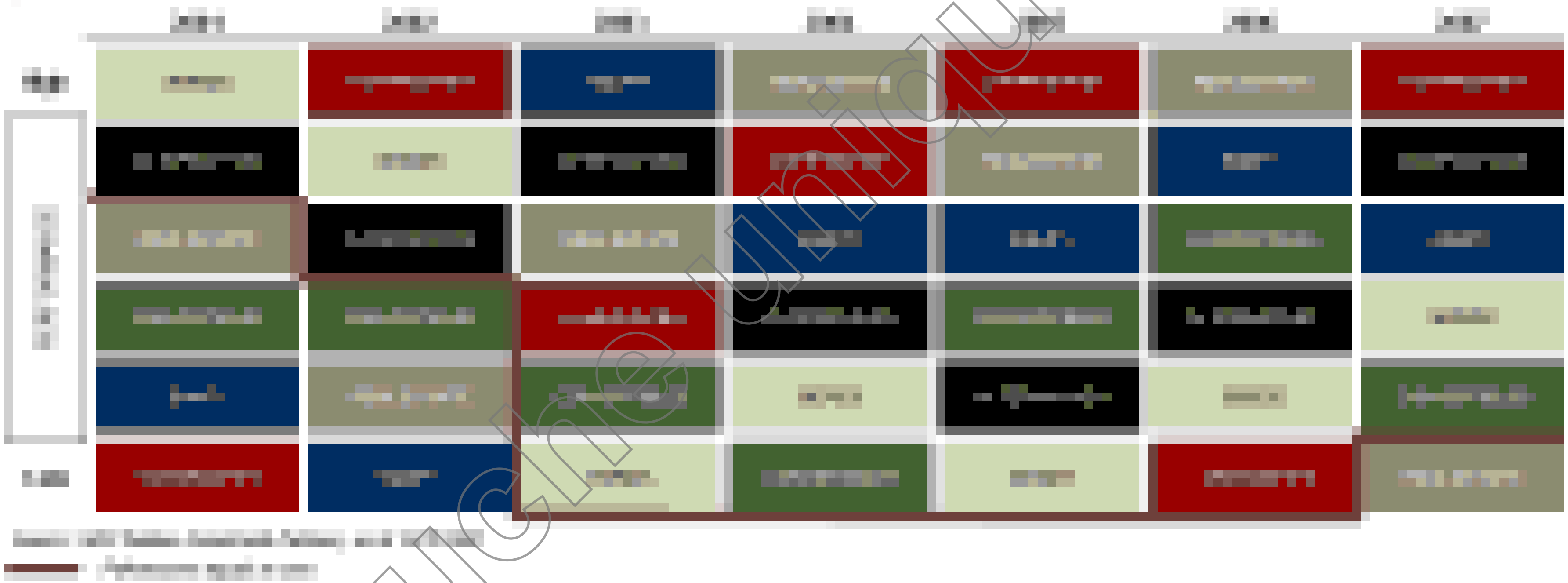
it makes very little sense if you know what you are doing" (Warren Buffet).

- If everyone does not agree on the principle of diversification, we believe this is a key factor of satisfaction for the investors and a strong responsibility for Asset Managers.

Back to the fundamentals

- Diversification of the exposure starts by building <u>the appropriate Asset mix</u> to improve the risk/return profile…

Ranked asset class – calendar year returns (January 2001 – December 2007)



- Working with fund houses with an extensive range of products and services is a must ! This is where the multi-specialist approach in a ''one-stop-shop'' could be a great plus .

Back to the fundamentals

- Then, true diversification also goes through a strong understanding of the sources of risks and return. Risks tell more than return!

Risk appetite	Market Risk	Counterparty risk	Various Risks
- Risk aversion - Macroeconomic environment - History - Culture - Etc…	- Type of Assets - Currency risk - Strategy (long/short, 130/30…)	- The FMC house - The FM advisor - Execution risk - Custodian etc…	- Market timing - Systemic risks - Etc…

- Continuous education for Investment professionals and Investors is therefore critical.

Investors need a guide through the maze !

- In a nutshell, the QDII scheme should be an opportunity for…
  - …promoting true diversification as a key factor of investing into a mutual fund:
    - Wide choices of types of funds and providers appear crucial to ensure diversification of risks
    - Asset managers are doing different jobs than brokers and funds should not be considered as a commodity
  - …strengthening the education process of investors and of various sales forces (at FMC and in the retail networks). The experience of foreign advisor in this regard could be key, especially FM houses with strong roots in commercial banks.
    - This could be seminars on the ground for investors, within advisor's international premises for FMC staff …
    - Fund prospectus should also illustrate basic risks on a simple manner (graphics of stress tests for example)
  - …reinforcing ideas that Funds are long-term investments
    - Introducing a systematic monthly savings plan rather than ''one shot'' investment
    - This ''market timing'' tends to average market volatility on the long term
- The introduction of total or partial tax incentive on capital gain coming exclusively from long term investments (and then taxing short term gains) could also be an interesting solution to consider.
  - In France, such incentives exist after five years with the Savings Plan in Equities (called PEA) and after 8 years for Life Insurance contracts invested in funds etc…
  - Introducing the idea that Funds could participate on a long term in the growth of wealth and even participate in the Pension funds scheme (with monthly dividend for example)
- The engine of QDII should be a genuine ''client-driven'' approach rather than a race on the most performing and innovative product.