
“Private assets, ESG and Asia are the cornerstones of our long-term strategy”

The global head of private bank Pictet's asset management business outlines the Group's focus for the coming years: private assets, sustainability and the Asia-Pacific region.

Interview: Ángel Alonso and Víctor Blanco
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Pictet AM is marking 20 years since it launched its business in Spain. It is one of the ten largest international asset managers by assets, a feat it has achieved mainly thanks to its pioneering multi-asset and thematic funds. Laurent Ramsey, one of Pictet's eight Managing Partners and CEO of Pictet AM, visited Madrid last week. With an eye to the future, he said that private assets, sustainability and Asia, both as a region to grow the Group's wealth management business and as a place to invest, will be the cornerstones of the firm's strategy.

In 20 years, the Group has established a significant presence in Spain. What are your goals for the future?

Obviously, our aim is to continue to grow. First in the Spanish market, which is important. But Spain is also the platform for our business in Portugal and Latin America, where our clients have traditionally been pension funds. However, financial institutions are starting to open their business and this is where there is an opportunity for growth.

Which Latin American countries do you consider most attractive?

From an asset management perspective, we focus on the Andean countries. Mexico is also a very compelling market. As is Brazil, even though there are regulatory and economic issues that make it a little more difficult. Nevertheless, in the long term, it obviously has great potential.

What is the main focus of Pictet's business likely to be in the coming years?

Three elements are very important for us in the long term. One is the private markets segment, where we are increasing our capabilities in direct investment in private equity, private debt and real estate. There is a lot of value in unlisted companies and we want to offer it to our clients. Another element is Asia. China is on everybody's lips, although there are geopolitical tensions that we cannot

ignore. But there's more to Asia. The member states of ASEAN (Association of Southeast Asian Nations) are posting extremely strong growth. From an asset management perspective, Japan has a lot of potential because it has one of the highest savings



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rates with an economy that has experienced deflation for the last 30 years. Now that they have inflation, they need to invest that liquidity in investment products. The third element, perhaps a little more holistic, is linked to sustainability. At Pictet, we firmly believe that our role as asset managers is to try to analyse all

the factors that influence the price of financial assets and, today, ESG issues are a major factor. So, even if you don't believe in issues such as climate change, as a manager you cannot ignore it because of the importance attached to it by the market, by both private and institutional clients. A trend driven by the regulatory environment, on the one hand and, on the other, by investors' interest in putting their money into products tied to this purpose.

Have you noticed an increase in investor interest in these issues since Covid?

Two years ago, investors' convictions were tested, but thematic, technology and ESG investments performed well. Whether this was due to genuine interest on the part of investors or because they offered good performance data, we do not know. Last year, with the war in Ukraine and the need to secure energy supplies in the short term, there was some push-back in the sustainability debate. But now it is back on the table with a focus on prevention. There may be a lag, but this is a long-term trend. Investors who do not focus on these issues are going to have problems in the future, because everything is connected: war, social and geopolitical crisis, climate change, etc. Everywhere you look you are faced with ESG challenges.

What percentage of your assets under management come from institutional investors and what percentage from retail investors, and how has this evolved over the years?

On the asset management side, 40% of the assets are from institutional investors and 60% from intermediaries, which are financial institutions, both discretionary and retail portfolios. Up to 2022 there was strong growth on the retail side and now it is normalising.

What share of your business is alternative assets?

At Pictet AM, alternative assets account for 12% of total assets under management.

What about total assets under management?

Out of EUR 637 billion under management or custody, private banking accounts for EUR 257 billion and asset management for EUR 252 billion. In addition, we have asset servicing: global custody and administration, which account for EUR 205 billion, with some overlap of around 77 billion. We manage around USD 50 billion in alternative assets.

Regarding private assets, do you fear that the day may come when valuations and yields are sufficiently attractive for private assets to lose their appeal?

The search for yield has been very strong on the part of retail investors because fixed income was not acting as a driver of portfolio returns. However, private assets also offer the extraordinary benefit of not being subject to daily market prices, and this protects some investors from volatility. Beyond the level of interest rates, there are many elements that make it a sustainable long-term trend. The fact that rates have normalised is relevant. It has changed the way investors do asset allocation in

their portfolios, because they had forgotten that it was a very abnormal state of affairs. It is also great to see that fixed income now offers yields of 3%, 4% or even 5%. It's about finding the balance.

Are you planning to grow the index fund segment?

Even though we are more of an active manager, we have capabilities in the index segment. In Switzerland, we are a domestic provider and it is an offer we must have, especially for the pension fund market, as the Swiss institutional market is very much oriented towards these products. In this field, we are one of the big providers, but we have no intention of competing with BlackRock or Vanguard. We have good investment solutions, because we think a lot about the quality of index replication, but we are not looking to grow. It is not an area where we see potential for growth. It does have collateral benefits though. In some cases you can initiate a relationship through a passive strategy, and then move to active management. In terms of scale, it's important because it's measured in basis points and depends on the quality of replication, which we can provide. That brings useful skills for our active managers.

Are we likely to see an increase in ESG index funds?

Yes, but in sustainability there are two trends. The first, is the generalised shift from exclusion towards engagement. The second, is that flows are moving from best-in-class towards more thematic strategies. It is very easy to construct an index using exclusions. If your value



proposition is instead to approach companies and change their corporate behaviour, it is very difficult to achieve with indices. So everything speaks in favour of active management. Many thematic ETFs can be set up, but if you want to identify companies, for example, with exposure to water and the related issues around the world, it is much more complex.

The European Commission (EC) has just published the Retail Investment Strategy (RIS), which now has to go through the parliamentary process. The RIS includes a ban on inducements for "execution-only" sales (i.e. where no advice is provided), aims to ensure that financial advice is aligned with retail investors' best interests, and to ensure that investment products bring real value for money to retail investors. It is a measure that the EC plans to review in a few years' time to assess its effectiveness. The EC is likely to ban inducements altogether if it considers that the measure has not been effective. The RIS will also require funds to have a process for presenting their cost to the investor, a request that Pictet believes is very difficult to implement, especially for genuine active management products.

The European Commission has published the RIS. Do you think it is appropriate to establish a process for the pricing of funds?

There is a real issue that needs to be addressed: some products have been sold as active management products, when in fact they are not. It is therefore a way of ensuring scrutiny; of distinguishing, given the cost to investors,

those that are truly active management products from those that are passive. And, from this point of view I applaud the initiative. But when you are an active manager, how do you price a product? In our view, the price of long-term active management products includes the cost of replication – which is paid for a passive alternative, a percentage for the excess return over the risk taken, and a premium for the quality of service and branding. Risk management and reporting are also services that have a cost.

What about active funds?

In the case of the most active funds, managers may have periods of poorer short and medium-term performance. However, these are offset with periods when they outperform the indices. This is why it is impossible to determine a price, because they manage not only the fund, but also the risk of the portfolio, among other things. So it is very difficult to establish stable cost allocation mechanisms for active funds. Furthermore, there is a market price, what an investor is willing to pay for the products of a given brand. But you have to bear in mind that if you do not achieve returns net of fees, it is very difficult to attract clients to your funds.

However, bank offerings are always among the best-selling products.

If you look at the top European managers 15 years ago, most of them were banks. Yet, many of them are now pure management firms. And when this happens your business depends on profitability and only the best survive. That's how the market works: if

you don't achieve long-term profitability, you are not going to attract clients' assets. If you offer innovative investment solutions, you will succeed.

Mergers and acquisitions (M&A) activity in the asset management industry was very high before Covid. However, activity has slowed in recent years. Do you expect this trend to return? Are there any plans to grow through mergers?

No. None at all. There are a number of structural reasons and some more philosophical ones. The structural reasons are that Pictet is 100% controlled by its Managing Partners and we have no capital to make acquisitions. Structurally it is difficult for us. The second reason is that we believe that M&A are good for shareholders, sometimes, but are bad for clients. This is especially true in the asset management industry, because when a merger takes place, it is always extremely disruptive for teams, and there are many redundancies. I prefer to hire managers and integrate them into my structure rather than buy a whole company with all its problems. And the same goes for the private banking side, where we can see what is happening in Switzerland: you lose your bankers, you merge technology platforms... staff are tied up for several years until everything is integrated. Our aim is not to maximize shareholder value in this way. We prefer to have satisfied clients. If we succeed, we will attract more assets, more revenues and more profits. This, in turn, will enable us to re-invest in the firm. We have always grown organically. Growth is not a goal. We don't want to be



the biggest. We want to be the best. Look at the performance of the products of the firms that are going through mergers.

Has the Group been able to attract clients in the light of what we've seen happen in Switzerland in recent months?

Whenever something like this happens, we benefit. When there are problems we try to increase our client base. Clients are well aware of the benefits of doing business with a firm that is privately owned, unlisted, and takes a long-term view. And we are extremely well capitalised.