LUDGATE SEARCH | INSIGHTS

ASSET MANAGEMENT IN

ITALY

LOCAL MARKET FOCUS

MARKET OVERVIEW

The Italian asset management industry is experiencing a long period of growth and is now one of the largest and most dynamic across Europe. And though investors fret over a populist government and towering public debt, its pool of private savings will keep them keen. In fact, one third of Italians' wealth is still parked in deposits and cash, representing an untapped potential for the asset management industry, that in the future will need to move these resources within its boundaries.Furthermore, over half of the assets under management are owned by 10% of Italians which makes the wealthier end of the business especially appealing.

Funds are becoming more and more popular across investors thanks to the diversification that they allow and to the professional competence of financial operators. Multi-asset products have overtaken traditional equity and bond funds, with the rise in the most recent years of balanced and flexible funds. Now, asset managers tend to provide solutions with a goal-based approach rather than merely offer investment instruments.

The four main characteristics of the Italian fund distribution are: the relevance of banks as the predominant channel; the concentration of the market; the substantial integration between Italian asset managers and distributors and the moderately high level of openness of the distribution architecture.

The current distribution model is dominated by banks, who are leaders in both fund and life insurance distribution. The relationship between the asset manager and the distributor is mainly captive, but changes are inevitable, triggered by regulation and tech innovations. Costs for compliance as well as competition have been on the increase, and, we anticipate the consolidation wave to remain profitable over the medium-term.

FEES

One of the key drivers of a fund's net performance is the cost that investors must bear to have the fund in their portfolio. Cost transparency, following the implementation of MIFID II is highlighting the issue concerning the amount and the nature of fees, in particular because previous practice involved around two thirds of the fees paid by the investor are used to remunerate the distribution network. Italian funds are generally more expensive than European funds. A recent research by Morningstar pointed out that, unlike the European average, Italian funds have seen their expense ratio grow in the last four years.

ETFS

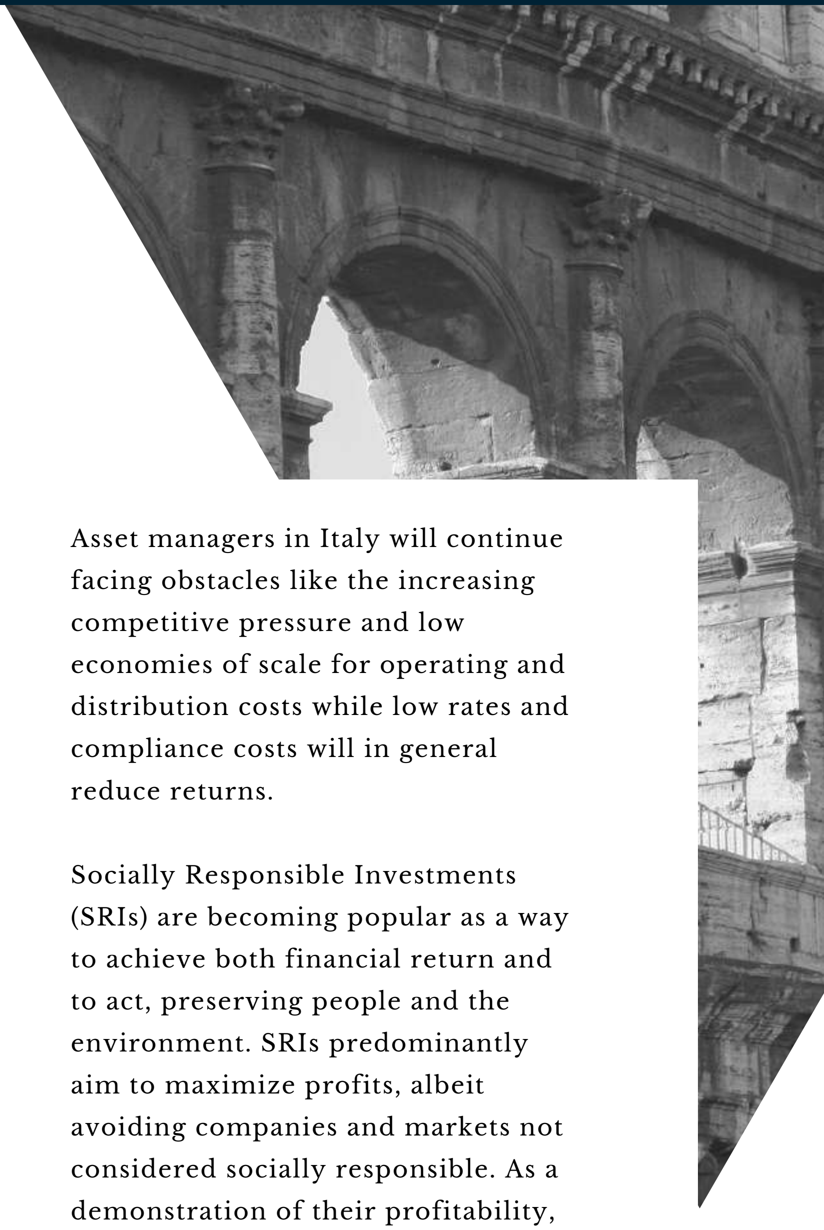
With the exception of very few traded funds actively managed, the vast majority of ETFs are managed passively, with a strategy aimed at following the considered benchmark with ideally zero tracking error. ETFs should be widespread among investors by virtue of their flexibility and liquidity. However, the growth registered in the past years is almost entirely due to their relevance among institutional investors rather than among retail savers. In fact, in Italy, the direct investment in ETFs is mostly made by the niche of financially educated investors accustomed to the usage of online platforms which offer these passive instruments.

ALTERNATIVES

On average, this handful of investment instruments has grown in importance in the last years, due to several reasons. First, starting from the crisis of 2007-2008 and the crisis of Italian sovereign debt, investors have increasingly searched for alternative investment opportunities looking for positive yields. Indeed, these instruments offer a good opportunity for diversification purposes as they allow strategies not-linked with the market.

Second, the asset management industry needed to innovate and improve its products especially after the introduction of passive management funds that allowed reducing investment costs. Third, while in the past alternative investments were affordable only by institutional investors and high net worth individuals, today, thanks to the evolution of the distribution network, also retail clients can access these investment solutions. In 2016, Italy has seen a consolidation in the Private Equity and Venture Capital market, with the same number of investments completed in 2015 but with an increase in the total amount invested.

However, Private Equity and Venture Capital funds remain a limited phenomenon in Italy if compared to other European countries. Real estate funds accounts for around 46 of the €48 billion managed within closed-end funds. Roughly, €6 billion are dedicated to retail investors. They represent a minority stake in this market, which is much more suitable for behemoth institutional investors with a higher investment capacity. Nowadays, in Italy, open-ended hedge funds represent a share of 1.3% of all the asset management industry.



Looking Ahead

FUTURE TRENDS

Retail mandates are expected to grow as the general trend in favor of multi-assets products suggests. In fact, customers are less focused on the single products and require services tailored to their investment needs. Being retail mandates customized solutions by definition; it is likely that they will experience a positive trend over the next few years.

Achieving scale efficiency and critical mass seems to be one of the biggest concerns for Italian asset managers. Indeed, the battlefield is dominated by a few big fighters, who share part of the arena with about 60 smaller players, both national and foreign.

More than half of the AuM in the Italian industry is in the hands of three groups, namely (i) Generali, which achieved an undisputed position as market leader in insurance products through inside-group institutional mandates, (ii) Intesa Sanpaolo, which includes the biggest Italian fund manager, Eurizon Capital,and the private banker Fideuram, and (iii) UniCredit

Asset managers in Italy will continue facing obstacles like the increasing competitive pressure and low economies of scale for operating and distribution costs while low rates and compliance costs will in general reduce returns.

Socially Responsible Investments (SRIs) are becoming popular as a way to achieve both financial return and to act, preserving people and the environment. SRIs predominantly aim to maximize profits, albeit avoiding companies and markets not considered socially responsible. As a demonstration of their profitability, research by Candriam and ETicaNews has shown that through SRIs it was possible to achieve higher returns than through traditional investments in the last five years.

Future expectations for SRIs are very high; sustainable and responsible investing offer the opportunity to combine typical financial evaluation with more in depth analysis about companies' governance and activities which results in more accurate evaluations, with pleasing financial consequences.

EXECUTIVE SEARCH & SELECTION

Over the past year we have observed a considerable increase in Senior Distribution searches among the well establish players, and new entrants respectively. Whilst numerous asset managers have appointed Heads of Country and Sales Directors based in Milan for their Italian push, we have also noted several Head of Italian Distribution appointments based in London.

For example, RWC Partners has appointed Giampaolo Serra as Head of Italian Distribution in a move to step up the firm's sales efforts in Southern Europe. Gianpaolo is currently based in London. Vanguard has appointed Simone Rosti as Head of Italy, a newly created position. Rosti is based at Vanguard's European HQ in London, where he is leading Vanguard's efforts to develop its offering for the Italian market.

Most of the asset managers with a presence in Italy have focused on growing their AUM, and we have seen increased demand for Sales Directors based in Milan. Columbia Threadneedle Investments, Fidelity and Aberdeen Standard Investments have recently hired at this level. Considering that 85% of funds in Italy are in the hands of retail investors, sales professionals with track records within wholesale and retail channels have been the most sought after.

Firms are increasingly looking at attracting technical sales talent as a priority; prefering to hire less experienced stars on the rise with strong technical capacity over seasoned sales professionals. We can only assume this trend is set to continue in the coming years.

MARKET MOVES

- Lazard Fund Managers appointed Laura Nateri as Country Head last year. Nateri, based in Milan, is responsible for the firm's business development across the Italian market.
- Private global investment firm Payden & Rygel opened an office in Milan last year, and appointed Nicolò Piotti as managing director, tasked with developing business relationships in Italy and across continental Europe.
- Allianz Global Investors appointed Anna Vigliotti as Head of Institutional Business development for Italy in December of last year, based in Milan.
- Aberdeen Standard Investments named Tommaso Tassi as Head of Italy Distribution in January. Based in Milan and reporting to the Head of Sales for Southern Europe, he is responsible for business development in Italy.
- French asset manager Carmignac has promoted Giorgio Ventura to the role of Global Head of Sales in April. He is also a member of the strategic development committee of Carmignac.
- Aviva Investors has appointed Paolo Sarno its Head of Wholesale, Southern Europe in May, with a primary focus on Italy. Based in Milan, he is supported by the Southern Europe client servicing team.
- Neuberger Berman appointed Alberto Salato to the newly created Head of Southern Europe role in September. Based in Milan, Alberto oversees client coverage across Iberia and Italy, reporting to Dik van Lomwel, Head of EMEA and LatAm.Development

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Ana Maria holds a 1st class degree in International Business and speaks Italian, French, Croatian, and Slovenian.

Ana Maria began her career at a boutique search firm where she was responsible for developing their Distribution, Asset Management desk. In 2012, she joined BRUIN Financial, sister company to Ludgate Search, to grow and lead their European Distribution team, focused specifically on senior assignments in Asset Management, Alternatives and Wealth.

In 2017, Ana Maria was mandated to grow Ludgate Search, the Executive Search arm of The FISER Group. She focuses on senior distribution mandates, specifically capital raising roles in Europe including roles based in UK, Nordics, Germany& Austria, Benelux, France, Switzerland, Italy and Spain.