The road ahead for Swiss asset management

Asset managers, providers of financial products and wealth managers for institutional clients are seeing their competition and cost pressures steadily increasing. What are the keys to success, and how can these firms assert themselves? Top industry managers give their insights.

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Sustainable momentum – a key factor for success

Our world is faced with unprecedented challenges: an ageing population, the rise of artificial intelligence and the threat of global warming. These powerful disruptive forces call for new investment behaviour, with investors' needs also changing. As asset managers for private and institutional clients, we have to deal with the new requirements of our clients and adapt accordingly.
With more than 200 years of investment experience, Pictet is used to taking the long view. In so doing, we consider not just the needs and desires of today's generation but also those of tomorrow's. Developing successful new investment solutions takes foresight, time and stamina. And innovation is not limited to the development of new strategies. As the world changes, so too must the way we look at investment as a whole.

Environmental, social and governance (ESG) considerations are a prime example of this. A growing body of investors, from the professional pension provider to the couple saving for their children's education, now expect investment managers to incorporate ESG criteria into their decision-making process alongside traditional financial metrics. The investor community is becoming a key force for positive change, driving progress in increased corporate governance and sustainable business practices as well as funding new technologies.

As we allocate capital to finance the real economy, we have a duty to distribute it responsibly and with the needs of future generations in mind. Index providers also have a part to play – not just by creating specialist ESG indices but by excluding from conventional benchmarks those companies that contravene international standards. The argument is not just an ethical one: more and more academic research provides a strong financial case as well. Companies that actively choose to adhere to sustainability principles tend to have higher credit ratings, lower cost of capital, stronger finances and better share price performance.

The rise of ESG is opening up new opportunities. For example, we estimate that the environment market will grow by 6–7% per year until 2020 – more than twice as fast as the global economy as a whole. Well-defined thematic strategies can help to exploit this potential.

Conversely, companies with poor ESG practices can suffer reputational and financial damage. As the cost of producing and storing renewable energy falls and governments around the world gear up to meet Paris Accord targets on climate change, some business models may stop being viable altogether.

Integrating ESG criteria into the investment process does not necessarily mean creating a portfolio of ethical stocks, although there are some areas we would never invest in. Rather, it is about developing a broader view of what we are investing in – establishing a better, more robust process that can deliver strong returns over the long run. Active management can really make its mark here, through engagement with company management and cognisant voting at shareholder meetings.

The opportunity set is expanding fast as more and more companies embed sustainable development into their strategy and corporate culture, and as demand for socially responsible investment (SRI) continues to grow. For the asset and wealth management industry, taking the long-term view is now more important than ever – and that means embracing sustainability in our day-to-day investment decisions, active ownership and reporting practices.

The momentum is there. As asset and wealth managers we need to set the right course for society and for investors.

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