"The reversal in interest rates will be factored in at some point"

Renaud de Planta, Managing Partner of the Pictet Group, is confident about his asset management business.

Pictet Asset Management, the arm of the Pictet Group that is responsible for institutional investors, has increased its assets under management from CHF 15 billion to CHF 190 billion over the past 20 years – without a single acquisition. Renaud de Planta, the Managing Partner who oversees this area, is assuming, however, that this rapid growth path could be less dynamic in the coming years.

CLAUDIA GABRIEL

He explains in the interview that the growing trend towards indexed investment forms such as exchange-traded funds (ETFs) and index funds is of less concern to him. A global oligopoly situation is taking shape there, with the largest three providers dominating 70% of the market. Although Pictet is a pioneer of index-linked investment in Switzerland and has a strong market position, it is, of course, much smaller than the global heavyweights – and this is an area where competition is driven by price and economies of scale play a role. De Planta is nevertheless critical of the rapid rise of index investments from an economic point of view. For him the question is at what point capital allocation will become inefficient if some companies are 'blindly' allocated excessive amounts of capital. De Planta is even more concerned, though, about the financial markets.

He's expecting a reversal in interest rates soon and stressed that the ultra-loose monetary policies are starting to cause economic damage. The US Federal Reserve has, he points out, already begun tightening monetary policy. None of the world's major central banks can act independently of the others because currencies react sensitively, he adds. At some point markets are going to start to factor in the reversal in interest rates but the time when that happens is in the lap of the gods.

De Planta wouldn't be surprised if the adjustment caused severe shocks. For example, the markets for corporate bonds and especially those 'unconventional' securities that are currently so popular – i.e. bonds issued by low-quality corporate debtors ('high yield'), catastrophe bonds, infrastructure bonds, etc. – could dry up because investment banks, among others, would hardly be willing to take up any loans on their own books. Some pension funds may be surprised how difficult it could be to get rid of securities like these in such a market, de Planta fears.

He takes the stories currently doing the rounds on the bond market seriously: Some private banks (but not Pictet, de Planta emphasises) are said to be setting up credit-financed custody accounts for their clients on a fairly large scale. These clients then invest in junk bonds and generate huge overall returns. If the markets turn, these clients could be forced to liquidate everything from their securities portfolios that is still sellable, causing the prices of various securities to plummet. However, pension funds have generally lowered the remaining maturities in the traditional part of their bond portfolios, which will protect them somewhat in the event of a turnaround on the markets, says de Planta.

Pictet Asset Management believes it's well positioned to cope with a tougher environment as well. De Planta emphasises that apart from the indexed mandates, Pictet also invests outside of financial market indices. As our thinking is very much geared to the long term, we've repeatedly introduced innovations that have paid off in the long term. Twenty years ago we set up theme funds and a short time later did the same for emerging market investments. Although both met with little understanding when they were launched, they're 'running' very well today. Such investments are suitable as a complement to index-based portfolios if they're reputable and managed by investment teams that have proven over the long term that they can generate good returns. For the past eight years or so, Pictet has also operated a long/short investment strategy that is independent of financial markets, making it one of the three largest players in continental Europe. Strategies like this are very much in demand at present.

And for the future, Pictet is currently gaining experience in Hong Kong with bonds in mainland China, for example – so that once China abolishes its capital export controls, Pictet will already be up and running as a portfolio manager with a good performance track record. After all, China would be the third largest bond market in the world, with foreign investors having free access to it and not through tightly restricted trading quotas. "We obviously make sure that those clients who are now investing with us in mainland China are aware of the risks," de Planta stresses.

"Fortunately, we don't have to rely on quarterly earnings growth," he adds. That's why Pictet can afford to invest in markets of the future long before they are in demand all over the world and, hopefully, ride out the forthcoming market turmoil. "With our 900 or so investment specialists, we're well positioned to react quickly to a turnaround in the markets and to protect our clients' assets. And we don't rely blindly on investment models either. Historical correlation values are just one of many pieces of information for us. And we offer different products that should prove robust in such difficult market conditions."

De Planta can't identify with those competitors who are merging to equip themselves for the future with greater mass and a broader range of products. We feel that active asset management isn't primarily about size; it's about doing just those things that you can do well and focusing clearly so that performance is good. "That makes clients happy, and happy clients are the best salespeople."

Translated by the Pictet Group

Renaud de Planta Managing Partner Pictet Asset Management