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## Renaud de Planta, Pictet: "Only the fittest survive"

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How can fund providers remain competitive? Will the sustainability theme still be relevant in 20 years' time? Why is the rise in indexing leading to increased social inequality? We put these questions to Renaud de Planta, Senior Partner of Pictet.

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**Mr de Planta, according to the industry association SFAMA, there are about 8800 accredited funds in Switzerland. Is that too many?**

Yes and no. There's always room for good, long-lasting ideas, even if the absolute number suggests otherwise. Take thematic funds. These can be used to identify niche areas that really generate added value for clients.

**So what makes a good fund?**

A fund that delivers better performance than other funds or beats its benchmark. It should also offer access to different risk premiums. There are almost unlimited opportunities in terms of themes.

**Pictet is regarded as a pioneer in themed funds. In the meantime, though, nearly every fund company has started offering this type of product. That's how the accusation has arisen that themed funds are nothing more than a marketing ploy. What's your response?**

People have been saying that for a long time. In a sector with long-term, sustainable trends, it's necessary to identify companies that are growing faster than the overall



market. This growth may not translate into higher stock prices immediately. But if the pace of sales growth can be maintained for five to ten years, the likelihood of out-performance also rises. That's what we count on. Short-term thinking and product pushing have no chance of success against this approach.

**The markets have been running smoothly for a long time now, but what will happen to the industry in the future, especially if the economy falters and the stock markets wobble?**

Crises have always happened, and the fund industry has still grown. Smaller and speculative funds will perhaps disappear, and consolidation will increase. But our industry is strong enough to survive a bear market.

**Is that also true of the fund industry in Switzerland?**

A few of the many sales offices set up by foreign providers are likely to downsize or even withdraw completely. This would be a typical cyclical reaction to a crisis. Apart from that, asset management still lacks investment management substance in Switzerland,

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unfortunately. Almost all foreign providers have just a marketing office here. There is scope for development.

**How can fund providers remain competitive?**

The rapid commercialisation of index funds and the growing interest in illiquid private assets are putting active funds under increasing pressure. The bar has been permanently raised for active managers. Only the fittest survive.

**Does this mean that providers have to keep reinventing themselves?**

Not necessarily. I still think there are great opportunities for a team that pursues a clear investment philosophy, gets on with its work quietly, has low staff turnover and has been able to beat the index over the past ten years.

**Three areas are said to be important to Pictet in the future: Asia, private markets and sustainability. Most of your competitors are also using these buzzwords. Are you all clutching at the same straws?**

There are big differences. Our strategy is perhaps not very original, but we're better when it comes to implementation.

**Why?**

We have more patience and look farther ahead.

**Take sustainability, which everyone is now embracing. Are we seeing a herd mentality at the expense of returns?**

I believe there's room for plenty of providers, as long as they do their work well. Sustainability starts with financial sustainability. If a company cannot ride out the next crisis, it isn't sustainable. Let's take the finance industry. Providers that have disappeared were not sustainable, such as Lehman Brothers for example. Our Group is a paragon in comparison, because we are overcapitalised with an equity ratio of 20%. We can count ourselves as one of the pioneers of sustainability with a good conscience. Incidentally, we launched the first sustainability fund in 1998.

**If everyone joins in, doesn't this rather ruin your unique selling proposition?**

Imitation is the sincerest form of flattery. Over the last 20 years, our clients have successfully invested more than EUR 10 billion in environmental equities such as our Water Fund. This is a gratifying development. When investors push for sustainability, this gradually reduces the capital costs of environmentally aware companies. As a result, they can afford to invest more in research and development.

**Can the push for sustainability become too drastic?**

No, because sustainability is defined in different ways. There's healthy competition between ideas. That's the financial market's strength. We obviously can't save the world, but we can be part of the solution.

**How do you mean?**

Our environmental problems are being underestimated. Companies

need to do more in areas such as avoiding plastic and improving water treatment and environmentally friendly infrastructure. However, they need capital and new financing options for their research and development. These are opportunities that we as a private company must exploit. I'm convinced that if we succeed, our environmental funds will grow rapidly over the next five to seven years.

**What will remain of the theme of sustainability in the finance industry in 20 years?**

The capital market will drive out companies that do not act in an environmentally conscious way. Let's take the example of traditional energy companies. As they increasingly notice that renewable energy is performing better on the stock market, they are gradually changing their way of thinking. The business is being realigned, and more money is flowing into more sustainable sources of energy. The growing volume of sustainability investment is having a bigger impact on pricing in the equity market. This is sending very strong signals to corporate executives. At this rate, in 20 years all companies will be much more environmentally conscious than they are today.

**At the beginning of the conversation you mentioned indexing.**

**Over 50% of assets in the USA are now passively managed. Can the clock be turned back?**

I've just read that in the Netherlands, indexing is declining because of ESG funds. Many pension institutions would rather make ESG-



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compatible investments than invest their assets passively.

### **So what's wrong with passive products?**

We think the biggest problems lie in governance and the formation of oligopolies. Index managers have little interest in the governance of the companies included in their fund, even though the regulators are now exerting pressure in this respect. The three big index providers in the USA have a market share of around 75% of the index industry over there. Their large positions now account for 20% of voting rights, so they are close to having a blocking minority at many companies. If this carries on, the same index managers will soon have a dominant influence over whole industries. This in turn reduces competition, and the trend towards oligopolies becomes even greater in the US economy.

### **Could this situation lead to a financial crisis?**

In the short term it would not so much trigger a crisis as heighten one. In the longer term I think the danger lies in the gradual weakening of the market economy and the equity markets. Public companies are being managed with increasing inefficiency. In my opinion the correlation between the rise in indexing and the disappearance of listed companies is hardly a coincidence.

### **A vicious circle?**

A loop, at least. In the USA, the number of listed companies has halved in the last 20 years. Only 4000 out of 8000 still exist. It's the same story in Europe. At the same time, the number of companies

managed by private equity funds has multiplied. I see a connection between all these trends. Indexing leads to poor governance, less competition, more inefficiency, and thus to more buyouts by the private equity industry. The effect is even more severe for bonds.

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*Ultimately, indexing in the equity and bond market leads to allocation inefficiency and significant social inequality.*

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### **Why?**

If a company or euro zone country issues a bond today, the ECB more or less automatically buys 30% on the secondary market. It is followed by other central banks who also have to buy such bonds in the cur-

completely lacking, and below-average quality can be placed almost automatically. Without quantitative easing and the index managers, the credit spreads would be higher and weak companies would disappear. The creative destruction that makes the markets more efficient is absent. Ultimately, indexing in the equity and bond market leads to allocation inefficiency and significant social inequality.

### **How do you mean?**

An ordinary private investor has access to listed companies only. The private equity universe is reserved for the very rich and for institutional investors. Furthermore, private market fees are rather higher than those for quoted investments. This is the opposite of what indexing was originally intended to achieve. Institutional investors are

### **About Renaud de Planta**

Renaud de Planta took on the important role of Senior Partner at Pictet in September 2019. His predecessor, Nicolas Pictet, stepped down from Pictet's seven-strong Partners Committee because of his age. De Planta joined the Geneva-based private bank in 1998, and was initially responsible for building up its asset management business. He had previously worked for UBS in Asia, where he oversaw their global equity derivatives business. De Planta holds an MBA from the University of Chicago and a doctorate (PhD) in Financial Economics from the University of St. Gallen. His new role entails representing Pictet outside the Group and ensuring that its strategy is implemented. De Planta, who is 56, lives in Geneva and is married with three children.

rent environment. Then there are index managers, and another 30% are placed. All this happens without reference to the price and without the risk-return being scrutinised. Market discipline is

exerting pressure because of the low interest-rate environment and the high fees charged by active managers and are calling for passive investment strategies, but they are overlooking the systemically



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relevant side effects. Unfortunately that is a very short-term view.

#### **What can be done?**

Clients and authorities can be made aware of systemically relevant side effects. And we can wait for sustainability and ESG to prevail and start to push out the passive products. That would be a possibility.

#### **Let's take a look at Asia and China. At the moment, private banks and asset managers are picking up speed in these markets. What's behind the sudden air of optimism?**

Asia is increasingly a very interesting market for savings. Savings are a lagging indicator of strong economic growth and have risen very sharply in recent years. In ten years, Asia is even set to be the world's biggest savings market – bigger than the USA. It's therefore necessary to position ourselves there now, have a presence, gain clients and build a track record.

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*We're now even better at attracting the best talent than we were 20 years ago.*

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#### **But all the financial institutions, large and small, are already positioned in Asia. What have you done there so far?**

We have grown gratifyingly, but from a low baseline. Now, however, a number of markets are about to open up there, such as in China. The possible liberalisation of the market to allow the distribution of

foreign funds is under discussion there. That would be a game changer. Just like in Japan 20 years ago. We built up a presence there and when the liberalisation actually happened, we reaped a real bonanza. Today we rank among the top three foreign fund providers in Japan.

#### **So could that be repeated in China?**

Yes, it could. But it will probably take a lot longer.

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*We don't keep tinkering with our strategy. Instead, we take a long-term view and remain true to our values and principles.*

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#### **What mistakes might be made?**

People could bet on the wrong people and the wrong products.

#### **What role would Pictet like to play in the Swiss domestic market?**

We don't want to be the biggest, but we do want to be the best for asset management and wealth management. Our success model is based on client service, performance, innovation and integrity. If we stick to it, we will achieve further success and also expand our presence in German-speaking Switzerland.

#### **What are your plans as regards staff?**

The headcount isn't important – we just want to recruit the best people.

#### **Your competitors say the same.**

We're different. We're now even better at attracting the best talent than we were 20 years ago.

#### **Is that because of the salaries you pay or your name?**

It's thanks to our culture and well-being. We want to pass our firm on to the next generation in even better shape. We don't keep tinkering with our strategy. Instead, we take a long-term view and remain true to our values and principles. Just wait – this will become evident during the next crisis. That will separate the wheat from the chaff. To date, our biggest progress has always been made during downturns.

