Amundi ASSET MANAGEMENT

Amundi Q2 and H1 2021 Results

Friday, 30th July 2021

Introduction

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Head of Investor Relations, Amundi

Good morning to all of you, welcome to this second quarter results conference call. In the room we have Valerie Baudson, CEO; Nicolas Calcoen, Deputy CEO and Domenico Aiello, CFO. I leave the floor to Valerie.

Q2 and H1 2021 Results Highlights

Valerie Baudson

Group CEO, Amundi

Opening remarks

Thank you very much and good morning to all of you. I am very happy to share with you these second quarter results for Amundi, my first as a CEO.

As an introduction, my main comment would be that these results are very good for three main reasons. The first one is good organic growth momentum of all our business lines, in all our client segments. The second one: a good dynamic of our growth strategic initiatives, which are bearing fruits. And the third one: obviously strong tailwinds and favourable market conditions.

Very good results in the second quarter, in highly favourable market conditions

So, slide five: I will summarise the second quarter highlights. First of all: very good results. Our adjusted net income amounts to €345 million, with a very strong increase compared to both Q1 2021 and Q2 2020. There was a high level of net asset management revenues, up sharply versus Q1. This includes an exceptionally high amount of performance fees during the quarter, €155 million.

Our costs are under control. As a result our cost-income ratio stood at a very low level, close to 46%, which is quite exceptional. We will come back to that afterwards.

One additional comment about our accounting net income that you must have seen this morning. It includes a very positive and specific one-off item: a tax gain of €114 million coming from a mechanism related to the Italian budget law. However, Nicolas will come back to this later on.

So, first, very good results. Second: a high level of activity. The quarter was shaped by dynamic inflows in medium-long-term assets, close to €22 billion. This is all the more satisfactory because they are mostly composed of active investment expertise, for €19 billion.

Regarding treasury products, we saw some outflows, as often in second quarters. This is a seasonal effect but also linked to the level of interest rates. Overall, for Q2, Amundi's net flows amounted to €7 billion.

Talking into account the positive market effect, of course, our assets under management amount nearly to €1.8 trillion at the end of the second quarter, so Amundi remains a global leader in the asset management industry.

One word, to finish this introduction, on the Lyxor acquisition project. You remember that we announced entering into exclusive negotiation with SocGen on 7th April. Ahead of schedule, we signed the master agreement on 11th June. We are actively preparing the integration of Lyxor. If everything continues as planned, we should be able to close the deal at the very end of the year.

Of course, I am looking forward, we are looking forward to welcoming the talented teams of Lyxor. As you remember, the combination of our strengths will allow us to accelerate significantly our development in the ETF industry. We will be the European leader in passive asset management and it will also reinforce our expertise in alternative asset management, as well as in the investment solution and OCIO segments.

Now I will leave the floor to Nicolas, who will comment in detail the figures of this quarter.

Market Backdrop Continues to Improve

Nicolas Calcoen

Deputy CEO, Amundi

Highly favourable market conditions

Thank you Valerie and good morning to all. I will start with a few words on the context in which we operated during this second quarter. I will start with the market conditions, page seven of the presentation, with clearly very highly favourable market conditions. A main element to be noticed, of course, is the continued increase in equity markets. If you look at the European markets, the European equity markets, as illustrated by EuroStoxx, they are up on average in the second quarter by 8% compared to the first quarter of 2021 and by 36% compared to the second quarter of 2020. So, clearly, very favourable market conditions.

Continued momentum in the European asset management market

The second element is the asset management market itself. It showed, page eight of the presentation, a very strong momentum during this quarter, with inflows for the two first months of the quarter, April and May. We do not have yet the numbers for June but for these two first months, net inflows were close to €150 billion in the European open ended funds market, all on long-term assets, so illustrating a good positive momentum on the market overall.

AUM of €1,794 billion at the end of June 2021, up +12.7% year-on-year and +2.2% for the quarter

In this context, Amundi clearly performed well: page ten of the presentation. Assets under management reached close to €1.8 trillion, exactly €1,794 billion, at the end of June, an increase of 2% during the quarter and 12.7% over 12 months. This was driven, clearly, by the positive market effect, a bit more than €30 billion during the quarter, but also by positive net inflows.

A confirmed recovery in risk appetite: +€22 billion in MLT assets in Q2

These net inflows, on page 11, show in particular, a very good, very strong momentum on long-term assets, with inflows in the quarter of €22 billion. As you can see in this graph, we have seen, over the last 12 months, a continued improvement in this momentum confirming a strong risk appetite in the market. So, very strong inflows in long-term assets, partially compensated by seasonal outflows in treasury products.

Retail (excluding JVs): +9.5 billion in MLT asset inflows in Q2

Digging more in detail in our various business lines, starting with Retail, page 12, we can clearly see that also in this segment there is good momentum in long-term assets. The Retail business, excluding joint ventures, posted total net inflows of €7.6 billion in this quarter. However, if you exclude treasury funds, the inflows in MLT were €9.5 billion, so a continued increase compared to the previous quarter. We had, in particular, very good business activity in third-party distributors, €4.4 billion, in line with the previous quarter, driven by all expertise. We also had very strong business momentum in our international networks. This is true in Italy, with our two partners, UniCredit and Crédit Agricole Italy. It is also true in Spain, as well as in Germany. It is also true in China, with our new partner, Bank of China, where the beginning of the relationship is promising, since we posted €2.5 billion in this quarter and €3.5 billion in the whole semester, so the first six months of effective operations of the new partnership.

For the French Networks, maybe you will note some limited outflows of -€0.5 billion. These are in fact due to a specific effect. We saw a significant amount of early redemptions in structured products. These are in fact linked to the very favourable market conditions that triggered outflows on structured products that reached, in advance, I would say, their objectives. If you exclude this effect, the business momentum is good and we see continued inflows in unit-linked products in particular.

Institutionals: strong recovery in activity in MLT assets and seasonal outflows in treasury products

Moving to the Institutionals segment, on page 13, you will see, again, very strong momentum in long-term assets, with a bit more than €12 billion of inflows driven by all segments, so institutional clients and employee saving schemes as well. The only client segment with outflows are the mandates we manage for Crédit Agricole and Société Générale insurance companies. It is, I would say, the logical consequence of the fact that inflows in life insurance in France are going more and more to unit-linked and not to euro contracts.

So, a very positive quarter for long-term assets, but outflows from treasury products of €15 billion for institutional and corporate clients. This is due to two elements. The first one is, I would say, a seasonal effect we see every second quarter, linked to the fact that corporate clients in Europe typically withdraw money to pay dividends. The second effect is the market conditions and the fact that the yield on treasury products is obviously less attractive due to the market conditions.

JVs: solid inflows; expected outflows in channel business in China

Moving to our joint ventures, page 14, here as well we saw positive momentum. Just as a reminder, here we are talking about the minority joint ventures, meaning SBI FM in India; NH-CA in Korea and ABC-CA in China. The joint venture with BOC, in which we are majority shareholders, is accounted within the International Networks segment.

So, for these JVs, a positive momentum: net inflows of €2.6 billion, but taking into account the continued expected outflows in the so called channel business in China. Just a reminder here: this is, I would say, a legacy activity that was managed for the partner, for ABC, which is not allowed any longer following changes in regulation. We have been seeing outflows for the last two or three quarters and we will continue to see some outflows but with very limited impact on our P&L, as these products have a very low revenue margin. If you exclude these expected outflows in the channel business, the momentum is positive, €5.8 billion, positive flows on all the three JVs, again excluding the channel business.

The JV in India, despite the health crisis in the country, still had positive inflows, mainly in monetary products, but positive inflows. We are positive in Korea and in China as well, in mutual funds in particular.

High MLT net inflows, driven primarily by active management

Moving to another way to look at our business, by expertise, page 15, you can see here that, first, again, the long-term flows are very positive: €22 billion. An additional element to note is they were primarily driven by active management. Overall, in this quarter, active management represented net inflows of €19 billion, driven by all asset classes and in particular with a very good success in diversified funds for Retail and diversified solutions also for Institutional clients, including the new business lines we launched last year, the outsourced CIO solution, which attracted significant inflows and mandates. So, very good momentum on multi-asset solutions, also in thematic funds and generally speaking in all ESG funds and solutions.

Passive management continued to post positive flows in this quarter: €4 billion, including €2.3 billion in ETFs. ETFs now reached €77 billion of assets as at the end of June.

The last element: real and structured products. There were two opposite effects. I already touched upon some outflows in structured products linked to the early redemptions in a very favourable market context. On the other side, in real assets, positive inflows of €1 billion were driven by private debt and real estate.

Growth initiatives launched in 2020 are bearing fruits

On page 16, a word on the various initiatives we launched in the recent past, just to illustrate that they are already bearing fruit and they are clearly successful.

Successful integration of Sabadell AM and partnership with Banco Sabadell

The first of these initiatives is the acquisition of Sabadell AM and the new partnership with Banco Sabadell in Spain. Remember that we made the acquisition 12 months ago. We can say that, first, the integration of Sabadell AM is completely done, both from, I would say, a technological point of view, the migration to our platform that took place at the end of last year, and from an operational point of view.

The partnership with Banco Sabadell is clearly very promising. We have a good relationship with their teams and as a consequence, a very good business momentum with, on a cumulative basis, €1.5 billion of inflows over the first 12 months of the partnership. As a consequence, we gained market share for the distribution network and for Amundi.

This allows us to clearly confirm the synergies that we announced last year. Remember we announced €20 million of synergies pre-tax. We should account already more than half of these synergies in 2021.

Successful start-up of the new Wealth Management subsidiary with Bank of China

The second growth initiative is the creation of the new subsidiary in China, in partnership with Bank of China. Here again we are talking about creating a new business from scratch and the start is very promising. We already launched around 50 products since the effective creation of the company in December 2020. We had positive inflows of €3.4 billion, to be exact, in the first six months of operations with the network of Bank of China.

Ramping up of Amundi Technology

The third initiative is the development of Amundi Technology. Here, again, clearly very good momentum and we are clearly in line with our objectives. During this last quarter, we onboarded seven new clients, so at the end of June we have 29 clients for Amundi Technology. Particularly noticeable is the new client AG2R La Mondiale, which manages €120 billion, so this is a client of significant size. They have adopted our ALTO Investment platform services, as well as complementary services, such as dealing, middle office and reporting.

As a consequence, in total, for this quarter alone, we posted €12 million of revenue for Amundi Technology and €19 million for the semester. So, a good development. I remind you that, last year, for the whole year, we had close to €25 million of revenue. We are clearly making good progress to reach the objective we announced for 2025, which is to reach €150 million of revenues for Amundi Technology.

Amundi confirms its leadership in ESG

Last but not least before moving to the P&L: page 17, the ESG approach. Clearly here a quarter, a semester, that confirms the leadership of Amundi in that field. At the end of June, our ESG AUM reached €800 billion of assets, so increasing compared to the end of last year and compared to the first quarter. This increase was led by the integration of ESG criteria in our assets in the majority of our funds, and positive flows, around €19 billion of inflows in long-term assets in the semester.

This allows us, clearly, to confirm our ESG business plan, where we have a market share in responsible investment funds of 8% in long-term assets in Europe. We are number one in Europe and I think in the world in terms of ESG. If you look at the classification of assets according to the Sustainable Financial Disclosure Regulation, SFDR, we have over €680 billion of assets that are classified under Article 8 and Article 9 of SFDR. We are clearly number one in Europe both in number of funds and in assets classified as ESG Article 8 or Article 9 under SFDR.

Implementation of ESG plan continued

In parallel to these good results in terms of numbers, we of course continue to launch new initiatives and to innovate in that space, as shown on page 18. In particular, during this quarter, we joined the Net Zero Asset Managers alliance. This is, in the lead up to the Glasgow COP 26 in October, an alliance of asset managers committed to the target of net zero emissions by 2050.

We are also one of the founding members of another initiative: Investors for a Just Transition. This is an international coalition of asset managers and asset owners that are committed to promoting a just transition to low-carbon economics. This is clearly joining the E and the S of ESG.

We also, of course, continue to innovate. We mentioned a few products and expertise that have been launched during this quarter. This complements our set of solutions and expertise integrating an ESG approach.

Introductory remarks to the results

Moving to the results, page 19, Valerie presented to you the main elements. Clearly, these are very good results due to a strong increase in our revenues and a cost control which is maintained.

High level of net management fees

On the revenue side first, on page 20, the first element is our net management fees, or management fees excluding performance fees, that have increased significantly to €689 million. It is a 4% increase compared to the first quarter of 2021 and 20% compared to the second quarter.

This is driven by both very strong momentum in inflows in retail and in long-term assets in active management over the recent months and recent quarters. I already presented these elements. This is clearly amplified by the strong equity market and strong positive market effect.

However, first, the recurring revenues, I would say, are increasing significantly. Secondly and as a consequence, particularly in high-margin products, we saw positive development in our average margin for the semester to 18bps, increasing by 0.3bps compared to the first semester of 2020.

Exceptionally high performance fees

The second element, on page 21, is performance fees. Valerie presented the number and clearly performance fees are very high. I consider this an exceptionally high level of performance fees, since the performance fees reached €155 million for the second quarter and €266 million for the semester.

This is clearly due to a good performance in all our expertise, I would say, across the board. However, this is strongly amplified by a very positive market environment. You know that performance fees are accounted on a yearly basis, and equity markets appreciation has been very positive, more than 30% for the various equity markets, over 12 months.

So, a very high level of performance fees. Clearly, going forward, we cannot extrapolate such a level of performance fees. We should expect a progressive normalisation, over the next quarters, of this level of performance fees. In addition to this progressive normalisation, as the market context normalises, we can also mention that progressively, over the next five or six years, we will see also the consequences of the ESMA regulations and new guidelines on performance fees that are starting to be implemented in July of this year. These guidelines require us to appreciate performance with a reference period of five years. There is no retroactivity for this new rule. This means that, again, going forward in the next five or six years, progressively, we should expect, everything else being equal, a decrease in our capacity to generate performance fees.

Excellent operational efficiency

So, a very good level of revenues, both recurring and exceptional, if you look at performance fees. At the same time, we saw continued excellent operational efficiency. Our operating expenses reached €388 million in this second quarter, as shown on slide 22 of the presentation. This was an increase by a bit more than 3%, compared to the first quarter and by 22% compared to the second quarter.

This increase is explained first by the increase in the provisioning of variable compensation, bonuses. I would say this is kind of an automatic effect. We have a strong increase in operating result; as a consequence, we have a strong increase in the provisioning of variable compensation.

The second effect, if you compare to last year, is a scope effect linked to new entities being integrated. This includes: the new JV in China from the last quarter of 2020; Sabadell AM, which has been integrated starting in the third quarter of 2020; also, the full consolidation of Fund Channel following the exit of BNP.

The third effect is, while we continue to keep costs under control, we also continue to invest in the future development of the company. This has been especially the case for Amundi Technology: investments and recruitment that are necessary for us to continue to permanently upgrade our platform for our needs but also to be in the position to onboard new clients and generate the revenue I presented earlier.

So, a strong increase in revenue, and costs that remain under control. As a consequence, our cost-income ratio remains one of the lowest in the industry. In the second quarter, it reached 45.7%, so, an exceptionally low level of cost-income ratio. However, even if you normalised from the exceptional level of performance fees, the cost-income ratio would be around 50%. This is clearly a good level and in line with our guidance, which is to have a cost-income ratio below 53%.

Net income up sharply in a highly favourable context

So, a very strong increase in revenue, costs under control, as a consequence a strong increase in our net result, on page 23. You can see that our adjusted net income reached €345 million in this quarter, an increase by 12% compared to the first quarter and an increase by 48% compared to the second quarter of 2020. This is a very strong level.

Even if you exclude the impact of the exceptional level of performance fees, we evaluate this impact at around €70 million on the quarter, you can see that we continue to see a good increase in result compared to last year and compared to the first quarter.

Quarterly and first half income statements

The last element, on the P&L: the accounting net result reached €448 million in the quarter. This was an increase of 100%, roughly, compared to the second quarter of last year and by more than 50% compared to the first quarter. In addition to all the elements I mentioned, there is an additional exceptional element. Here, also, Valerie has alluded to it. It is the accounting of a one-off tax gain of €114 million in this quarter. This is due to the application of a mechanism called Affrancamento, which is something from the Italian budget law for 2021. This allows us, in our Italian subsidiary, to amortise an intangible asset which is a goodwill that was generated four years ago by the acquisition of Pioneer. This mechanisms allows to amortise this goodwill for tax purposes over 18 years and deduct such amortisation from the taxable result. This mechanism has as a counterpart a one-off payment of 3% of the goodwill in question. This mechanism results, therefore, in the recognition in our accounts of a deferred tax asset and hence the exceptional gain which is accounted in this second quarter: €114 million. This is clearly a one-off exceptional effect.

Financial situation still robust

Before concluding, one last element on our financial position, on page 25, which obviously remains very, very strong. At the end of June, our tangible equity reached €3.5 billion and our Common Equity Tier 1 ratio, at 19.9%, remains very high, largely above the minimum regulatory requirement but also our managerial target of 10%.

You can see that this ratio is quite stable compared to the end of 2020 for the following reason. On one side you have, of course, the non-distributed part of the results that increase our capital position. However, in this quarter this has been compensated by the impact of the implementation of the new CRR2 regulations that generates, with a new methodology enacted by the authorities, an increase of our RWAs, especially in terms of counterparty risks.

This concludes this presentation. To conclude and before opening the floor to your questions: clearly a very good second quarter, driven by good momentum in all our business lines. This good level of earnings was, of course, amplified by the favourable market conditions and, in particular, an exceptional level of performance fees. However, the underlying business trends are very satisfactory.

The third element which is positive is the fact that the growth initiatives launched in the recent past are clearly already bearing fruit and we would envisage this to continue, in particular, with the expected integration of Lyxor. Clearly, we consider that Amundi has the strength needed to pursue its profitable growth trajectory in the future.

Q&A

Jacques-Henri Gaulard (Kepler Cheuvreux): Good morning. I have two questions. The first one: the AMF has recommended a fine of about €38 million, which seems elevated in light of the fact that it seems to be coming from quite a long time ago. Can you please give us a little bit more detail there, particularly if you have already made provisions about this?

The second question relates to the very interesting slide 17. There still seems to be a bit of a gap between what you consider ESG AUM, at €798 billion and what the SFDR Article 8 and Article 9 are, which is €680 billion. Can we have a bit of what is the difference between those two numbers? Potentially you had a doubling of these ESG assets. They were actually progressing quite regularly and then between December and March, they doubled. Could we have an explanation of why you had such a big increase in these assets? Thank you very much.

Valerie Baudson: Thank you very much for the question. I will let Nicolas answer the provision on the AMF and I will answer your question on ESG and SFDR.

Nicolas Calcoen: Hello, yes, on the AMF, indeed, the Commission des Sanctions of the AMF, two weeks ago, required a fine of €38 million. This is due to facts that occurred in 2014 and 2015, generated by the behaviour of two employees. This is something which is important in magnitude but limited in terms of scope. Of course these two employees have been fired since then and remediation measures have been taken so that it should not happen again.

In terms of financials, yes, we have a provision. We already had some provisions for, I would say, regulatory risk. That has been re-evaluated in this second quarter to take into account this request from the Commission des Sanctions, so we are provisioned at the level of this possible fine. However, it is important to remember that no decision has been taken yet.

Valerie Baudson: To answer your question on ESG and SFDR, the very strong growth you are seeing in our assets, which are now ESG, is linked to the fact that we have been progressively integrating ESG criteria in our portfolio management for a few years and months now but with a very strong acceleration in 2021. The reason why it has increased very fast is that we have managed to finalise this integration in a very large number of funds. Now we can say that we have finalised our plan 2018-2021, especially because in all our active open-ended funds, where it was possible, we are now integrating ESG criteria. This is done. That is the reason why we have €800 billion assets under management in ESG today, which makes us number one in the world. In terms of open funds, we have a 12% market share now.

Regarding your question about the difference between ESG and SFDR, you are right. It is actually close to €800 billion for ESG; close to €700 billion for SFDR. The difference is linked to the fact that to become SFDR Article 8 or 9, we have a number of administrative tasks to implement, especially changing the prospectus, etc. This is going on but there is a small difference between the one and the other, which should nearly disappear in the near future.

Jacques-Henri Gaulard: Thank you very much.

Arnaud Giblat (Exane BNP Paribas): Good morning. I have a quick comment before asking my questions, if I may? I was wondering if you could, perhaps, going forward, strip out the money market funds, since it creates a lot of volatility in the flow picture without necessarily having a P&L impact, so that would be useful. Also if you could split out ALTO from the management fees, since that piece is growing, I think that it would give a clearer picture.

My questions are, first, on performance fees: you indicated that they are likely to come down due to new regulation. I was wondering, if you were to apply that new regulation to the last five years, what would the performance fees look like, on that basis, historically? Is there a possibility, since you are earning less performance fees, to compensate with a change in pricing, for example?

My second question relates to structured products. I think you had about €2 billion of outflows in structured products. Did that lead to management fee recognition, as these products unwind? If so, what was the quantum? Do those outflows dilute the margin going forwards?

Finally, I was wondering if you could give us an update on the alternative platform for Lyxor? One of your competitors yesterday saw some outflows: GAIA. How are things going for Lyxor on the alternatives side? Thank you.

Valerie Baudson: I will take the last question. Nicolas, you take the first two.

Nicolas Calcoen: Sure. The first question was on the money market funds. I think you were suggesting to not take into account the money market funds in our assets and flows.

Arnaud Giblat: Or just to separate them out.

Nicolas Calcoen: Yes. However, I think that is what we are doing, quite clearly, I hope, making a distinction between long-term assets and treasury. Indeed the treasury fund flows are very volatile, I would say, by nature and they are lower margin. So, we are trying to do that. I hope it is clear enough.

The second question was on the consequences of the new ESMA guidelines on performance fees. Yes, we are trying to assess the consequences of these new regulations and doing some kind of back testing. The result is, when the new guidelines will be fully implemented, which should take a bit more than five years, the impact will be a reduction in the capacity to generate performance fees on average of around 30%.

However, again, this will be very progressive because the guidelines are not retroactive, so it will take five years to take full effect. Clearly, you have seen that we have a very exceptional level of performance fees. Going forward, even without taking into account the new guidelines, we should expect, progressively, to come back to a more normal level. Over the recent years, on average, we generated €160–170 million. From that basis, progressively, over the next five years, we could have this impact of the new guidelines based on back tasting of past performance.

The third question was on structured products. The outflows, yes, were around €2 billion. There was no one-off effect in terms of revenues on these kind of products. We have different kinds of products with different fee schemes. There was no specific one-off effect on our revenues and on fees linked to these outflows. In fact, again, on this type of product, where we saw outflows, the margins were not especially high, so there was no diluting effect on our margin.

Valerie Baudson: On Lyxor, as I was mentioning, the project of acquisition and integration is working very well. Of course, we cannot comment the figures on Lyxor. However, as the ETF figures are public, I am sure you have them ; the dynamic of sales is as good at Lyxor as it is at Amundi. This is a very good sign, I would say we are in "business as usual" despite the integration process. There are no specific worries that we know of, at all, on the alternative platform at Lyxor. So, for the time being, everything is green.

Arnaud Giblat: Okay, thank you.

Haley Tam (Credit Suisse): Thank you. Could I ask a few questions please? First of all, just on the cost-income ratio, which obviously was very good due to the performance fees, I think you said it would be 50% excluding the exceptional performance fees. I make that a normal run rate of costs of perhaps €370 million in Q2. Could you confirm if that sounds correct to you? Would you encourage us to think about that as a good run rate for the future? Or are there any additional investment spend or scope effects associated with technology, Bank of China, Fund Channel, etc. that we should be aware of?

The second question is actually on Bank of China. Obviously a fantastic start for this JV, at €3.5 billion of AUM now. Do you expect this rate of growth to slow, or is this trajectory something that is going to continue for now? I think, just from memory, you had said the target was to break even by the end of this year. I just wondered: has there been any acceleration in your expectation regarding that timing? Thank you.

Nicolas Calcoen: Okay, thank you. Cost-income ratio: so, yes, indeed, what we tried was to normalise from the exceptional level of performance fees. If we do that, we have a cost-income ratio of around 50%. Going forward, that target has not changed. We said it should be below 53%. So, from one quarter to another, it can be 53%, it can be 50%. The target remains in this area because, of course, we continue to control costs. However, at the same time, as we did, by the way, in the recent past, we need to continue to invest to support the development of our various businesses. You mentioned Amundi Technology, China, reinforcing our ESG capabilities. That is why we do not change our guidance, I would say, in terms of cost-income.

On the BOC JV, yes, a good start for the partnership. We do not expect a slowdown in the future as, again, the relationship is very good with BOC. We are starting to be promoted in the BOC networks. Hopefully, in the future, we will also open, at some point, some new distribution channels in the future with others. For the moment the focus is on the BOC network but there is no reason we should see a slowdown.

In terms of targets, we confirm the overall objective for 2025. As far as the break-even objective, it may take a little bit longer than the end of the year. However, what is important is we are starting a business from scratch. The difficult part is to have success in the take-off and so far it is the case.

Haley Tam: Thank you.

Nicholas Herman (Citigroup): Good morning. Thanks for taking my questions. Congrats on the good results. Three questions from my side, please. The first one is a follow-up on BOC. You said that you do not expect a slowdown in flows, so is this, around 50 fund launches, €3.5 billion of AUM, exactly on plan or is it slightly ahead? I would be interested there.

Do you see a big opportunity to increase the margin beyond the 25 basis points in your plan? We have seen, from Schroders, that BOCOM has been moving into higher-margin products. I am therefore just curious if you see a bigger scope to increase the margin over the medium term?

Then the other question on China is: can you give us an update on the competitive environment since you launched there? It looks like we are seeing a step up in competition, both locally and from international players.

The second two questions are just numerical clarifications, please. Can I just confirm your year-to-date variable comp ratio is in the 18.5–19% range of gross operating profit?

Then, on the Institutional margin, it is a bit of a surprise, to me at least, to see the margin fall versus the second half of 2020, particularly in light of treasury outflows and healthy MLT inflows. Can you just talk about the drivers there, on the Institutional margin side, please? Thank you.

Valerie Baudson: On BOC, yes, the inflows, at €3.5 billion, I think are globally on track. I do not remember exactly the announced figures, or if we mentioned a figure for the end of the year. However, this is a question of growth, so we really are completely comfortable with that. You were cut, I am sorry, on the line, so I am not sure I understood the second part of your question on ESG. Can you repeat it?

Nicholas Herman: Yes, sure. I was just asking: do you expect you can increase the margin from 25 basis points, from the plan? We have seen, for example, Schroders –

Valerie Baudson: I am sorry, the line is so bad.

Nicolas Calcoen: Yes, the line is bad but I think I understood. You are asking if we expect the margin and to have higher-margin product.

Valerie Baudson: At BOC?

Nicolas Calcoen: At BOC.

Valerie Baudson: No, for the moment, we are launching products which are the ones that are requested by the networks and which are very common in Chinese networks today. It is sort of treasury/fixed income products, with, obviously, rates which are higher than in Europe and which are completely aligned with what our clients are requesting there. So it is very systematic and one kind only for the time being, so no change in the margin for the future. Nicolas, for the other questions?

Nicolas Calcoen: I think there was a question on the compensation ratio. We said that our compensation ratio should be between 14–20% and actually it is there. I think it is around 17%. So, variable remuneration, on operating income excluding the variable remuneration is a ratio of around 17%.

The third question was, I think, around Institutional margin. Indeed, there is a very slight decrease of 0.2 bps compared to last year. Nothing significant here. It is just a consequence of the fact that margins are under pressure everywhere: competition is strong, low interest rates and so on. We see, on a like-for-like basis, a continued pressure but nothing specific here.

Nicholas Herman: Thank you very much. That is really helpful.

Hubert Lam (Bank of America): Hi, good morning. I have two questions. Firstly, on the French networks, do you expect further structured product redemptions in coming quarters? Also, I think your unit-linked inflows in French networks was about €700 million. Should we expect this to improve, as it still seems relatively modest, despite structural market tailwinds you had in the quarter?

The second question is on Amundi Technology. I know you have had revenues of €19 million in the half year. Can you remind us what the operating margin is and what would be the profit of that €19 million for the half? Thank you.

Nicolas Calcoen: On the French networks, I think there was a question on the structured products going forward. Given that we are still living in this very high market level compared to a few years ago, we could have, in the months to come, some other exits in these kind of structured products. However, again, the trend, if you exclude that, remains positive.

On Amundi Technology, operating margin, I would say, it is in line with the overall operating margin of Amundi, which is around 50%.

Hubert Lam: Great. Sorry, on the unit-linked flows in French networks, I think it was €700 million, as I said, in the quarter. Is this something that can get higher, just given the structural opportunity you mentioned in the past?

Nicolas Calcoen: Okay, sorry I missed this one. We can hope it can increase slightly if, again, very importantly, if market conditions remain positive and risk aversion does not come back. However, again, it is a positive trend and we do not expect any change, if we except some one-off effects, such as the one mentioned, on structured products.

Hubert Lam: Okay. Thank you.

Gurjit Kambo (JP Morgan): Hi, good morning. Most questions are answered: just one outstanding. In terms of the higher performance fees, have you accrued any kind of costs associated with that? It does not look like the costs have necessarily gone up very much, so just any costs or accruals that may be coming in the future for the high performance fees?

Nicolas Calcoen: There are no specific costs attached to that but, just as I mentioned, our variable remuneration provisioning is based on the overall result. Performance fees contribute to the revenues and hence to the results. So, I would say, kind of automatically, there is an increase in the level of provisioning that we can consider as associated with the level of performance fees. However, just to remind you, in our compensation policy, there is no automatic link between performance fees and bonuses for the investment managers.

Gurjit Kambo: Okay. Thank you. Thanks very much.

Bruce Hamilton (Morgan Stanley): Hi there. Morning. Congratulations on the results. Two questions from me. Firstly, just looking at the robust financial situation, on slide 25, could you just give us a sense, once you pro forma for Lyxor, what the sort of excess capital, over a kind of 10% Core Tier 1, is? Can you just give us any thoughts on current M&A opportunities, as you see the market environment today?

Then secondly, just on the discussion around delegation rules and how that could impact managers managing European assets from outside of Europe, when do you expect clarity? Do you see that as a significant potential opportunity, or positive, for Amundi, versus Anglo-Saxon managers, or do you think it is a nothing-done? Thanks.

Nicolas Calcoen: On the financial situation, we have a Core Equity Tier 1 of close to 20%. The impact of the acquisition of Lyxor is estimated to be around 600–650 basis points. The acquisition is supposed to take place at the very end of this year. So we would expect at this time, if you also consider the fact that we will have also accumulated earnings, our Core Equity Tier 1, following the acquisition, could to be around 15%, or a little more than 15%. This will mean that, at that point, compared to our managerial target of 10%, we would have an excess capital that should be around €600 million, to be confirmed in the magnitude of the numbers. On M&A?

Valerie Baudson: Regarding M&A opportunities, first of all, my first message is that, for the time being, we are concentrating on the Lyxor acquisition and integration. Lyxor will be acquired, at the end of 2021, once again, if everything goes right. However, then we will still have a lot of work to do after that. That is my first message.

The second message, which you know well, is that we focus a lot on organic growth as a principle and as a concept. However, of course, we are a natural consolidator in Europe and we will look into potential opportunities coming in the future.

Speaker: Bruce, could you clarify your second question?

Nicolas Calcoen: I think it is delegation rules, a possible change in delegation rules.

Valerie Baudson: Is it between the UK and Europe?

Nicolas Calcoen: Yes.

Valerie Baudson: Okay, so I let you take it, Nicolas.

Nicolas Calcoen: Yes, that is the question, I think, around delegation rules towards a non-EU country.

Bruce Hamilton: Yes, the timeframe for when we expect clarity and whether you think that will end up benefiting you. If so, how significantly?

Nicolas Calcoen: Okay. In term of the timeframe, that is not really in my control, I would say. I know that the Commission has planned a review of the relevant directive and the UCITS directive. However, the legislative process at the European level is kind of lengthy, so I would not make a guess but it will obviously take time. It is true that the issue of delegation, especially regarding delegation outside the EU, is, I would say, on the table. I do not know if there will be a change or not. However, we do not expect to be impacted, since we are a European player with a very strong base and we have no issue to demonstrate that we have a strong presence in Europe, even when we delegate outside the EU.

Bruce Hamilton: Thank you.

Angeliki Bairaktari (Autonomous Research): Good morning. Thanks for taking my questions. First of all, how should we think about your 2021 dividend, considering a very high statutory net income level in the first half, also thanks to that one-off tax effect in Italy? Should we apply your 65% payout policy to the adjusted net income?

A second question: could you please provide some colour on the net flow progression of the UniCredit network in Italy? What was the number of net flows in the first half of this year? How does that compare to full year 2020?

A third question: you mentioned that part of the cost inflation, outside, obviously, of the variable compensation, also relates to investments in Amundi Technology. Could you give us a bit more colour on the amount, perhaps, what is the exact amount in the first half that represents those sort of higher investments in that business line? Thank you.

Nicolas Calcoen: On the dividend, our policy has not changed. It is to distribute 65% of our net result. To answer specifically to your question, the one-off exceptional gain in Italy, by nature, is, I would say, not distributable because it is a non-cash item. We would therefore not include it in the base for the dividend. However, for the rest, the policy has not changed.

Regarding the question on Amundi Technology, the investments we made in our business are mainly investments in people. We have made some recruitments. I think, over the first half of the year, the overall increase in, I would say, the labour force of Amundi Technology is close to 70.

Nicolas Calcoen: Sorry, I forgot the question on the UniCredit network. These flows were €1.7 billion for the first half of 2021.

Angeliki Bairaktari: If I may, how did that €1.7 billion compare to the flows in 2020 for the full year?

Nicolas Calcoen: Last year we posted negative flows on UniCredit.

Valerie Baudson: Last year was a rather bad year with UniCredit. This year is much better.

Angeliki Bairaktari: Thank you.

Pierre Chédeville (CIC): Yes, good morning. I have a question regarding slide 28 because I do not understand the calculation of your average margin. We can see that the global average margin is increasing while it is decreasing in the three segments, except insurance. I do not see how it works.

I have another question. Maybe it is a bit too early to ask but, in your view regarding the evolution of your assets in ESG, or SFDR, how do you see your performance evolve regarding this evolution of the assets in which you invested? What could be the impact on the performance?

The last question: I read somewhere in a newspaper, maybe *Les Echos*, that you said that the new rules regarding calculation of performance fees would progressively diminish them by around 30%, is that correct? Thank you very much.

Valerie Baudson: Okay, Nicolas, I will let you take the first one. I will take the one on ESG and you take the third one.

Nicolas Calcoen: Okay. On margins, yes, indeed, if you compare to the first half of last year, we have a slight decrease in the segment margins, both for the Retail and Institutional segments. Despite that, we have a slight increase in the overall blended margin. This is simply due to, I would say, a mix effect. We had very strong inflows and increase in high margin assets in Retail and in Active expertise. Retail has a high margin, above 40bps. The mandates in insurance are only at 3/4bps, so you increase the blended margin when you have flows in the high margin segment. It compensates than the decrease in the individual segment margin.

Maybe on the performance fees, I think we already had the questions. Indeed, on a like-for-like basis, progressively, over five years, when the new regulations will be implemented, it should have a negative impact on our capacity to generate performance fees, which is evaluated at around minus 30%. However, again, it is something progressive.

Valerie Baudson: Okay. On the ESG, I just want to make clear: your question is about the performance of the fund or the financial performance linked to ESG?

Pierre Chédeville: No, the performance of the fund.

Valerie Baudson: The performance of the fund, okay.

On the performance of the fund, we have made very deep research on that topic. There is one report, which is at your disposal, by the way, if you are interested, which shows that, at least since 2014, because this is the back-test of our research, there are no significant differences between ESG and non-ESG fund performance. As an average, we do not see anything significant.

What we might have seen recently is that typically, on green bonds and ESG bonds, the performance is a bit higher than it can be in the regular one. However, if we look at it very globally, that does not change things significantly.

Pierre Chédeville: Okay. Thank you.

Nicholas Herman: Hopefully you can hear me this time. Just a question for Nicolas, please. Do you see scope to optimize the RWAs given the higher counterparty credit risk, please?

Nicolas Calcoen: Sorry, I think the question was optimising the RWAs?

Nicholas Herman: Yes, given the higher counterparty credit risk, which you noted, do you see scope to optimise the credit risk around that, or is it too early to say?

Nicolas Calcoen: Okay, yes. That, obviously, is something we look at permanently. We try to optimise whilst keeping really clearly within the lines of the regulation. We will continue to do so. Clearly, as of now, I do not see any significant potential for optimisation. However, we will continue to look at it, clearly.

Valerie Baudson: Thank you very much for attending this call. It was a pleasure. I wish you a very nice summer break. It is well deserved for everybody. We will speak to you at the next quarter.

[END OF TRANSCRIPT]