“We follow no fashion”

Laurent Ramsey
Born in 1970, Laurent Ramsey joined the Geneva-based private bank Pictet in 1993 after his studies at the HEC Business School in Lausanne – as a trainee. After working in Hong Kong and Singapore, he returned to Europe at the turn of the millennium, where he held senior management positions at Pictet Funds. In 2010 he became Head of Sales at Pictet Asset Management, and in 2016 he became CEO of this division and a Partner in the private bank.

Laurent Ramsey, Head of Pictet Asset Management and Partner of the Geneva-based private bank, talks about the bank's unique partnership model, the latest fund sales successes, the most important distribution channels and the question of why better times will soon return for active asset managers.

There are banks where hundreds of managers are allowed to call themselves "partners". Although the title bespeaks money and power, it has little in common with a real partnership. Things are different at Pictet. The six Partners of the Geneva-based private bank aren't just its top management: they actually own the company as well. These coveted posts are not automatically passed down from father to son. Indeed, the Partners also look for suitable candidates outside the founding families. And that’s how Laurent Ramsey came to join this illustrious circle. *FONDS professionell* interviewed the head of Pictet Asset Management at his London office.

Mr Ramsey, you started your career at Pictet 24 years ago as a normal employee. Now you’re one of the six owner-managers of the Bank. Did you ever think that you would become one of the Partners?

Laurent Ramsey: No *(smiling).* I started in December 1993 as a trainee on the European equities research team. What I've experienced since then has been a fantastic adventure. Pictet initially looked after mainly wealthy private clients. The institutional business came later, and then in 2000 we added fund distribution. The Group has grown enormously since then. That was certainly a catalyst for my career.

What was the selection process like for your appointment as a Partner?

I've no idea. I wasn't involved in the discussions. But the question of suitable successors is always a topical one, so I can give you a hint as to which "ingredients" come into play. It’s important that the personal expertise complements that of the other Partners – for example, we don’t just need investment experts; we need good lawyers, too. Personality is also very important: We meet four times a week so we really need to like each other. And the basic values should match as well. The continuity of the company is what’s most important, not anyone’s personal gain. And, last but not least, age also plays a role. We make sure that we always have some Partners aged between 55 and 65 and some between 45 and 55, as well as younger ones. This ensures a continuous transition.

You had to take out a loan from the other Partners to buy into the company. Does that make you feel like a “Junior Partner”?

No. And there are two reasons for that. First, every other Partner once started in the same way and then built up his own resources over the years. It’s like a big wheel slowly turning. One day I’ll lend money to younger Partners so that they can buy shares from their predecessor. Every Partner joins and leaves the partnership at book value. There’s no ideal goodwill. That’s very important for the long-term survival of the company. And the second reason why I don't feel like a “Junior” is that there’s no hierarchy within the Board of Partners. Everyone has the right to object, everyone has exactly one vote – regardless of how many shares he holds in the company. Ultimately, the decisions are always taken by consensus.

Is it really necessary to meet four times a week? Do you discuss every detail?

We do have some formal meetings to make the necessary decisions for the company. Apart from that there are numerous informal meetings for us to exchange information on all sorts of company-related topics. It's a very healthy tradition. It strengthens cohesion among the Partners and ensures that we're all going in one direction rather than working against each other. I appreciate it very much when I can talk with the other Partners about the questions and problems that are currently bothering me in my area. As the head of a company or business unit, you're often quite alone. But it's different with us. Everyone can comment on the areas of responsibility covered by the other Partners. This is often not the case in other partnerships – perhaps because they lack the discipline to exchange ideas as often as we do.

Who else has shares in Pictet?

In addition to the Partners, who run the bank as Managing Partners, there are other so-called Equity Partners – currently 36 of them – who also hold shares in the company. We have different levels of employee participation at Pictet. In total, some 70 percent of our employees share in the Group's profits. This is a great advantage for Pictet. It's a well-known fact that the largest cost pool of any asset manager is the staff. And if our profits fall, the profit-sharing also goes down – and therefore so do our costs. That gives us a certain buffer in bad years. When the markets collapsed in 2008, we didn't have to lay anyone off – unlike many of our competitors.

You're responsible for the fund business. In the first nine months of this year alone, Pictet AM had inflows of more than 11 billion Swiss francs, or around 9.5 billion euros. Inflows already totalled 12.4 billion Swiss francs in 2016. That makes your bank one of the top fund sellers in Europe. How come?

There are several reasons. We have a comprehensive range of products and are therefore able to offer solutions for different phases of a capital market cycle. The inflows were not just for a few funds but for several different areas. Our theme funds on the one hand, but also the multi-asset and long-short strategies where we've invested a great deal over the past few years. We've also expanded our pension fund range. That's now paying off, and we're well positioned in many areas where there is currently high demand. We're also benefiting from the strong relationships with our clients that we've cultivated over the years. What also stands us in good stead here is the low fluctuation in our investment and sales teams.

You've already mentioned the theme funds. The Pictet Robotics, Pictet Water and Pictet Security funds have been very successful recently in terms of sales. Were you just lucky that you were able to offer the right products at the right time?

Luck does always play a part, but it can't just have been down to luck. Otherwise good fortune would have been on our side very often in recent years (*laughing*). Obviously we did some things right as well. What's particularly important is our really long-term approach. It's not our goal to launch new products every year. We don't follow fashion trends. It's much more important that we're convinced of the long-term investment opportunities. The question is what makes sense from the client's point of view. Once we realise this, we don't try to time the market. For example, robotics is something we've been looking at for years. But for a long time there weren't enough shares for us to be able to reflect this topic in a fund with the necessary purity and risk diversification. When we launched the fund, everyone was talking about robotics and we were able to bring in 4.5 billion euros in just two years.

How long does it usually take?

On average, it takes five-and-a-half years to reach the first billion – plus around two years' lead time to develop the idea, complete registration in Luxembourg and to do the necessary marketing. Pictet Water, for example, was launched in 2000, at the height of the market when everyone was really into technology stocks. It took eight years to achieve the first billion. The real luxury we have is time. As a partnership we don't have to satisfy external investors every quarter.

Themed investments had a lousy reputation after the collapse of the New Economy, and investors lost millions on technology funds. So why did you still stick with theme funds?

Maybe because we didn't have a technology fund (*he laughs*). It’s important that we don't offer sector funds because a theme is more likely to grow than a sector. Our aim is to illustrate an investment theme as purely as we can across a wide range of countries and industries. It’s interesting that our clients remain loyal to theme funds even during times of crisis on equity markets – this was true both after the turn of the millennium and during the 2008 financial crisis. Our outflows turned out to be minimal whereas industry-wide outflows were in the billions.

That's incredible. How did that happen?

We make it very clear to our clients that they should invest only if they have an investment horizon of five to seven years. Most of them really appreciate that. Our clients are really convinced of the investment theme and also that we’ll able to maintain the megatrend, even over a stock market cycle. When prices fall, they may sell other equity funds but they hold on to the real long-term investments. Our theme funds also suffer price losses in such situations, but because our clients remain invested, they also benefit from the subsequent recovery from the outset. This gives investors a very attractive return on investment.

What do you do to ensure that you're not just reduced to theme funds?

The inflows in various areas show that our sales partners know our other products thoroughly as well. There’s a certain glamour to theme funds. It's more exciting to talk about the megatrend of robotics than the stock market in general. Our range includes some very good funds with European stocks, but they're never really covered much in the media.
Another example for you is that Pictet Asset Management now manages around eight billion US dollars in long/short funds. We’re one of the largest liquid alternative managers in Europe.

Both your Robotics and your Water funds are soft-closed, so they can only accept a certain amount of new money. Does that mean Pictet Asset Management's inflows in the coming months will be lower?

Hopefully not. As I've already mentioned, we have other strategies that are well positioned in the market. Most investors are under-invested in European and Asian stocks, for example. There’s a lot of potential there. Pictet Water used to limit inflows at times but that didn't hamper us as far as overall sales were concerned. We’ve always looked at the maximum capacity of a strategy. After all, we want to be able to deliver to our clients what we’ve promised them. Closing a fund because of capacity is much more important for us than collecting more money in the short term. Because if you can no longer achieve performance, you’ll lose your clients.

Let's talk about performance. In the three years to the end of 2016, 72 percent of your funds outperformed the average competitor in volume-weighted terms. Is it realistic that this figure will remain so high?

Our aim is that, over a three-year horizon, at least two-thirds of our strategies will outperform the benchmark and the median of our competitors. We’ve achieved that most of the time. But we need to do that to assert ourselves in the face of very strong competition. From a business point of view you can look at it from two angles: The proportion of your assets that’s ahead of the index indicates how much money is at risk. The number of strategies that deliver outperformance rather shows the potential you have to attract additional funds in the future. I feel our two-thirds target is realistic. We operate a multi-boutique approach, with the individual teams very much working independently of each other, which is why their investment results are also quite uncorrelated. We don't have a chief strategist who dictates the direction to everyone – in such a constellation the probability is greater that you're either completely right or also completely wrong.

In short then, Pictet AM now manages a total of 185 billion francs. Does that money come mainly from private investors or institutional investors?

Even though Pictet has a sizeable wealth management business, only about 15 percent of our assets come from those clients. And that's an important point for me. This figure already includes index and money market funds, where there's usually little point in switching to external asset managers. The private bank is completely free in its choice of products, and there's no economic or political incentive to recommend Pictet Asset Management funds. About 50 percent of the remainder comes from institutional investors, about 30 percent from retail networks and around 20 percent from the wholesale sector, which includes discretionary portfolio management.

What are your most important distribution channels? What role do banks play? And what about independent financial advisors?

Outside the UK, the proportion of business conducted by independent consultants is not particularly large – and that's no different from the market as a whole for us. Our most important distribution partners are banks and insurance companies, and especially their private banking and wealth management divisions, of course. But there's also room in the broad retail business for external suppliers like us. Such entities normally select a few partners that they work with more closely – usually five to ten. Our incentive is to be part of that circle. Our big plus point is that both our company and our product range clearly differ from the competition. If a bank is already working with a handful of other asset managers, our funds complement and round off the existing offering.

Many observers think that MiFID II will reinforce the trend towards "strategic partnerships" in fund distribution.

I can well imagine this happening. Advisors will in future need to be even better informed about the funds in their offering. This makes it difficult to work with 30 or even more suppliers, which is why the number of product partners will tend to fall. That's a big advantage – at least if you're one of the providers that makes the cut. There have been so many negative things said about the MiFID II directive, but this is actually one of the positive aspects. And another advantage of MiFID II is that it will become more and more difficult to recommend individual securities such as shares or bonds when giving investment advice. That means there's a larger slice of the cake for fund investments, which is a great opportunity for the asset management industry as a whole.

I read that your most important markets are Switzerland, Italy and Japan. Japan's an unusual market for a European fund provider. So why is it one of your main markets?

Our bank opened one of its first foreign offices in Japan in 1981 – 36 years ago. Aspects such as trust and loyalty are very important in Japan. We've managed to earn both of those over the years through our long-term and continuous cooperation with the local banks there. As you said, Japan is one of our three most important markets – but it took a very long time for business there to be profitable. It shows once again that you sometimes have to be patient in our business – and we're fortunate to be able to afford that. It was also very important for our success that we were one of the first market players able to meet the needs of many private investors. Many Japanese pensioners use the income from mutual funds to finance their retirement. We were also the first bank to offer a fund with stable monthly distributions.

How important are the German or Austrian market for you?

Taken together, Germany and Austria are fourth behind the markets mentioned above. We're active in more than 20 countries worldwide. That shows how important these markets are for us.

And what about the United States? Pictet has offices worldwide but not in the US.

But it's still an important market for us. We've been serving clients from the US since 1982. Among other things, we opened our London office to manage strategies for institutional investors in the US. For around four years now we've also been active in the retail market as a sub-advisor for American financial service providers with local sales power. We manage parts of the portfolios of our US partners. This business has started very well and offers great potential. American private investors used to invest their money almost exclusively in their home market. Now the proportion of investments outside of the US has risen to 20 percent. One fifth of world's largest market – we're talking about a lot of money here.

Since 2012, the US Department of Justice has been investigating Pictet for aiding and abetting tax evasion. Are these investigations having any influence on your division's business in the US?

Not at all. The US Department of Justice suspects almost every Swiss bank. We're one of the few banks that hasn't yet reached a settlement with the US authorities. Obviously we're cooperating and providing all the necessary information. No decision's been taken yet; I can't tell you anything new. In any case, this issue hasn't featured prominently in the public debate in the USA for some time now.

Let's move onto another hotly debated topic: pressure on margins. Low interest rates mean that investors are increasingly looking for favourable pricing.

I remember seeing a study which said that more than 70 percent of UCITS bond funds currently charge higher fees than the securities in the portfolio yield in returns. As long as bond market prices don't continue to rise, investors will end up with a guaranteed loss. What is clear is that fund providers need to react to this. But the pressure comes from the other side as well. Three components play a role in the fees of an actively managed fund: the costs of index replication, the alpha and the premium for factors such as the brand and the service of the provider. This last part doesn't change so quickly. But the price war among ETF providers has resulted in a further decrease in the costs of index replication. And the liquidity-driven rally of recent years has resulted in poor performance, i.e. alpha, for many asset managers. Both of these are putting pressure on fees. But I am convinced there are better times ahead for active management. Liquidity is slowly moving out of the markets, leading to a decline in synchronisation on stock markets and increased volatility. It's an environment where active managers can better show their strengths.

Pictet AM is an active asset manager. So why do you also offer index funds?

We feel that both are justified. If an investor wants to invest tactically in a certain market for one or two years, we often advise them to choose a passive product because the alpha that an active manager can deliver only takes effect over the entire cycle. So passive investments are appropriate for every client. There's a great demand for index funds in our home market of Switzerland in particular, especially from institutional investors. We want to satisfy this demand.

The industry also talks about mergers and acquisitions. Will M&A activity continue to grow?

That's highly likely. Business costs are rising, which is why issues such as cost efficiency and scalability are at the top of the industry's agenda. This uneasy situation suits us, though, because it shows just how strong our bank is. I recently heard at a conference that the average employee actually works only five-and-a-half hours in an eight-hour day – the rest is wasted on gossip and tittle-tattle, and other stuff. After a merger this actual working time drops to just one and a half hours. It shows just how swift the integration has to be afterwards so that productivity doesn't fall by the wayside.

Wouldn’t you consider taking over smaller competitors?

No. If anything, we acquire teams of portfolio managers but not entire companies. In the 212 years of Pictet's history, there’s never been a single acquisition, and I can’t think of any reason why that should change. It’s an incredibly laborious process if you have to integrate IT platforms or corporate cultures, for example. And fortunately we don't have to.

Thank you very much for speaking to us.