

Traditional Asset  
Managers  
France, Belgium  
Special Report

# BNP Paribas Investment Partners and Fortis Investments Merger Plan: An Analysis by Fitch

## Analysts

Charlotte Quiniou, CFA  
+33 1 44 29 92 81  
charlotte.quiniou@fitchratings.com

Manuel Arrive, CFA  
+44 20 7682 7499  
manuel.arrive@fitchratings.com

Olivier Fines  
+33 1 44 29 92 75  
olivier.fines@fitchratings.com

Aymeric Poizot, CFA, CAIA  
+33 1 44 29 92 76  
aymeric.poizot@fitchratings.com

## Related Research

- [Fortis Investment \(May 2009\)](#)
- [BNP Paribas Investment Partners - BNP Paribas AM, FFTW, FundQuest \(October 2008\)](#)

## Summary

- As BNP Paribas has finally obtained the green light for the acquisition of Fortis Bank, both entities' asset management arms - BNP Paribas Investment Partners (BNPP IP, 'M2+') and Fortis Investments (FIM, 'M2', Rating Watch Evolving) - have now started to plan their integration. The combined venture provides an opportunity to create an asset manager with assets under management (AUM) approaching EUR500bn (end-March 2009), a strong pan-European footprint, diverse client type, wide geographical market penetration and comprehensive product/asset coverage.
- Mergers of asset management companies always entail some risk of client attrition. However, limited overlaps between BNPP IP and FIM in the institutional area somewhat mitigate this risk. Containing this attrition risk will involve engaging in strong client relationship management and enhancing the product offering for a clearer market differentiation.
- Different organisation models are in place at BNPP IP and FIM: the former's mainstream investment processes involve a relatively integrated approach, with resource sharing for research and risk management, around which affiliated partners retain a large degree of autonomy. Meanwhile FIM has implemented a business model that maintains a decentralised approach to portfolio management; granular independent investment centres take a large degree of responsibility for their investment choices. In these circumstances, integrating the two businesses will involve decisions as to the preferred degree of integration of investment processes. In any case, the right level of oversight must be found to maintain the specific strength of processes, while still allowing meaningful coordination and cross-fertilisation, which is critical in today's difficult market environment.
- While the various asset management companies grouped under the BNPP IP brand have historically maintained autonomous operational organisations - although more integration is targeted for the future - FIM has favoured a more centralised and integrated operational approach across its various investment centres. Additionally, the technological environments of BNPP IP and FIM do not share much commonality. Integration of the two platforms may therefore prove challenging and will require careful management to minimise potential business disruption.
- The integration project is being managed by a team with representatives from both asset managers. The head of BNP Paribas Investment Solutions retains general responsibility over the integration project, until the appointment of a chief executive officer for the combined group.
- Maintaining staff motivation, retaining key employees through the transition period and ensuring people work efficiently together will not be an easy task, but it will be instrumental to the success of the integration process. This is particularly true on the FIM side, given the significant corporate changes and reorganisation the asset manager has recently experienced following the integration of ABN Amro Asset Management (AAAM) in 2008. This integration has been executed in an orderly manner, and, at the end of 2008, Fitch Ratings concluded that most of FIM and AAAM investments, risk management,

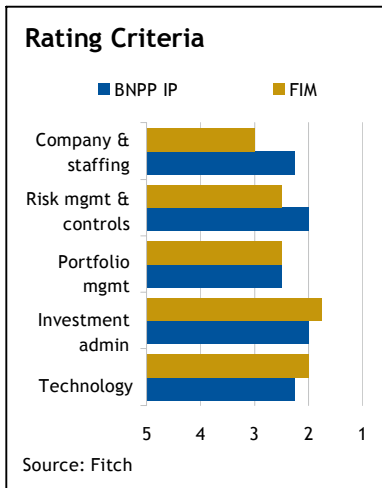
operations/IT and sales departments had been adequately combined. BNP Paribas' experience of integrating asset management businesses includes the merger of BNP Gestions and Paribas Asset Management in 2000 and, in 2007, the integration of BNL's asset management company, an Italian player.

### A Merger Driven by the Consolidation of Parents

After seven months of suspense and several amendments to the project, the acquisition of Fortis Bank ('AA-'/'F1+', Outlook Negative) by BNP Paribas ('AA', 'F1+', Outlook Negative) was completed on 13 May 2009, resulting in the French bank holding 75% of Fortis Bank and 66% of BGL SA<sup>1</sup> (the remainder being in the hands of the Belgian and Luxembourg governments respectively).

As a wholly-owned subsidiary of Fortis Bank, FIM - which brings together all third-party asset management activities of Fortis Bank, with the exception of private wealth management - is now ultimately owned by BNP Paribas, hence the planned integration with BNPP IP, the French bank's asset management arm.

FIM's 'M2' Asset Manager Rating was placed on Rating Watch Evolving in March 2009; it is provided for FIM's global investment management activities, excluding alternative investments and structured credit. In October 2008, Fitch revised BNPP IP's Asset Manager Rating to 'M2+' from 'M2' (the ratings covers the asset management operations run by BNP Paribas AM, Fischer Francis Trees & Watts (FFTW) and FundQuest).



### Key Ratings Drivers - BNPP IP (BNP Paribas AM, FFTW, FundQuest)

| Strengths  | Challenges   |
|--|--|
| <ul style="list-style-type: none"> <li>Longstanding shareholder committed to the asset management business, providing sound financial backing.</li> <li>Controlled development strategy (acquisitions, products, clients) which partly explains the resilience of the firm.</li> <li>Strong overall organisation and oversight of control areas.</li> <li>Quality of operational platform, largely outsourced to BPFs and BPSS.</li> </ul> | <ul style="list-style-type: none"> <li>To increase coordination and potential integration between BNPP IP's partners in operations, risk management and investment areas.</li> <li>To further strengthen risk management in line with developments in absolute return space (risk budgeting notably).</li> <li>To finalise the IT platform upgrade in Paris centres (front-office, compliance, interfaces).</li> </ul> |

Source: Fitch

### Key Ratings Drivers - Fortis Investments

| Strengths  | Challenges  |
|--|---|
| <ul style="list-style-type: none"> <li>Quality and experience of senior management and investment department heads.</li> <li>Broad and diversified research capacities and large product range.</li> <li>Proficient framework for operational risk management.</li> <li>Flexibility and robustness attained by the operational/IT platform.</li> </ul> | <ul style="list-style-type: none"> <li>Firm in dire need of clarification on its business perimeters and long-term perspectives, following its acquisition by BNP Paribas.</li> <li>Investment risk management in process of reorganisation and clarification of intervention perimeter.</li> <li>Investment teams need to stabilise and demonstrate viability of multi-boutique decentralised approach in a difficult market situation.</li> </ul> |

Source: Fitch

At end-March 2009, BNPP IP had EUR324bn AUM, including assets under advice, and FIM EUR158bn, which would make the combined entity the fourth largest asset

<sup>1</sup> BGL SA (Banque Générale du Luxembourg) was formerly known as Fortis Banque Luxembourg SA.

manager in Europe (behind AXA Investment Managers, Allianz and the planned SGAM-CAAM merged entity).

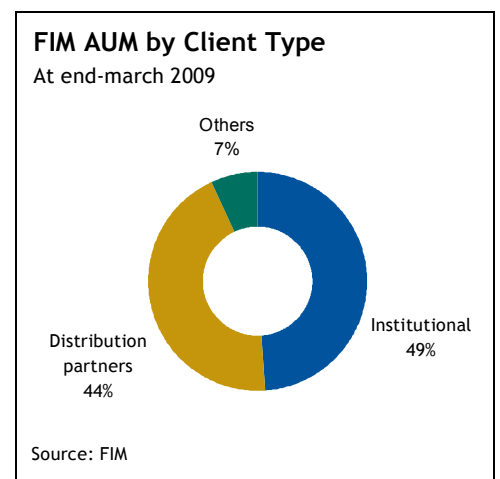
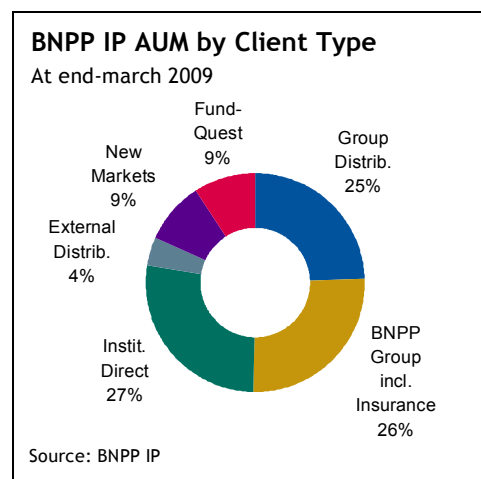
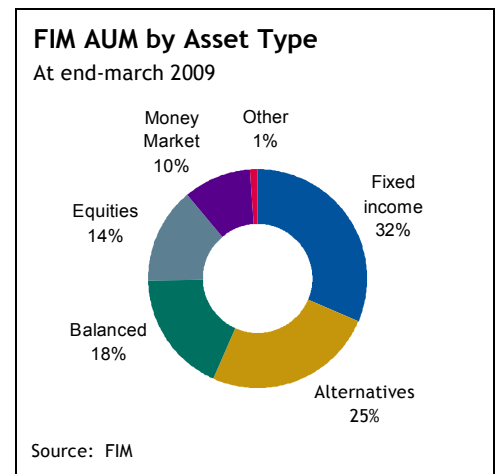
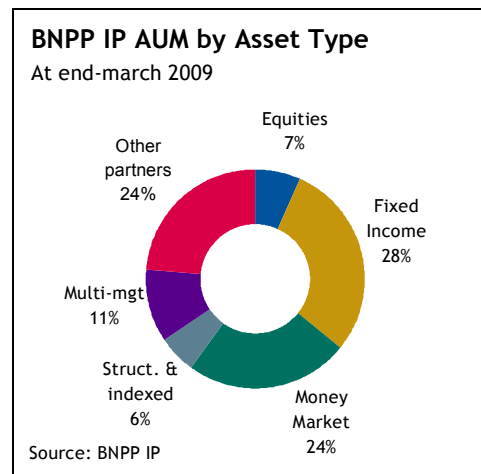
It should be noted that the completion of the merger remains subject to consultation with relevant staff representative bodies and boards as well as to the authorisation of regulatory authorities in all jurisdictions concerned.

**An Opportunity to Broaden Client and Asset Base**

The integration of the two asset management companies provides BNP Paribas with an opportunity to broaden BNPP IP’s current market franchise and build a large-scale asset manager with a global presence, serving both retail and institutional investors. The two asset managers, which individually already have a well-diversified business profile, complement each other well with regards to client base and market presence.

BNPP IP has an established European profile with a large bias towards the French market, notably in the retail domain, notwithstanding the relative growth of its international clientele over the past decade. FIM’s client base is also largely tilted towards its domestic market, as 54% of assets were sourced from the Benelux countries at end-March 2009; additionally, it brings in a strong foothold in the Nordics and some Asian countries, following FIM’s recent merger with AAAM.

The combined BNPP IP-FIM entity therefore stands out as a pan-European player, well-positioned to benefit from dynamic international growth drivers.



Both asset managers have a diversified mix of clients, as highlighted in the charts above, with about half of their respective AUM being sourced from institutional investors, the remainder being from internal and external distribution channels. It is worth noting that FIM's assets will dilute the relative importance of assets that are group-related, ie either managed for the group - notably the insurance company - or sourced from the bank retail network. Nevertheless, Fortis and BNP Paribas' retail banks remain large partners, representing a high share of AUM (22% for BNPP IP and 25% for FIM); however, they have not contributed extensively to new asset flows over the past few years. Maintaining relationships with the groups' banking networks through the integration process will be a key factor for the retention of retail investors, as well as making this client segment a more dynamic source of growth.

For the benefit of external distribution platforms and institutional investors, as well as to realise cost synergies, Fitch would expect the new entity to substantially revise and rationalise its existing range of funds. These include mutual funds domiciled in various jurisdictions, mainly France and Belgium, and most importantly, Luxembourg SICAVs as follows:

- BNPP IP: Parvest, Parworld, FundQuest International, BNP Paribas InstiCash, and BNP Paribas Islamic Fund, totalling EUR28bn of AUM at end-March 2009;
- FIM: Fortis L Fund, which had EUR29bn AUM at the same date.

In the institutional space, a good geographical diversification of asset originations will be maintained; the risk of asset attrition in this space, further to the integration, remains contained given the limited overlaps.

With regards to asset and product type, coverage and asset mix are suitably diversified across the two asset managers (see charts below and additional details in the following section); while BNPP IP remains rather Europe-centric, FIM is more global in nature.

### **Combining Differing Business Models**

BNPP IP and FIM have developed, via organic growth and external acquisitions, along two differing business models.

BNPP IP groups 20 autonomous partners under a single brand name, the largest being BNPP AM, which is the result of the merger in 2000 of BNP and Paribas asset management subsidiaries and covers core mainstream assets and products - such as European equities, quantitative equities (notably US and Japan), euro fixed-income, credit, emerging markets, balanced and structured products, and index funds. In 2007, BNPP AM also integrated the asset management activities of the Italian bank BNL, further to its acquisition by BNP Paribas.

The range of investment expertise has been further expanded via targeted acquisitions of specialised asset managers, which have deliberately been left independent after joining the BNPP partners' network. An overview of partners currently constituting BNPP IP is presented in the table below.

This organisational approach allows partners to benefit from the group's financial resources and business development capabilities, as well as to leverage on the visibility of the brand name. BNPP IP intends to increase coordination, cross-fertilisation and potential integration between partners in areas such as operations, risk management and investment, while maintaining its decentralised business model. However, until further steps are achieved in this direction, partners' integration remains limited.

Within BNPP AM - which managed around 50% of BNPP IP's total AUM at end-March 2009 - an integrated organisational model prevails with regards to risk management, technology and investment management. BNPP AM's chief investment officer (CIO) coordinates the various investment processes and oversees investment decisions.

### BNPP Investment Partners' Members

| Partner  | Investment expertise  | Location  |
|--|---|---|
| BNPP AM  | Core mainstream asset management: European, US, Japan, international and emerging market equities, money market, European bonds, credits, structured securities, indexed, multi-asset and guaranteed products | Paris, New York, London, Tokyo, Hong Kong, Milan, Latin America |
| FTTW   | Global fixed-income   | New York, Singapore   |
| FundQuest  | Multi-management  | Boston, Paris, London   |
| Fauchier Partners                                | Funds of hedge funds  | London  |
| Fridson Investment Advisors                      | Hedge funds - credit opportunities  | New York  |
| Overlay Asset Management                         | Currency management   | Paris   |
| BNP Paribas Private Equity                       | Private equity  | Paris   |
| Antin Infrastructure Partners                    | Infrastructure  | Paris   |
| Impax  | Environmental sector  | London  |
| Malbec Partners                                  | Hedge Funds - Emerging Markets and Global Quant   | New York  |
| CamGestion                                       | Wealth management   | Paris   |
| BNP Paribas - Discretionary Portfolio Management | Wealth management   | Paris   |
| BNP Paribas Epargne & Retraite Entreprises       | Employee retirement & saving schemes  | Paris   |
| BMCI Gestion                                     | New markets - local asset management  | Morocco   |
| Shinhan BNP Paribas ITMC                         | New markets - local asset management  | South Korea   |
| Sundaram BNPP AM                                 | New markets - local asset management  | India   |
| SYWG BNPP AM                                     | New markets - local asset management  | China   |
| TEB Asset Management                             | New markets - local asset management  | Turkey  |
| SAIB BNPP AM                                     | New markets - local asset management  | Saudi Arabia  |
| BancoEstado Administradora General de Fondos     | New markets - local asset management  | Chile   |

Source: BNPP IP

Born out of the merger of Fortis Investments Belgium and Fimagen in 1999, FIM has developed through organic growth and investment teams' lift-outs until end-2007, when FIM merged with AAAM.

FIM is organised around a decentralised approach to investment management, with approximately 40 independent investment centres bearing a large responsibility for their investment decisions. In contrast, operational and technological platforms are largely centralised, as are the compliance, control and operational risk management functions, the exception being international satellite subsidiaries - eight investment centres - which are typically not operationally integrated. The table below summarises FIM's organisation and global investment operations.

### FIM's Global Investment Operations

Core integrated investment centres (ICs)

| Group                                    | Main IC   | Location   |
|--|---|--|
| Equities                                 | European large cap and small cap, global, US, Japan, emerging markets, Latin America and Brazil, global concentrated (OBAM), high income, micro cap, country funds, property. | London, Paris, Amsterdam, Brussels, Frankfurt, Boston, Chicago, Hong Kong, Tokyo, Singapore, Sao Paulo |
| Fixed income, money markets and currency | Money markets/stable value, duration and yield curve, currency, emerging markets, investment grade credit, absolute return.   | London, Chicago, Singapore   |
| Alternatives & Solutions                 | Balanced solutions and TAA, SRI, multi-management, infrastructure, credit, convertible bonds, real estate, structured solutions, private equity FoF, clean energy.            | London, Paris, Amsterdam, Frankfurt, Chicago, Hong Kong  |

Source: FIM

### FIM's Global Investment Operations

Main non-integrated subsidiaries, affiliates and joint-ventures

| IC's name               | IC' expertise     | Location  |
|-------------------------|-------------------|-----------|
| Cadogan Management      | FoHF              | US, UK    |
| Fortis Haitong IM       | Chinese assets    | China     |
| PT Fortis Investments   | Indonesian assets | Indonesia |
| Aramea AM               | European assets   | Germany   |
| KIT Fortis IM           | Russian assets    | Russia    |
| Fortis Portföy Yönetimi | Turkish assets    | Turkey    |
| Alfred Berg             | Nordic assets     | Nordics   |
| FI Partners             | Australian assets | Australia |

Source: FIM

As evidenced by the two tables above, both asset managers have a diverse range of investment processes and bring different specialised expertise. Coverage overlaps are nevertheless to be noted in most asset classes, particularly in the euro-oriented mainstream arena.

With regard to local implementations in emerging markets - where both BNPP IP and FIM have grown through external acquisitions or joint-ventures with local partners - country-specific considerations have to be accounted for, especially when two affiliates operate in the same market, as is the case in Turkey and China. In China, where each asset manager has established a joint-venture with a local player, the regulator does not allow the coexistence of more than one joint-venture per foreign player. This may therefore result in one of the two joint-ventures, SYWG BNPP AM or Fortis Haitong IM, being discontinued.

Given the distinct nature of these differing organisation models, integrating BNPP IP and FIM will not be a straightforward task; it will involve key decisions as regards the preferred degree of investment process integration. The partner structure in place at BNP Paribas could allow for the smooth reception of some of FIM's investment processes, while retaining their autonomous status. In Fitch's view, this partner set up seems less relevant for certain investment centres, given their more traditional orientation, which implies greater commonality in terms of market information required, analytical inputs and tools, as well as performance drivers. In any case, Fitch would expect BNPP IP to accelerate the commercial and operational integration of the current and new FIM-sourced partners.

For those FIM investment centres that may not ultimately be set up as partners, and which may be integrated within an existing entity - notably BNPP AM - the right degree of oversight and integration will have to be found so as to not alter the specific strength of processes, while still allowing meaningful coordination and cross-fertilisation, which is critical in today's difficult market environment.

Both BNPP IP and FIM operate with significant autonomy from their parent banking group, with governance practices and internal control procedures addressing any potential conflicts of interest that may arise. The governance structure at the level of the board of directors of the FIM holding structure was improved further to the deal with AAAM, and includes six totally independent members, among the twelve directors. Within BNPP IP, each of the asset management companies are governed by their own board of directors, typically consisting of senior executives and representatives of the BNP Paribas group; independent directors are included in a few instances only, such as on the board of the Italian subsidiary. The merger of the two businesses may therefore be an opportunity to enhance the corporate governance structure for BNP Paribas asset management companies. Similarly, governance at the fund level across both BNPP IP and FIM fund ranges could be improved, as the boards of directors of their Luxembourg SICAV and other eligible funds do not currently comprise independent directors.

## Contrasting Operational Platforms

On the operation and investment administration fronts, BNPP IP and FIM have favoured different approaches and their respective technological platforms do not share much commonality.

BNPP AM's middle- and back-office operations are outsourced to BNP Paribas Fund Services (BPFS) under the oversight of a dedicated team based in BNPP AM. This is the result of the lift-out of BNPP AM's staffing and technological resources in 2005. The asset manager nevertheless remains independent from BPFS, having its own book keeping database with regular updates and frequent reconciliation. Sophis Value is being gradually implemented to replace existing portfolio management tools. It is already operational for equity, money market, and some fixed-income portfolios, and complete implementation is planned for end-2009/early-2010. Similarly, the order management system is being gradually replaced by Sophis Value, while the roll-out of LatentZero's Minerva application as a trading system is currently underway for FinAMS<sup>2</sup>. As an example, and like the other partners, FFTW - which is covered by the Fitch's Asset Manager Rating on BNPP IP - has kept its operational platform relatively autonomous from its larger sister company, BNPP AM; it is built around PRISM, an efficient and fully integrated proprietary tool for position keeping, portfolio simulations, order management, performance monitoring, and risk analysis.

As already highlighted, FIM has implemented a robust centralised operational/IT platform serving most investment centres. This is the result of the company's efforts to execute the integration with AAAM with a clear focus on establishing an integrated operational and technological environment serviced by a global hub in Brussels and complemented by satellite local operational teams. It is built around Sungard's Decalog core book-keeping system, to which are inter-linked various other vendor tools, including LatentZero's Capstone suite of applications: Minerva as the order management system (also used at BNPP IP), Sentinel for pre- and post-trade compliance checks, and Tesseract for equity portfolio management. Thinkfolio is used for fixed-income portfolio management and industry-recognised tools support automated order matching and reconciliations with external parties.

As a consequence of the differing characteristics of the two asset managers' operational and technological models, integration of the two platforms may prove challenging and will require careful management to minimise potential business disruption. The recent experience gained by FIM while swiftly integrating AAAM's operational platform may help mitigate this challenge. In parallel to this, BNPP AM is faced with the need to deliver on the upgrade of its front-office environment which is currently underway, although the merger with FIM may well lead to reconsiderations as regards the project's scope and timeframe.

The two asset managers have a large portion of their assets - mainly their Luxembourg SICAV and French fund ranges - deposited at group custodian branches and administered by group fund administrators, which are now all part of the same group. Fitch would expect some degree of integration of the BNPP/Fortis securities services, a business activity where scale and volume are important competitive factors. In any case, the two asset managers are not expected to be materially impacted by a potential integration of the securities services firms, particularly as they both have long experience in working with external custodians and fund administrators and have the required technology to swiftly adjust if need be.

## Integration Process Underway

The integration of BNPP IP and FIM is managed by the Integration Management Committee (IMC), which was nominated in early June 2009 and includes an almost

<sup>2</sup> FinAMS is the group's financial subsidiary for asset management services founded in 2006, which centralises all dedicated trading desks

equal number of representatives from both groups, under the day-to-day leadership of BNPP IP's chief operating officer. Jacques d'Estais, head of BNP Paribas Investment Solutions, retains general responsibility over the integration project as chairman of the IMC, until the appointment of a chief executive officer for the combined group. He is also acting as interim chief executive officer (CEO) for BNPP Investment Partners.

In conjunction with the IMC appointment, integration working groups have also been launched with a view to identifying the target organisational framework by end-July. This would allow the process of actual integration implementation to start in September.

Maintaining staff motivation, retaining key employees through the transition period, and ensuring people work efficiently together will not be an easy task, but this will prove instrumental to the success of the integration process. This is particularly true on the FIM side, given the significant corporate changes and reorganisation the asset manager has recently gone through in the context of the AAAM integration in 2008. In its recent rating report on FIM, Fitch highlighted the need to stabilise investment staff, processes, and investment risk management practices. Since then, and while the BNPP IP/FIM integration planning process was being designed, three senior management executives departed FIM: its hands-on CEO, the equity chief investment officer (CIO), and the fixed-income CIO. The appointment of other FIM executives in the IMC is nevertheless evidence of BNPP's willingness to manage the integration in a balanced manner between the two asset managers.

As with most mergers, cost synergies are to be expected, at least in the medium term once integration costs have been absorbed. In the current difficult environment, which is placing pressure on the finances of many asset management companies and calling into question the long-term sustainability of their business models, BNPP IP and FIM have fared relatively well, having managed to maintain good profitability in 2008 and over the first quarter of this year, albeit declining relative to previous levels. At BNPP IP, this relative resilience was largely driven by its diversified profile and asset inflows in the money market products. In the case of FIM, a significant cost-reduction programme, primarily through the sharp rationalisation of staff expenses, was initiated in the context of the merger with AAAM; this allowed the company to maintain profitability in spite of declining AUM.

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