

Fitch Affirms Groupama AM's Asset Manager Rating at 'M2'

Fitch Ratings-Paris/London–29 April 2011: Fitch Ratings has affirmed Groupama Asset Management's (Groupama AM) Asset Manager Rating at 'M2'. The rating does not cover the multi-management activities of former subsidiary Groupama Fund Pickers (GFP), absorbed by Groupama AM on 15th April 2011.

The affirmation reflects the support of Groupama AM's shareholder, Groupama SA (IFS 'A'; IDR 'A-/Negative), its long history in asset management and the overall stability of the organisation. The rating also factors in the quality of investment processes, supported by sound research capabilities. Ongoing challenges include the completion of the operational platform overhaul, and the development of comprehensive absolute return investment capabilities leveraging the firm's strengths. A further challenge is represented by client base expansion abroad and through third party distributors, as the historical French institution's client base is facing low growth prospects.

Since its reorganisation in 2009, the organisation supporting "fundamental" (ie. benchmarked) investment strategies has been stable and continues to benefit from material analytical resources, disciplined processes and a well-equipped trading desk. By contrast, absolute return processes are being restructured, as investment performance has been disappointing. The multi-management activities of GFP have also been merged with the absolute return team to form a new department called "Sigma". This development will have to be supported by the definition of new processes and investment in resources (portfolio management, quantitative research, risk management, IT). Recruitment of portfolio managers is already underway. Overall, Fitch sees room for increased use of the quantitative resources and strengthening of dynamic allocation processes.

Groupama AM ended 2010 with EUR90bn assets under management (AuM), unchanged on a year-on-year basis, with net inflows stemming from the group offset by outflows from French institutional clients and distributors. The asset manager benefits from its shareholder support, which provides a solid asset base (as high as 80% of AuM). In a challenging domestic context, Groupama AM has initiated a strategic shift towards less benchmarked products and less captive clientele, which Fitch believes will impact the whole organisation. In 2010, the company's CIO departed for the second time in two years. The position was swiftly filled with the former CEO of the French public pension scheme, without major changes so far. Overall, staff turnover remains low.

The firm has a well-established risk management culture. For ex-ante risk monitoring, APT continues to be used for equities while UBS Delta is being implemented for fixed income investment vehicles. Absolute return products will require reshaping of risk management and further integration with portfolio management in areas such as definition of internal limits, risk budgeting, portfolio construction. First-level risk controls continue to be efficiently performed and were reinforced in 2010 with the update of operational risk mapping. The completion of Sophis Value full implementation should facilitate second-level monitoring and some pre-trade controls, while the implementation of the Sentinel compliance engine planned for 2011 will enhance post-trade checks.

Operations have materially improved in terms of automation of pre and post-market matching as well as integration between front, middle and back office. A control function has been set up within the operations department. Fitch notes the acceleration of the IT architecture upgrade, around Sophis Value (position keeping, portfolio management and order management) and Omega FA (fund accounting). Once finalised (July 2011), the focus will shift to peripheral tools (portfolio managers' user interfaces, reporting, compliance engine) and databases.

Asset manager operations in the 'M2' category demonstrate low vulnerability to operational and investment management failure. Groupama AM's 'M2' rating is based on the following category scores, which represent a scale from 1 to 5, with 1 as the highest possible score:

Company & Staffing: 2.50 (from 2.25)
Risk Management & Controls: 2.50

Portfolio Management: 2.50
Investment Administration: 2.25 (from 2.50)
Technology: 3.00

Groupama AM is the asset management affiliate of Groupama S.A., the first mutual insurance company in France. It manages EUR90bn, mainly on behalf of its parent, and is ranked seventh in France's asset management industry in terms of AuM. The product range includes European equities, investment-grade fixed income and cash management, as well as Asian and US equities. The external client base consists mostly of corporates and pension schemes in France and Italy.

The rating may be sensitive to material adverse changes to any of the aforementioned rating drivers. A material deviation from Fitch guidelines for any key rating driver could cause the rating to be lowered by Fitch. For additional information about Fitch asset manager ratings guidelines, please review the criteria referenced below, which can be found on Fitch's website.

Groupama AM's rating report will shortly be available on the agency's website, www.fitchratings.com.

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Additional information is available at www.fitchratings.com.

Applicable criteria, 'Reviewing and Rating Asset Managers', dated 16 August 2010, are available at www.fitchratings.com.