INTRODUCTION

STICKING WITH A BRAND AND GOING CROSS-BORDER

Italian investors' portfolios are increasingly likely to contain significant proportions of cross-border funds. Elisa Trovato looks around the country to discover what the outcomes of this scenario may be

The legendary Italian love affair with branded products is finding one of its most remarkable outlets in the fund industry. During the past couple of years, and especially in 2007, cross-border fund houses have been conquering important shares in Italian investors' portfolios at the expense of domestic-domiciled funds, which were hit by massive net outflows.

"Italian distributors tend to perceive a foreign brand, especially of Anglophone origins, as synonymous with quality," says Fabio Galli, managing director of Assogestioni, the trade association for the Italian investment management industry. On the other hand, Italian fund houses in general, with some exceptions such as the international Pioneer Investments, are sometimes seen as "poor" counterparts, their products being manufactured and pushed through captive branch networks offering little effective sales support. The attitude of the traditional domestic banks differs from the strongly marketing-oriented foreign companies, which have been investing greatly in personnel to promote their products through third-party distribution channels, says Mr Galli.

PROMOTORI VERSUS TRADITIONAL BANKS

But the positive results registered by medium and small banking groups and promotori networks of private bankers tell a more complex story, which belies the theory of a crisis of the mutual fund as an investment instrument, says Mr Galli.

Medium-sized or niche players, such as Azimut, Mediolanum, Kairos and Banca Esperia, have registered very positive net inflows, unlike the top four or five banking groups, which have been responsible for 80 to 90 per cent of total net outflows.

Advice-oriented promotori networks, which have totalled around €1bn this year in net sales, confirm the theory that the fund, as an investment instrument, works only when it is presented as a medium to long-term investment and is fully explained, rather than just sold.

One of the best-performing promotori networks in the past 12 months has been Banca Generali, part of one of the largest European insurance groups. The bank employs around 1,600 advisers to serve the affluent segment, while an additional 250 advisers of Banca BSI Italia, part of the same group, cover the high-net worth segment.

"What is happening in the Italian industry is a structural phenomenon," says Giorgio Girelli, chief executive officer at Banca Generali. "The managed saving industry is rewarding those distributors who are able to give advice to clients," he says, adding that in Italy funds have often

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been sold as an off-the-shelf product, with no advice.

This is demonstrated by the very high percentage of bond and money market funds among the total assets. The share of equity funds is currently less than 30 per cent in the Italian fund industry, compared to 80 per cent in the UK.

"In Italy the fund has been utilised as a surrogate of a government bond," says Mr Girelli. Of the €14bn in funds and other managed savings products that the Generali bank runs, 56 per cent are in equity products, including pure equity funds and balanced funds. Considering that Banca Generali's clients had the same equity exposure in 2000, before the tech bubble burst, explains Mr Girelli, this is a great result. "We have been able to keep clients' portfolios stable over time through advice," he adds.

Promotori networks often pride themselves on deploying a very high percentage of third-party funds for their affluent and high net worth clientele, especially when compared to the traditional banks. "If you want to advise clients on the long term, you cannot just use in-house products, you also have to include third-party funds," says Mr Girelli.

Xelion, the promotori private banking arm of the UniCredit group, states that third-party funds have now reached 65 per cent of its assets under management.

At Banca Generali, of the €15bn in funds and GPFs (Italian funds of funds), out of the total €25bn in assets under management, 45 per cent are in third-party funds, says Mr Girelli.

Distributed directly or wrapped in GPFs, Banca Generali employs products managed by 20 major houses, mainly foreign, with the exception of Italian fund house Anima. Third-party funds are selected by the group's asset management arm BG Sgr and are used mainly for specialised areas such as India, China, the Far East and Latin America.

Increasing exposure to third-party products has allowed foreign groups to creep into the top rankings of Italian asset managers by net sales, with JP Morgan now holding steadily to its tenth position. The American firm now has €17bn in funds assets in Italy, just behind the BNP Paribas group.

Around 25 per cent of the €18bn funds assets managed by BNP Paribas Asset Management, which has just merged with BNL Gestioni following the acquisition of BNL bank, are channelled through third-party distributors and the growth scenario is looking good, according to Marco Barbaro, CEO at the Italian arm.

"What I see in the market is that all distribution networks are increasingly opening up to third-party funds. This makes me optimistic about the market potential," says Mr Barbaro. If promotori networks are increasingly offering third-party funds to their clients directly, traditional banks, which account for 75 per cent of fund distribution, still tend to favour the use of third-party funds within GPFs. This is reflected in the split of BNP PAM's assets distributed through third-parties, with GPFs representing around 70 per cent and direct distribution accounting for the remaining 30 per cent. Mr Barbaro says that they are working towards a rebalancing of the two segments.

Traditional banks are also gradually opening up to foreign funds, which are predominantly offered by Italy's developing private banking businesses.

At UBI Banca, born out of the merger between Banche Popolari Unite (BPU) and Banca Lombarda e Piemontese (BL) in April this year, now the country's fourth largest banking group, third-party funds are selected by its asset management arm UBI Pramerica, formerly BPU Pramerica. The firm, a joint venture between UBI Banca group and Pramerica Financial, will incorporate the funds managed by BL asset management arm Capitalgest.

Third-party funds are offered both within GPFs and through direct sales, explains Francesco Iorio, head of distribution at the Italian federal bank. However, although private bankers have a platform of third-party products available, these have not been very popular among UBI's clients. "The quality of BPU Pramerica products has been so high, with 90 per cent of assets falling within the first and second quartile, that advisers have always favoured in-house products," he says.

THE IMPACT OF MIFID

The newly formed Banco Popolare, now the third-largest domestic banking group, born out of the merger of

Banco Popolare di Verona e Novara and Banca Popolare Italiana during the summer, has also a cautious position to open architecture.

For retail clients, Gruppo Banco Popolare tends to use prevalently in-house products, with the exception of multi-asset class products, where third-party funds are included. The total percentage of those assets is still very limited, says Franco Baronio, chief executive officer at the Verona, San Gimignano and San Prospero bank which, together with Banca di Lodi, is one of the two most important banks of this multi-local, multi-brand banking group.

"Until we have a strong advisory platform we do not see any added value in including a wider range of products on our shelves, otherwise the selection of those products would be driven by performance and not asset allocation," he says.

One of the top priorities within the wealth management project that the newly formed banking group has launched is to lengthen the duration of clients' portfolios, says Mr Baronio, who is also the managing director of the holding Banco Popolare for the retail division. The Banco Popolare group still has an asset mix very much based on short duration products, explains Mr Baronio.

But the European financial directive MiFID, which comes into force this autumn, provides a historical opportunity for banks, he says. "MiFID gives the opportunity to create that business model based on advice in the bank branches, which has not been employed in the past."

Mr Baronio also talks of his wishes to interpret the directive in a "more winning logic".

"We want to try to leverage on the effort that we have to make to comply with MiFID to improve the distribution network's ability to give advice," he says, adding that is the key factor if they want to move the client to a more value-added asset class mix. "The monetary product is self-explanatory, but an equity product or a balanced alternative requires a decisively superior advisory ability," he says.

"We hope that MiFID will lead to efficient segmentation in the market, differentiating those players who are able to offer qualified services from those who are not, and it will not cause the market to level off at minimum standards," says Mr Baronio.

Andra Crovetto, commercial director of the retail division at banking giant group Intesa Sanpaolo explains the importance, for a bank having 20 per cent market share in the Italian market, to be a one-stop shop for investors. The first version of an integrated Internet platform, a work station that enables client advisers to manage the relationship with clients, was launched during the summer in collaboration with the group's asset management arm Eurizon Capital, the investment banking operation and market intelligence unit of the group. This move enables the recently merged bank to have one industry standard and one standard market scenario when liaising with investors, says Mr Crovetto.

One of the top-selling products in the past 12 months for Intesa Sanpaolo is actually a money market fund. The high exposure to liquidity funds cannot be analysed separately but in the whole Italian context, says Mr Crovetto, considering that more Italian families now have a mortgage, which has given them exposure to rising interest rates.

The plan now is to guide clients into ad-hoc baskets of investments, designed by Eurizon. These are portfolios of funds, having the same level of risk of a liquid portfolio, but because assets are spread in different asset classes, they offer higher returns, says Mr Crovetto.

TOTAL RETURN FUNDS

A positive note comes from the 36 per cent increase in hedge funds, mainly funds of funds, during the last 12 months and the 47 per cent increase of "fondi flessibili" during the same period, explained by the more general positive trend for total return funds, which promise a performance uncorrelated to the market cycle. "Fondi flessibili have been welcome by distributors, but how much they deliver a return different from balanced funds is open to discussion," says Mr Galli at Assogestioni.

Flexible funds are asset management firm Azimut's strong point and account for over 50 per cent of its assets. This is much higher than the 12 per cent that these funds represent on the total Italian funds assets, explains Pietro Giuliani, president at Azimut, which has been one of the few companies in Italy to buck the negative trend of the fund industry.

The secret of Azimut's superior performance is in the strong integration and communication between the asset management arm and their promotori networks, according to Mr Giuliani. This has allowed a higher equity component in clients' portfolios and to leverage the market rally of the past four years.

Compared to the 28.2 per cent of total equity exposure for the industry, Azimut's total equity exposure is 56.2 per cent, he says, although the firm's net equity exposure is 39 per cent, because of their use of derivatives.

"In the past couple of years the fund industry is heading in the right direction, selling total return products like fondi flessibili and hedge," says Mr Giuliani, "but we started five years ago," he says, claiming that Azimut was the first to launch fondi flessibili on the Italian market. "The risk is that it is too late," says Mr Giuliani. "In an environment of increasing interest rates, bonds will start becoming interesting again," he adds, explaining that Azimut is now decreasing its equity component.

Fondi flessibili allow the manager to move the equity allocation from 0 to 100 per cent in a way which incorporates an element of advice in an immediate manner, without having to go through the adviser. "Even if the promotori are very good," says Mr Giuliani, "there are factors that inevitably cause delays. The manager, instead, can change the equity exposure of the funds many times during the course of a day."