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Pictet's ambitions in New York and Shanghai

***BANKING**. Renaud de Planta, the senior partner of the Geneva bank, also wants to increase the number of women in managerial posts.*

Elsa Floret and Frédéric Lelièvre / L'Agefi | 7 October 2020

The address is 712 Fifth Avenue. Last Monday Pictet opened its first office on American soil, in New York. In an interview with *L'Agefi*, the senior partner, Renaud de Planta, describes his ambitions for this expansion.
The Geneva bank is also growing on the other side of the Pacific, with an office on mainland China, in Shanghai, planned for November. "China is growing in importance thanks to its increasing role in the bond and equity indices," explains Renaud de Planta. "It's therefore become vital for us to develop in-depth analytical expertise in that country and its businesses."
The banker goes on to explain how his institution has come through the Covid crisis. He comments on the consolidation taking place in the big bank sector.

A Swiss sovereign fund, but invested abroad

Renaud de Planta ends by describing his plan for a sovereign fund to be set up using the National Bank's reserves. And why "they have to be invested abroad, in currencies that reflect our import requirements. This is something that many people have not yet grasped."

RENAUD DE PLANTA. *"Historically, mergers and acquisitions haven't met with any great success in our industry."*

“Our aim is to have 30% of managerial positions filled by women by 2025”

BANKING. *Pictet's senior partner, Renaud de Planta, lays out its strategy as regards growth in the United States, China, and social and environmental responsibility.*

A year after succeeding Nicolas Pictet as senior partner, Renaud de Planta invites *L'Agefi* to the group's head office in Les Acacias. He talks about the business performance of the Geneva bank, sustainable investment and governance issues, at a time when one office was opened in New York on Monday, 5 October, and another is due to be opened on the Chinese mainland in a few weeks' time. Interviewed after the rejection of the Swiss People's Party's “Limitation Initiative”, Pictet's senior partner is emphatic about the crucial importance of a framework agreement with the European Union (EU) and legal certainty for the economy and the export sectors. Finally, Renaud de Planta proposes the creation of a sovereign fund constituted from part of the Swiss National Bank's currency reserves and talks about the forthcoming referendum on the “Responsible Business Initiative” (29 November).

RENAUD DE PLANTA. *“We've recruited a team of 20 bankers in northern Asia specialising in mainland China.”*

A. The Group

BUSINESS PERFORMANCE

At the end of June, the Pictet Group had 559 billion Swiss francs in assets under management and administration, with two of the business lines – institutional asset management and private wealth management – each responsible for around half. Profits and the asset base were slightly down. What's the outlook for the rest of the year?

Taking account of how extraordinary this year has been because of the pandemic, I'd call it a good year, in absolute terms. Given the new way of functioning that we had to adopt, including the rapid switch to remote working for three-quarters of our employees and the ban on travel, I'd even call 2020 a very good year, relatively speaking.
In terms of performance for our clients – which is after all the crux of the matter – we've beaten more than 80% of the benchmark indices.
We've been able to maintain operations at all times even though the markets experienced the fastest and most brutal crash in history in mid-March. It was worse than 1987 (editor's note: the US stock market fell 22.6% in a single session) with unprecedented volatility and the global equity index plunging 35% in Swiss francs worldwide in 23 days of trading.
As far as the Group's business is concerned, the first half saw a net inflow of funds in the double-digit billions of Swiss francs range. Our assets therefore declined only slightly in the middle of the year, which bodes well for the rest of the year.

"We've been able to maintain operations at all times even though the markets experienced the fastest and most brutal crash in history in mid-March."

So what about this half of the year then?

Our initial results and the gratifying performance of our investment strategies, especially Total Return and thematic, give us reason to expect a good second half. In any case, we're continuing to invest for the long term. As can be seen from our progress in Asia, for example, where we've recruited a team of 20 bankers in northern Asia specialising in mainland China.

On 1 November we'll be opening a subsidiary of Pictet Asset Management in Shanghai, which will specialise in research, financial and economic analysis and promoting our management expertise.

Why are you opening a subsidiary for institutional management but not for private client management in China?

China is growing in importance thanks to its increasing role in the bond and equity indices. It has therefore become vital for us to develop in-depth analytical expertise in that country and its businesses. We're already present in Hong Kong and Singapore, of course, but there's nothing like being on the spot when you want to attract talented people and rely on teams who speak the different Chinese dialects.

We can control the subsidiary directly, without going through a joint venture. Activities in Shanghai will be steered from Hong Kong by the CEO of Pictet Asset Management in Asia, Junjie Watkins, who comes from mainland China and has spent much of her career working for major US groups.

"We're not keen on mergers and acquisitions, which, historically, haven't met with any great success in our industry."

Is private banking on the cards for later?

Our private bank is already well established in both Hong Kong (with 182 employees) and Singapore. Apart from Shanghai, we don't currently have any other plans to set up new subsidiaries in Asia.

Is the current political situation in Hong Kong giving you more cause for concern?

No, it hasn't really become more difficult to operate there, despite the instability. In any case, Hong Kong has handled the Covid crisis well, despite the small size and density of the territory and the stress this may cause. We operate our regional activity in northern Asia from there.

Asia accounts for 60% of the world's population and a third of global GDP – and rising. Hong Kong and Singapore will continue to be major financial centres.

Will your regional director remain based in Hong Kong or will you move her activities to Singapore?

The regional manager for asset management will still be based in Hong Kong, and we don't envisage moving activities to Singapore. More generally, the development of one site as opposed to another depends on multiple factors, including legal stability. It should also be noted that in asset management, North Asia is more developed (with the enormous market comprising China, Taiwan, Hong Kong and South Korea) than Southeast Asia.

What's happened with opening your office in New York?

We were meant to open it a few months ago, and it actually opened on 5 October. New York is an important base for institutional clients, with numerous large US banks and insurance companies. We've long been developing a large US institutional clientele out of our Montreal and London offices, but we felt that this model was reaching its limits and that we needed greater proximity to the world's biggest institutional market and largest talent pool.

The Group has always favoured organic growth. Regarding your development in New York, why didn't you try to acquire an established institutional management entity in the United States, where the Group has never had a presence?

We're not keen on mergers and acquisitions, which, historically, haven't met with any great success in our industry. It isn't in our DNA, and we're convinced that organic growth, more than any other model, allows us to preserve the homogeneity of our culture, the stability of our teams and the continuity in the quality of our client service, which has, I believe, played such an important role in our success during our long history. In 215 years we've become one of the biggest players in Europe and the third-biggest in Switzerland. What's more, organic growth enables us to maintain a single IT platform, which is very important for reducing the operational risks.

"There's no connection between our new office in New York and the DoJ, and I don't foresee any particular risk."

Was it easy to obtain a licence in New York?

There weren't any particular problems; we have over 25 years' experience of the US authorities. All Pictet Asset Management's management companies are registered with the SEC, as is Pictet North America Advisors, our advisory and management service for US private clients.

What in your view are the risks, in terms of reputation, of the ongoing dispute with the US Department of Justice (DoJ) regarding Pictet's private banking, if a penalty were to be imposed?

There's no connection between our new office in New York and the DoJ, and I don't foresee any particular risk. Once again, we've been active on the US institutional market for a long time now.

How do you explain the delay in imposing possible penalties relating to the US Tax Program?

I can't say; as I'm sure you can understand, we have no influence over the speed of the process.

What is the likelihood of never being penalised?
As you'll understand, it's impossible for me to reply to that question.

SUSTAINABLE INVESTMENT

As regards responsible investment, 10% of the assets managed by Pictet Asset Management are managed sustainably and 80% of the assets integrate ESG (environmental, social and governance) criteria. How do you define sustainability and ESG investment?

The many different definitions currently in use are creating confusion in the market. That's why there are efforts in Europe to establish a taxonomy. The integration of ESG criteria in the investment process is based on a fairly broad definition. For Pictet AM (editor's note: Asset Management), over 90% of actively managed portfolios comply with them; the rate's lower for private wealth management but should reach 80% by the end of this year. Our objective is to achieve 100% overall.

Can you be more specific?

Our fund managers are required to integrate material social and environmental indicators, both negative and positive, such as detecting companies involved in an environmental controversy (or whose inadequate safety measures could lead to an environmental catastrophe such as the BP disaster in the Gulf of Mexico), or child labour. Good governance is also scrutinised, particularly the treatment of minority shareholders.

Do you exclude certain securities?

Yes, some sectors are excluded, such as manufacturers of cluster munitions and anti-personnel landmines.

And do you exclude Exxon and the other major oil companies?

If we're simply executing orders, our scope is clearly restricted. On the other hand, when we have discretionary authority we can act, in particular through active shareholding and engaging with companies to persuade them to "transition" to a low-carbon economy. Furthermore, before the crisis we decided to eliminate from our balance sheet all exposure to companies linked to fossil energies. Less than 0.01% still remains, and this will be eliminated on 31 December. But the Group has traditionally had little exposure to these companies.

"We regularly talk to Nestlé about measures aimed at reducing the use of plastic in packaging."

Do you pursue other sustainable development objectives, such as the fight against plastic pollution?

Our Group is involved in the fight against microplastics, and we regularly talk to Nestlé, for example, about measures aimed at reducing the use of plastic in packaging and replacing it with less harmful alternatives.

GOVERNANCE

You succeeded Nicolas Pictet as senior partner on 1 September 2019. What are your impressions so far?

Pictet is run by seven partners, 40 equity partners and several executive committees. We manage the Group between us. As senior partner, I'm simply the coordinator. I'm pleased with the way my first year has gone, with very good feedback from clients regarding our management of the crisis, gratifying management performance figures and a series of strategic initiatives that are progressing.

These include developing an investment platform for private assets, which are on the increase, with nearly 17 billion in private equity and 4 billion in real estate.
Our team of 12 real estate professionals at five sites in Europe has raised 700 million euros this year for our first direct real estate investment strategy. We were hoping for 400 million.
We've also set up a team specialising in distressed debt. Its initial funding, 350 million Swiss francs, has achieved performance of more than 30% since the beginning of this year. This asset class has great potential because of the sad state of general over-indebtedness in Europe. But this kind of fund helps the capital market function smoothly and it's a new competence we can offer our clients.

When will a woman be chosen as a Pictet partner?

I can't tell you, but we're all hoping for this to happen. We've taken a number of steps to promote diversity and inclusion, and these are starting to bear fruit.
Our aim is to have women in 30% of our managerial positions by 2025. Our New York office is managed by a woman, and so is Pictet Asset Management in Asia. In the recent Alpha Female rankings of the world's 50 top hedge fund managers, Pictet had three: Lan Wang, Elif Aktug and Ella Hoxha. We'd like to have more. Over the past two years 50% of appointments to client roles in the area of wealth management have been filled by women, and this trend's continuing. We should stress that staff turnover in the Group is low. While this is positive, it means we take longer to replenish our workforce. It's easier for some of our competitors in Asia who have turnover rates above 25%.

When will a woman be chosen as a Pictet partner? "I can't tell you, but we're all hoping for this to happen."

Your new partner Boris Collardi has often been in the headlines in the wake of FINMA's severe verdict on his years at the head of Julius Baer. Then the Zurich prosecution service announced that an anonymous complaint had been made against him, although it subsequently decided not to investigate. This is an unfamiliar situation for Pictet, which normally keeps a low profile. So is everything OK?

Everything has already been said on the subject. We support Boris Collardi. The decision to admit a new partner is not taken lightly, and I can assure you that we carried out our due diligence beforehand.

B. The Framework Conditions – The SNB – The Referendums

"A sovereign fund for investing not in Switzerland, but abroad"

RENAUD DE PLANTA. *"The SNB is going to have to modernise [its] management [of the currency reserves]. It's up to the Confederation to give some thought to this."*

What do you think of the framework agreement between Switzerland and the European Union (EU)?

We need a framework agreement with the EU because legal certainty is important to the economy and the export sectors. After all, Europe's an export market for services as well as goods. Is this agreement the best? I don't know, but it's the only one we have at the moment. The disagreements therefore need to be resolved fairly rapidly so that Swiss companies can invest in Switzerland and create jobs here.

Your workforce is growing. Which countries are benefiting most from these new jobs?

When I joined the bank 22 years ago, there was one job created abroad for every three jobs created in Switzerland. Today, there are nearly three jobs created abroad for everyone in Switzerland. That's the order of magnitude – which is the same for other institutions – and it's an issue of real importance for Switzerland.
The two big job-creation markets for the Group are continental Europe and Asia. Our development in London is hampered by the current uncertainties surrounding Brexit.
But let me come back to our relations with the EU. We need to create predictability for Swiss companies. That's a prerequisite for any other negotiation. Otherwise, Swiss financial groups will pursue expansion in Europe. That will affect employment and tax revenues in Switzerland.

The "Responsible Business Initiative" (29 November) is the next important referendum affecting the Swiss economy. What's your view on it? What's the potential impact for the Pictet Group?

This initiative has certain flaws, even though its objectives are laudable. The first is the inversion of the burden of proof. This is a toxic principle which should be repudiated. The second flaw is the idea of extending responsibility to subcontractors and their suppliers. This creates an enormous risk. Not to mention another paradox: Swiss judges would intervene on things taking place in another country. We wouldn't like it if the situation were the other way round.
Finally, it wouldn't be right for Switzerland, at the end of November, to become the only country to implement this type of regulation. It would be shooting itself in the foot. Our country shouldn't be complacent. The presence of international companies and exporters on our soil cannot be taken for granted. When they come under strong competitive pressure, many of them are mobile and can easily move to more congenial jurisdictions. Switzerland must continue to be a welcoming country.

How would it affect Pictet?

That depends on exactly how subcontractors would be treated. The initiative would open a Pandora's box and create massive costs. We therefore support the Federal Council's counterproposal.

The Group has launched a programme of active shareholding and dialogue with issuers in relation to investments carried out for clients, both private and institutional. Can you give some concrete examples of the 10%-15% of motions rejected on a strictly sustainable basis?

We have, for example, opposed the management of certain companies in relation to remuneration issues or the re-election of certain members of their Board of Directors, such as when their contribution to the company's development appeared to us to be inadequate and at odds with shareholder interests.

How much do the negative rates imposed by the Swiss National Bank cost Pictet each year, at a time when there is a risk they may be applied until 2023 or beyond, if the recent announcements of the US Federal Reserve (Fed) are anything to go by? Are all banks equally affected?

Negative rates affect the banks differently. For Pictet, this cost came to more than 60 million francs last year, on an income statement of around 500 million... But the impact goes beyond that. The policies of the European Central Bank (ECB) and the Fed also affect the Swiss banks.
Quantitative easing is flattening the interest-rate curve and credit spreads. The Fed is now buying corporate bonds that are not even rated "investment grade". The banks' net interest margins and treasury results are melting away like snow. Over the long term, negative rates in Europe are destroying the very reason why traditional high street banks exist at all.

It's therefore hardly surprising that the banking sector is trading at a record discount. In Europe, many key players are trading at between 20 and 50% of their book value. This applies to Lloyds, Société Générale and Credit Suisse, among others. The US banks enjoy more favourable rules on capital adequacy and liquidity, whereas those in Europe are subject to lower rates and tighter regulation. There's a growing risk of consolidation. One might well wonder whether a takeover by US institutions would really be in the public interest. In the wake of the financial crisis, the size of the systemically important ("too big to fail") banks is worrying. The paradox now emerging is that the supervisory authorities seem to be encouraging mergers, with the ECB at the head of the pack.

Does this also concern UBS and Credit Suisse?

All the banks are talking to each other. Look at Caixa and its merger talks with Bankia, which will create a new banking giant in Spain. The banks are becoming increasingly systemic in size and achieving an even more dominant position.

These mergers rarely create value for the shareholders ...

They often destroy value! The UBS-SBC merger, for example, wasn't a success for the shareholders.

Do you foresee US acquisitions in Europe?

It's possible. For a US bank with a market capitalisation of 300 billion dollars, it's not much to pay 10 to 20 billion – i.e. the current value of some of the European banks that are the largest in their national markets (France, Germany and Switzerland).

Let's go back to the SNB's negative rates. Are they hitting the banks equally?

They're having a disproportionate effect on the most prudent banks, especially the private banks: they have surplus cash which they can't lend out to companies. The same doesn't apply to the big universal or high street banks, which therefore don't need to pass the negative rates on to their depositors. This situation is creating a distortion of competition that hasn't been sufficiently taken into account by the authorities. We've already pointed this out several times, but so far to no avail. The wealth management banks bear a disproportionate share of the cost of negative interest rates, given the size of their balance sheets and their workforces.

"For Pictet, this cost [of negative rates] came to more than 60 million francs last year, on an income statement of around 500 million…"

What should be done with the SNB's 800 billion of reserves, part of which will presumably no longer be of any use in terms of monetary policy?

I remain convinced that Switzerland's balance of payments surplus is structural. It's linked to the productivity gains we've realised compared with our trading partners, and the investment income of residents. Switzerland is therefore bound to run surpluses, which means that the SNB's reserves will steadily increase unless the exchange rate is adjusted.
The Swiss franc is no longer overvalued compared with the euro. The dollar is, though. The Swiss franc could therefore appreciate, given the serious public debt situation in the US and in the euro zone.

But the SNB is going to have to modernise the way its reserves are managed. It's up to the Confederation to give some thought to this. Investing 80% of the SNB's reserves in foreign debt securities and bonds whose rates are artificially kept at zero or below by other central banks really isn't worth the risk. Even though maximising profits isn't the primary objective of a central bank, there's a need to invest in a more diversified way and for a longer period. That said, it's not easy for the SNB to do so. It will be up to the Confederation to organise it. That's why six years ago we suggested creating a sovereign fund. But it's not a question of investing in Switzerland as its currency reserves we're talking about. They therefore have to be invested abroad, in currencies that reflect our import requirements. This is something many people haven't grasped yet.

The least liquid part of this sovereign fund could invest in real assets and long-term projects, such as energy or infrastructure in other countries, which would benefit Switzerland. For instance, helping France phase out nuclear power by co-financing renewable energy plants. Or financing the renovation of the road infrastructure in northern Italy, which would facilitate trade with Switzerland. There's a whole raft of opportunities. This would use only a fraction of the 800 billion. The incompressible part of these reserves would therefore be moved to a sovereign fund, off the SNB's balance sheet. The SNB would then lend this fund the foreign currency required for the investments. The Confederation would provide the equity capital. A solution of this kind will be worked out one way or another.