

Foreign Asset Managers To Gain Market Share As Concentration of Italian Funds Market Intensifies

Milan, November 29, 2010 – RBC Dexia's latest report shows that Italian asset managers predict a wave of consolidation and rationalisation in the next two to three years that will lead to a much greater concentration of the sector, with foreign players widely expected to gain market share in the process. The research, carried out in partnership with Ernst & Young Italy amongst asset managers representing around 80% of Italy's assets under management, found that 94% of respondents expect market consolidation to continue in the short term and that 70% expect further concentration to result from the rationalisation of product offerings within large financial groups.

According to those interviewed, this trend will be motivated primarily by the pursuit of economies of scale (94%) and by the costs involved in implementing more stringent regulatory requirements (65%). The new capital requirements imposed by Basel III, in particular, are singled out as a potential driver for Italian banking groups to sell their asset management assets, which many respondents believe could be acquired by foreign institutions. More generally, increasing competition from non-Italian players is seen as a major challenge for the industry with almost all respondents (94%) expecting foreign products to gain market share in the next few years. Just over 80% of interviewees are concerned that investors could switch to foreign products because of their superior performance track record, which is now considered the most important factor for institutional investment decisions, ahead of an asset manager's experience or reputation (62.5% vs. 56.3%).

In order to remain competitive in this environment, asset managers are expected to reposition their business models by selling non-core or non-performing assets, and by resorting instead to outsourcing according to 69% of interviewees. This trend will be especially prevalent amongst medium-sized players according to our sample (86%). Respondents unanimously consider that fund administration presents the best opportunity for outsourcing, followed by IT support and back-office activities.

Commenting on the results, Paride Amiotti, Managing Director of RBC Dexia Italy, said: "Our report shows that we should expect a major restructuring of the asset management industry in coming years. Asset servicing firms will become key players in the investment value chain as funds become larger and rely more on outsourcing in order to be free to focus on their core business. Outsourcing will also help managers satisfy client demands for better quality and service, which almost 90% of respondents said was the greatest challenge they face in the current environment."

The report also points to some of the longer lasting effects of the crisis, revealing that while a cautious optimism has returned amongst Italian managers - just over half (53%) believe that the worst is behind them and that inflows will recover in 2011 - an overwhelming majority (94%) indicate that risk aversion has risen significantly. This reduction in investors' risk appetite is considered to be one of the most significant drivers for product innovation (47%), along with client demand for more flexible asset allocation (77%).

Respondents consider that, after strategic M&A, the expansion of distribution channels is the most important factor (60.6%) for asset managers seeking to raise assets under management, with institutional investors, retail investors and high net worth individuals being their main target clients. Just over half (53%) of those surveyed say they expect active investment management strategies to become more prevalent in the short term as funds seek to improve returns. Asset managers will favour equity, bond and balanced products, although our sample indicates that an increase in interest rates could favour equity investments over bonds. According to the research, the most promising investment destinations are deemed to be Asia Pacific (70.6%) and Latin America (52.9%). Alternative products are expected to lose out, however, with three quarters (76%) of respondents thinking it unlikely that there should be an increase in demand for alternative fund offerings in the near future.

Maurizio Grigolo, Ernst & Young Partner responsible for the Italian asset management market said: "In order to seize the opportunities rising after the financial crisis, the market reveals a pattern towards an asset management company model with leaner support structures, more efficient asset management and a growing focus on the investment dealer's and the final investor's needs. In this evolutionary background, due to a regulatory uncertainty related to the industry's fiscal reform, it is difficult to have a clear understanding of how Italian asset managers will be able to capitalise on the business development opportunities coming from the application of UCITS IV."

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For more information, contact:

RBC Dexia

Raphaël Mazet (London)

+44 20 7653 4329

raphael.mazet@rbcdexia.com

Barabino & Partners

+39 02 72 02 35 35

Marina Riva, m.riva@barabino.it

Claudio Cosetti, c.cosetti@barabino.it

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