

The Pictet Group Annual Review 31 December 2019





Building Responsible Partnerships

**TO OUR CLIENTS, COLLEAGUES,
COMMUNITIES AND COMPANIES
IN WHICH WE INVEST**

As we were preparing this sixth Annual Review of the Pictet Group, the Covid-19 coronavirus pandemic began to spread rapidly throughout Europe and much of the rest of the world. It has led to conditions unprecedented in peacetime – suspension of travel, cancellations and closures of leisure activity, home working and widespread quarantining. No-one knows how long such conditions will last or what the medium- and longer-term consequences will be. Especially in these circumstances, our clear responsibilities are to protect the interests of our clients and ensure the health and welfare of our employees. Fortunately Pictet is in a position of financial strength and prepared to weather this crisis as we have done throughout our history. In our Ambition 2025 strategic plan, our focus is on investment leadership, on our strength, security and resilience as a group, and on accelerating our initiatives as a responsible firm. We are also launching a new philanthropic foundation. We want to be a force for good, a role model for this and future generations.

Renaud de Planta
On behalf of the Managing Partners

Year ended 31 December

	2019	2018	
CHF	2,629 m	2,694 m	Operating income
CHF	539 m	596 m	Consolidated profit
CHF	36.8 bn	38.5 bn	Total assets
CHF	3.13 bn	2.95 bn	Total equity
	20.5 %	21.1 %	Core tier 1 capital ratio ¹
	20.5 %	21.1 %	Total capital ratio ¹
	156 %	164 %	Liquidity coverage ratio ¹
CHF	576 bn	496 bn	Assets under management or custody

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PARTNERSHIP

While Pictet has
the legal form of a partnership,
it is a partnership
in a wider sense too.

The notion of partnership
embodies respect,
trust and interdependence
over the long term.

It means embracing diversity
and promoting
inclusion.

The Pictet Group

The Pictet Group comprises four business units – asset management, wealth management, alternative advisors and asset services – and is constituted as a *société en commandite par actions* (a corporate partnership), which is the managing entity of the Group.

The principal operating companies are the Swiss bank, Banque Pictet & Cie SA; Pictet & Cie (Europe) SA; Bank Pictet & Cie (Asia) Ltd; and the asset management subsidiaries grouped under Pictet Asset Management Holding SA, a holding company belonging to the Pictet Group.

The Group is owned and managed by seven managing partners, with an independent supervisory board. Renaud de Planta, a partner since 1998, became senior partner on 1 September 2019. Sébastien Eisinger was elected a partner of the Pictet Group with effect from 1 April 2019. He became the forty-third partner since Pictet was founded in Geneva in 1805.

At 1 April 2020, a further 44 senior executives, known as equity partners, held equity in the Group. They each lead a strategically important function and play a central role in the development of Pictet. Elections are made every second year.

In selecting new employees and promoting career advancement, Pictet aims for diversity of gender, background and education, which together contribute to diversity in thought, opinion and experience. But diversity also goes hand in hand with inclusion – that is, making each employee feel valued and giving each a voice in daily business.

2 The term 'Assets under management or custody' excludes double counting. It represents the assets of private and institutional clients looked after by the Pictet Group. These assets may be managed through individual discretionary mandates, benefit from value-added services such as investment advice, or simply be under deposit.

3 Leavers as a percentage of average employee count

4 At 1 April 2020

group full-time
equivalent employees

4694

CHF 576 BILLION
assets
under management
or custody²

28 17
offices countries

6.6% employee
turnover rate³

56 equity owners
including partners and
former partners⁴

PARTNERS

Renaud de Planta *Senior Partner* · Rémy Best · Marc Pictet · Bertrand Demole
Laurent Ramsey · Boris Collardi · Sébastien Eisinger

EQUITY PARTNERS⁵

Heinrich Adami · Victor Aerni · Elif Aktug · Derick Bader · Xavier Barde
Dominique Benoit · Marc Briol · Yves Bruggisser · Nicolas Campiche
Paul-Marie Dacorogna · **Andrea Delitala** · Philippe de Weck · **Elizabeth Dillon**
Luca Di Patrizi · Christophe Donay · Jean-Claude Erne · Olivier Ginguené
Claude Haberer · Takuhide Hagino · Christèle Hiss Holliger · **Zsolt Kohalmi**
Gaspard La Sala · Philippe Liniger · Christopher Mouravieff-Apostol
Epaminondas Pantazopoulos · Fabio Paolini · **Claude-Joseph Pech** · César Pérez Ruiz
Grégory Petit · Hans Peter Portner · Niall Quinn · **Lorenz Reinhard**
Gonzalo Rengifo Abbad · Raymond Sagayam · Andres Sanchez Balcazar
Christian Schröder · Markus Signer · Hervé Thiard
Luca Toniutti · Bernd Uhe · Alberto Valenzuela · Giovanni Viani
Pierre-Alain Wavre · Peter Wintsch

BUSINESS UNITS

**Asset
Management**

Specialist Investment
Management for Institutions
and Investment Funds

**Wealth
Management**

Private Banking
Wealth Solutions
Family Office Services

**Alternative
Advisors**

Private Equity
Real Estate
Hedge Funds

**Asset
Services**

Custody
Fund Solutions
Trading Services

From left to right:
Rémy Best
Laurent Ramsey
Bertrand Demole
Renaud de Planta
Marc Pictet
Sébastien Eisinger
Boris Collardi

14.2.2020

1.06 pm

Route des Acacias 60
Geneva



1.07 pm

Route des Acacias 60
Geneva



ENTREPRENEURIAL SPIRIT

Independence, long-term thinking, partnership and responsibility are nothing if we do not keep our entrepreneurial spirit alive.

It is the fate of many businesses that they lose their boldness, adaptability and originality as they grow.

They become process-driven bureaucracies. Pictet is determined to stay true to its entrepreneurial origins.

Review of the year

Covid-19 sweeps all aside —

From today's viewpoint, the most dramatic events of the past year — the conflagrations in the Amazon, California and the Australian bush; populist protests across the planet, from the boulevards of Paris to the highways of Hong Kong — seem as nothing compared to the worldwide lockdowns brought about by the spread of the Covid-19 global pandemic in the early months of 2020.

Related to SARS, originating in bats and somehow transmitted to humans, the highly contagious coronavirus was first identified in Wuhan, China. The authorities there imposed sweeping quarantine controls, with striking initial success. Other countries have taken increasingly radical measures to limit the spread of the pandemic, but at the time of writing, the only certainty is that the human and economic cost of Covid-19 will be severe.

In politics, populist sentiment was clearly behind the election of the Hindu nationalist, Narendra Modi, as India's prime minister, and the end of the Brexit impasse in the UK with Boris Johnson's landslide election victory. Meanwhile in the US, President Trump survived impeachment and is preparing for re-election — probably against Obama's vice-president Joe Biden — just as the

longest US economic expansion in history has been brought to a shuddering halt by the pandemic.

If flames and crowds were dominant motifs in 2019, the US Federal Reserve gave a following wind to markets throughout much of the year. Global equities rose strongly, fixed income performed well generally, while at the peak USD 17 trillion of global debt had a negative yield. Recession fears lessened as US-China trade tensions eased off, even if their conscious uncoupling in tech continues — with great ramifications in the long run. For the markets, nemesis finally came in the form of Covid-19.

A successful long-term strategy requires the ability to look through short-run disruption, to be wary when others are bullish, and to invest when others are fearful. This remains our basic business principle, tempered by our first duties: to our clients and to the health and welfare of our employees.

On pages 30 to 31 we have set out seven themes that will guide our business development over the next five years. The pandemic and its consequences inevitably inform all seven. Together these themes will define our thinking, and together they give us a map in an uncertain world.

Pictet Wealth Management

Pictet Wealth Management provides a comprehensive service for both wealthy individuals and families that goes beyond managing assets to consider wealth management in its widest sense.

We begin by understanding each client's particular requirements regarding their family, future and extended ambitions, whether philanthropic or otherwise. Clients then decide how much they wish to be involved in the investment process, from delegating the management of their wealth to taking advantage of our investment expertise. This allows us to define an investment strategy that meets their financial goals in the context of their broader aspirations; finally, we add the operational platform best suited to achieving these goals.

For clients whose needs are more complex, we offer a full range of personalised solutions. These include dedicated holding structures, bespoke reporting, global custody and direct access to trading services. Our experts in family office services also help clients with multi-generation wealth transmission by designing the most appropriate governance for the family organisation, investment strategy and administration of portfolios.

Our investment capabilities extend across developed and emerging markets and cover almost all asset classes and currencies, including private assets and hedge funds. We also offer our international capabilities in holding client assets, as demanded by economic, geopolitical or personal circumstances.

In short, our aim is to be the trusted advisor of reference for our clients.

⁶ See note 2 relating to Pictet Group figures

⁷ Investment professionals are defined as all staff whose principal activity is in the area of investment research and analysis, portfolio management, product management, trading, wealth planning, investment advisory, sales, marketing or client relationship management, or the management of such activities. Not included are those occupying, for example, pure operational, mid-office, compliance or risk management functions.

⁸ Private bankers are defined as all staff whose principal activity is to actively advise clients on wealth management solutions. They ensure the quality of the client experience, while some are responsible for new client acquisition.

CHF **234** BILLION
assets
under management⁶

22 591
investment professionals⁷
offices worldwide

352
of which private
bankers⁸

1029
full-time
equivalent employees

In Asia, the Pictet experience with a local flavour

While respecting the consuming demands of the coronavirus pandemic, the gaze of Boris Collardi, joint partner for Pictet Wealth Management (PWM) with Rémy Best, is firmly fixed on a more distant horizon. ‘Asia is already the second largest wealth pool in the world. And it will become the largest.’

In the next phase, he argues, Asia will become a destination for capital. ‘And as many companies are still in private hands, individual wealth will also grow.’ He speaks with knowledge, having spent 22 years working with Asia, including five based in the region.

PWM has two centres in Asia that it will continue to build on — Singapore and Hong Kong. ‘In terms of governance, pool of talent, access to markets, sophistication of products and services and access to clients, they have everything.’

Boris argues strongly for ‘local flavour’. ‘It’s true in every industry,’ he observes. While staying ‘true to the Pictet experience’, core products and services need to be

adapted, since Asian clients have different characteristics from European clients. ‘They are more active, less willing to delegate. As first, second generation at most, they still have their hands on the engine. They look for more of an advisory or trading relationship.’

He notes that they also like special opportunities, such as private equity co-investment, and they like to use leverage to generate superior returns—‘because with the prospect of growth they are confident of repaying the loan.’

PWM has no plans for a domestic Chinese presence, unlike Pictet Asset Management, as it has considerable Chinese market expertise in Singapore and Hong Kong. ‘Our new CEO for North Asia is a China specialist. He has substantial expertise in this important market, as do his colleagues who have also recently joined.’

Added to the content and products being converted or created for the Chinese market, and a dedicated website in Chinese, Boris is looking forward to building on Pictet’s increasingly well-established Asian presence.

Pictet Asset Management

Pictet Asset Management provides specialist investment management services through segregated accounts and mutual funds to professional investors and their clients globally. Our own clients include some of the world's largest pension funds, financial institutions and sovereign wealth funds.

We aim to be the investment partner of choice for our clients, by offering original strategies that prove their value over the long term, giving our clients undivided attention and being committed to excellence. In this way our clients can be confident that their future objectives will be met.

We manage equity, fixed income, alternatives and multi-asset strategies. Within this range, our investment capabilities are pioneering and distinctive – we focus on the areas where we believe we can add value for our clients. We commit substantial analytical resources to our strategic capabilities: Thematic Equities, Absolute Return, Multi Asset and Emerging Markets.

Responsibility has long been central to Pictet's thinking. We aim to be at the forefront of our industry in incorporating environmental, social and governance (ESG) issues into our investment approaches, actively exercising our rights as investors and engaging with companies themselves.

At Pictet Asset Management, our ambition is to attract and retain highly capable individuals from a wide variety of backgrounds, and help them to realise their personal and professional goals. We aim to build an entrepreneurial and collegiate atmosphere, allowing ideas to mature, experience to accumulate and our people to reach their full potential. In this respect we consider it fundamental to cultivate a meritocratic environment that attracts people with unusual talent and a strong sense of team spirit.

⁹ See note 2 relating to Pictet Group figures

¹⁰ See note 7 relating to Pictet Wealth Management figures

asset manager
since
1980

CHF **202** BILLION
assets
under management⁹

offices worldwide
17 399 investment
professionals¹⁰

7 investment
centres

full-time equivalent
employees
1003

Active ownership promotes positive change

‘As responsible investors, we have a duty to our clients to actively engage with the companies in which we invest,’ says Sébastien Eisinger, managing partner and CEO of Pictet Asset Management (PAM). ‘Taking account of environmental, social and governance (ESG) factors will help us make better long-term investment decisions. And if active engagement leads to positive change in companies’ ESG behaviour, it will bring about a more sustainable, prosperous, healthy and just society.’

The publication in late spring 2019 of PAM’s Active Ownership Report for 2018 — the first — represents a major advance in the extent and disclosure of PAM’s active engagement programme. At the most basic level, PAM now votes at over 90 per cent of all possible AGMs¹¹, drawing on experienced and local third-party advisors.

On active engagement, Arabella Turner, ESG Specialist, explains that PAM operates at three levels. ‘First, at any one time, we are in direct discussion with around 15 to 20 companies — and that’s rising. Second, we participate in collaborative forums such as *Climate Action 100+*¹¹, the *Investor Initiative for Sustainable Forests* and the *Mining & Tailings Safety Initiative* to promote change in

company policies, practices and disclosure. Third, PAM works with a leading engagement analytics company to engage with companies on a range of ESG issues.’

‘A three-pronged approach to corporate engagement is incredibly powerful,’ says Arabella. Last year, for example, PAM was in dialogue with a major global extractive company, both bilaterally and as part of a small subgroup of Climate Action 100+ investors. The company later agreed to cap its coal production, citing representations from CA 100+.

PAM engages with companies based on the size of its holding and the judgement of its equity and fixed income fund managers. ‘Fund managers will raise ESG issues if they believe it can both enhance a company’s long-term value and impact the world positively,’ says Philippe de Weck, CIO Equities at PAM. ‘But a company isn’t obliged to listen to us. If it’s not working, we may divest.’ That’s not an option, he adds, for passive investors. ‘Nor, unlike active investors, do they have our understanding of the company’s business.’

Can active ownership really make a difference? ‘Yes, absolutely,’ says Philippe. ‘We’ve seen it happen, and it’s irresponsible if you don’t try.’

Pictet Alternative Advisors

Pictet Alternative Advisors provides alternative investment solutions in private equity, real estate and hedge funds, both directly and through selected external managers. Our mission is to invest in, manage and advise on alternative investment portfolios for both private and institutional clients of the Pictet Group.

Alternative assets typically appeal to clients who are seeking diversification in their portfolio and who accept liquidity constraints in exchange for returns uncorrelated with conventional asset classes over the long term.

Our first private equity investments were made in 1989, and in hedge funds in 1991. Since 2004, we have also invested indirectly on behalf of clients in real estate. By building close, long-term relationships with managers in these fields, we are able to gain access to leading funds and to attractive co-investment opportunities. In 2018, we began to expand into direct capabilities, beginning with the launch of a European real estate fund.

Underscoring the Group's commitment to private assets as a central component of Pictet's business strategy, Pictet Alternative Advisors became a business line from 1 January 2020.

We collaborate with teams across the Group with distinctive expertise in alternative assets, including Pictet Asset Management — who have developed one of Europe's leading hedge fund franchises — and the Pictet Investment Office, (PIO), which has more than three decades of experience allocating private assets to the portfolios of its entrepreneurial wealth clientele.

Taken together, the Pictet Group's growing investment in alternative asset resources will make an important contribution to the investment opportunities available for our clients in the coming decade.

¹² Client assets invested in hedge funds, private equity and real estate funds. This figure is included in the assets under management of Pictet Wealth Management and Pictet Asset Management. See note 2 relating to Pictet Group figures.

¹³ See note 7 relating to Pictet Wealth Management figures

CHF **28** BILLION
assets
under management ¹²

31 years of experience
in alternatives

full-time
equivalent employees

87 46
investment professionals ¹³

First co-investment

1992

Extending into direct private assets

‘Building on our expertise in alternative investments, our ambition now is to make our name in direct private assets — establishing Pictet Alternative Advisors as the third investment pillar of the Group,’ says Bertrand Demole, partner responsible for Pictet Alternative Advisors (PAA). ‘Our real estate venture is already looking promising with the hiring of a leading European investment team and the successful launch of a pan-European value-added strategy.’

It may look like a new initiative, but behind the scenes, Pictet has been developing its expertise in private assets for more than 30 years. ‘We have an excellent track record going back to the early 90s,’ says Nicolas Campiche, who heads PAA together with Zsolt Kohalmi.

While Zsolt joined Pictet two years ago to build the real estate business, Nicolas looks back on 25 years at Pictet. Given his role, it is no surprise that he describes the newly elevated business line of the Group as an ‘unknown gem’, but he has the performance to back it up.

The raising of PAA to a full business line is consistent with recent market developments. More business owners are keeping or even

taking their companies private as regulation and passive investing are limiting the appeal of public markets. At the same time, clients are seeking diversification through higher-yielding opportunities and shifting capital towards private assets.

‘We strongly believe that the performance of private assets will remain compelling, largely driven by the ability to transform an asset,’ Nicolas explains. Asset transformation can mean, for example, the restructuring of a company or the redevelopment of a building.

In its early years, Pictet Alternative Advisors focused on fund selection, allocating to the best hedge funds and private equity general partners, while gradually increasing its exposure to co-investments and secondary transactions.

‘Our expansion into direct private equity is a clear evolution of our entry into real estate,’ Nicolas explains. ‘As our group is privately owned and takes a long-term approach, we are completely aligned with private-asset investment strategies.’

‘Overall,’ he adds, ‘we don’t aim to be the largest, just the smartest. That’s the Pictet way.’

Pictet Asset Services

Pictet Asset Services (PAS) manages every aspect of the asset-servicing process, employing value-adding analytics, execution services and digital front-end interfaces to provide the most competitive client experience.

Among our principal business-to-business clients are external asset managers both for funds and private clients, as well as a range of institutional clients. With the capacity to offer bespoke services to the largest investing institutions, in particular in the field of data, PAS aims to be a leader in this field.

Relying on a unified core platform and experienced staff, we provide cash and securities settlements, corporate actions, valuation and reporting in a consistent way across our multiple booking centres.

To enable us to offer an integrated solution for mutual funds, we run dedicated third-party management companies that handle relationships with regulators and provide fund governance services in addition to fund administration and transfer-agent services. We have related capabilities in investment control, performance measurement and risk management.

We also offer round-the-clock execution capabilities through a single point of entry across asset classes – including equities, bonds, foreign exchange, derivatives and mutual funds.

As the Pictet Group does not have any investment banking activities, we can always act without conflicts of interest and to the best advantage of our clients.

¹⁴ This figure does not include assets held in custody for internal clients, that is, Pictet Wealth Management and Pictet Asset Management

¹⁵ This figure does not include the 1,402 full-time equivalent employees of PAS Operations and IT, now part of a unit called Technology & Operations, or the 175 full-time equivalent employees of Pictet Trading & Sales

CHF **186** BILLION
assets
in custody¹⁴

of which CHF **86** BILLION
fund services

full-time equivalent
employees¹⁵
195

6 offices **1** global
platform

Unleashing the power of data

Data has become the crown jewel for companies across all industries. With massive and growing volumes available, the new challenge is the appropriate treatment and intelligent interpretation of that data.

‘The true worth of data lies in its transformation into value-adding analytics for decision makers, and active asset managers in particular. This is a central strategy for us,’ according to Marc Briol, CEO of Pictet Asset Services (PAS). He adds, ‘We have always positioned ourselves as a partner for our clients. Providing innovative solutions by extending and reinforcing our expertise with data is a natural evolution.’

Throughout 2019, PAS launched many data-driven services, including a pioneering product in asset servicing: a new market intelligence report that allows asset managers to take data-driven decisions based on strategic market insights. With this report, clients’ fund strategies are analysed and benchmarked against a sample of peers by

in-house experts. Decisions can then be made based on insights about performance, risk, cost and geographical footprint.

A similar product will be tested for environmental, social and governance (ESG) data. Again, the choice is to search for quality rather than quantity. In the face of rapidly evolving client needs and regulatory change, the launch of the first open banking ESG reporting solution is planned, drawing on the AI capabilities of external fintechs.

‘We already provide our clients with ESG data in our e-banking platform Pictet Connect. Over the past year, we have come to believe it’s necessary to take one step further in societal impact investing,’ says Sergio Venti, Head of Client Solutions and Innovation at PAS.

Ultimately, it is PAS’s intention to enable investors and asset managers to define for themselves their ESG impact, by giving them all the information and tools they need.

LONG-TERM THINKING

To think long term means to resist the temptations of short-term fashion in favour of sustainable decision-making. Both our investments and our businesses have a long-term focus, to the lasting benefit of all stakeholders and consequently of the Pictet Group.

The origins of the Pictet Group

In 1798 the city state of Geneva is annexed by the French Directoire and becomes the capital of the Département du Léman. After the Napoleonic Wars end in 1815, Geneva joins the Swiss Confederation—in large part owing to the diplomatic efforts of the European statesman Charles Pictet de Rochemont.

War and blockade have interrupted watch exports—Geneva’s forte—while the French monarchy’s default after the 1789 Revolution has caused the collapse of most existing banks. Yet Geneva’s entrepreneurial flame, kindled by Calvinist habits of discipline and hard work, and fanned by the optimism of the Enlightenment, still burns bright. As the post-Revolutionary inflation subsides, a new generation of financial partnerships emerges, later to be known as private bankers.

The formal history of Pictet begins in Geneva on 23 July 1805. On this day, Jacob-Michel-François de Candolle and Jacques-Henry Mallet sign, with three limited partners, the *scripte de société* that creates the original partnership of de Candolle, Mallet & Cie.

Beginning with share capital of 125,000 Geneva pounds (about 30 million Swiss francs in today’s money), Pictet’s founders describe their purpose as, ‘to trade in goods and articles of all types, collect annuities and undertake speculation in commodities’. Before long the bank comes to specialise in currency trading and the management of wealth.

Surviving account books and documents show that as early as the 1830s the bank held a broad range of securities on behalf of clients to ensure that risks were properly diversified.

On the death of de Candolle in 1841, his wife’s nephew Edouard Pictet joins the partnership. He becomes sole proprietor in 1848 and remains at the head of the bank until his retirement in 1878.



Ambition 2025: the seven themes

As the new decade opens, we expect a growing transformation in macroeconomics, technology and society. Across these three areas, we have identified seven themes that we believe will shape the business of finance in the coming five years and more. Certainly, the ramifications of the coronavirus crisis will deeply affect the way these themes play out in the coming years, intensifying a number of the trends already identified here. Each theme offers opportunities — and risks — for investors, our clients and the way we do business.

IN THE MACRO ENVIRONMENT we envisage profound changes, represented in the first four of the seven themes. First, the **RISE OF ASIA**, led by China, which is already the leading global economic superpower. Before long, the region will become a financial superpower too. By 2030, Asia (including Japan) will account for 40% of the world's wealth. It will increasingly attract global capital flows and investments, while its current under-representation in leading financial indices looks certain to change.

Second, persistently slow growth and historically low interest rates elsewhere are driving investors to higher-yielding and risk-diversifying **PRIVATE ASSETS**. Such demand is being satisfied by a large and rising supply of firms aiming to turn or stay private, attracted by fewer short-term pressures and lighter regulation. As this tendency grows, private markets generally — including private equity, private debt and real estate — will no longer be considered alternative.

Third, the idea that deleveraging has occurred since the 2008 global financial crisis is a myth. In fact the debt market may be the catalyst for the next major episode of **FINANCIAL INSTABILITY** — the result of a two-decade long build-up in government, corporate and household debt that may ultimately become unserviceable. If central banks continue to print money to avert a crisis, this could lead to a new debt climax, currency instability or a surge in the value of real assets. The next downturn would not then be cyclical, but one with a major long-term impact on the economy and the financial industry.

Fourth, a downturn or fully fledged financial crisis would reinforce existing tendencies towards greater **TAX TRANSPARENCY, POPULISM AND DEGLOBALISATION**. Governments are already contemplating a major review of global taxation in which wealthy individuals and multinationals are likely to be pursued systematically. Such

reform will radically disrupt where and how businesses operate. Digital businesses will be a primary target, but so will the service sector, and the financial industry in particular. These trends will advance the deglobalisation already manifest in the rise of political and economic populism.

IN TECHNOLOGY, disruption is at its most fundamental. In particular, fifth, **AI AND MACHINE LEARNING** are the technologies leading an accelerating digital advance which will dislocate our industry and our relationship with clients. As data becomes ever more valuable, data science that uses these technologies will transform the way investment information is gathered, analysed, employed and presented. Also, clients will expect the most advanced digital solutions.

Yet, sixth, technology is dual-use: for financial institutions, **CYBER IS THE NEW SYSTEMIC RISK**. Resistance to cyber-attacks that seek to undermine the most basic banking services will become a cardinal test of resilience, as will the security afforded by a robust balance sheet. Client concerns about data privacy will only intensify. In the future, financial institutions, already trusted as data collectors, may find a new role as data custodians.

IN SOCIETY, seventh, changes are redefining client behaviour, what they expect from their investments and from the wider economy. A **MORE RESPONSIBLE FORM OF CAPITALISM** will prevail; companies will be driven by a wider purpose, rather than the single-minded creation of shareholder value. Although the gap between the top tier of the population and the middle class is forecast to widen, the most fortunate are likely to raise their commitment to philanthropy and responsible investments. Equally, with damaging climate change ahead, investors are recognising that environmental and social challenges will critically affect business results in the years to come – and that the future belongs to businesses that find the best solutions to these challenges. Finance will be central in the move towards a more regenerative and circular business model.

How we respond to these changes will determine not only our ability to serve our clients but also, ultimately, to prosper together in the world of tomorrow.

These are the seven themes that will inform our strategic choices in the years to 2025 and beyond.

INDEPENDENCE

Our independence is rooted
in Swiss tradition,
and protected by the absence
of external shareholders.

It means we are free
to concentrate on the interests
of our clients, colleagues,
communities and the companies
in which we invest.

This allows the independence
of mind that is crucial
to successful investment
performance.

CONSOLIDATED INCOME STATEMENT
Year ended 31 December

	2019	2018
	CHF 000	CHF 000
Net interest income	260,520	291,789
Net fee and commission income	2,216,395	2,222,325
Fees from securities trading and investment activities	2,937,687 ^A	2,972,104 ^A
Fees from lending activities	3,245	4,440
Fees from other services	20,141	23,210
Commission expenses	(744,678) ^B	(777,429) ^B
Income from trading activities and the fair value option	141,324 ^C	173,519 ^C
Other ordinary income	10,509	6,128
Operating expenses	(1,928,804)	(1,860,181)
Personnel expenses	(1,339,362)	(1,319,799)
General and administrative expenses	(589,442) ^D	(540,382) ^D
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets	(47,787)	(44,399)
Changes to provisions and other value adjustments, losses	(46,071)	(26,562)
Operating result	606,086	762,619
Extraordinary income	864	682
Extraordinary expenses	0	(424)
Taxes	(67,890)	(166,941)
Consolidated profit	539,060	595,936

CONSOLIDATED BALANCE SHEET
at 31 December

	2019	2018
ASSETS	CHF 000	CHF 000
Cash and balances with central banks	8,591,441 ^E	14,528,429 ^E
Due from banks	1,254,807 ^F	1,604,059 ^F
Due from securities financing transactions	4,613,000	1,906,000
Due from clients	9,104,114 ^G	8,586,560 ^G
Trading portfolio assets	43,040	63,923
Positive replacement values of derivative financial instruments	1,283,232	1,075,119
Other financial instruments at fair value	746,502 ^H	817,432 ^H
Financial investments	9,960,306 ^I	8,787,957 ^I
Accrued income and prepaid expenses	442,435	410,864
Non-consolidated participations	8,373	5,956
Fixed assets	463,976	446,109
Other assets	325,267	241,776
Total assets	36,836,493	38,474,184
LIABILITIES AND EQUITY	CHF 000	CHF 000
Due to banks	1,172,011 ^J	1,334,286 ^J
Liabilities from securities financing transactions	410,042	240,565
Amounts due in respect of client deposits	28,564,562 ^K	30,648,822 ^K
Trading portfolio liabilities	5,083	11,732
Negative replacement values of derivative financial instruments	1,376,649	1,045,221
Liabilities from other financial instruments at fair value	859,693	893,575
Accrued expenses and deferred income	855,561	869,032
Other liabilities	248,112	245,765
Provisions	213,678 ^L	239,417 ^L
Total equity	3,131,102^M	2,945,769^M
Equity owners' contribution	820,319	638,386
Capital reserve	11,664	11,664
Retained earnings reserve	1,789,101	1,713,853
Currency translation reserve	(29,042)	(14,070)
Consolidated profit	539,060	595,936
Total liabilities and equity	36,836,493	38,474,184

- A Fees from securities trading and investment activities** includes fees earned from the management, administration and custody of client investments, as well as related brokerage services.
- B Commission expenses** includes custody and brokerage fees paid to third parties.
- C Income from trading activities and the fair value option** mainly includes earnings from foreign exchange operations on behalf of clients and from sales of certificates to clients (see note H, *Other financial instruments at fair value*).
- D General and administrative expenses** includes all operating costs other than those related to personnel. The two main items are information technology such as banking platform maintenance and upgrade, and physical infrastructure such as rents.
- E Cash and balances with central banks** are effectively on call and held in order to carry out ordinary payment operations on behalf of clients and to meet their cash withdrawals.
- F Due from banks** includes cash deposits with bank counterparties, typically arising from securities transactions by clients or from client deposits made in currencies other than the Swiss franc. The counterparty risk of such banks is managed by Pictet's Treasury Committee, which decides on limits for each counterparty.
- G Due from clients** includes securities-backed, so-called Lombard loans made to clients. The risk arising from these loans is generally limited, as Pictet adopts a conservative approach to loan collateralisation.
- H Other financial instruments at fair value** represents the value of financial assets bought as underlying assets for certificates sold to clients. The value of these underlying assets is also shown on the liabilities side of the balance sheet under *Liabilities from other financial instruments at fair value*. The risk of such certificates is borne entirely by clients.
- I Financial investments** includes investments into money market instruments and straight bonds issued by corporations, governments or supranational institutions. The credit risk of such bond issuers is managed by Pictet's Treasury Committee, which decides on limits by credit rating and geography. As a rule Pictet does not invest in structured financial products.
- J Due to banks** includes liabilities vis-à-vis bank counterparties, generally arising from client transactions. As a rule Pictet does not rely on short-term capital market funding.
- K Amounts due in respect of client deposits** represents cash deposits of clients.
- L Provisions** covers risks, including legal expenses, arising from an identifiable cause and for which a potential cost and likely time frame for payment can be estimated.
- M Total equity** is the capital that the equity owners have entrusted to the Pictet Group. It also corresponds to the net value of the Pictet Group from an accounting point of view. In Pictet's case, equity, core tier 1 capital and total capital all amount to the same figure, since Pictet holds only the strongest form of capital.
- Core tier 1 capital ratio (20.5%)**
In Pictet's case, the core tier 1 capital ratio and the total capital ratio are identical (see note M, *Total equity*): namely the ratio of equity to risk-weighted assets. These measures aim to reflect the economic strength of a financial institution by taking into account the riskiness of its assets and its operations.
- Liquidity coverage ratio (156%)**
The liquidity coverage ratio is the ratio of highly liquid assets to expected short-term liabilities. This measure aims to reflect the ability of a financial institution to withstand short-term liquidity disruptions such as sudden cash withdrawals from clients. The Pictet Group's high ratio is explained by its large cash deposits with central banks and investments in highly liquid bonds.

RESPONSIBILITY

Responsibility goes hand
in hand with a long-
term, partnership approach.
It means having a sense
of responsibility and integrity
not only towards
the present generation but also
to future generations —
and to the real economy and
the wider world. This is
true sustainable thinking.

¹⁶ Balance sheet exposure includes positions in Treasury, in a hedging book of derivatives and structured products, as well as seed investments

¹⁷ Companies gaining more than 25 per cent of their revenues from producing or extracting oil and gas or thermal coal

Thinking and acting sustainably

An instinctive sense of responsibility has always defined Pictet's thinking. As the climate crisis has intensified and the notion of corporate purpose taken hold, it is our duty to intensify our efforts in this direction.

Twenty years ago we were an early mover in sustainable investment strategies for our clients. We now intend to extend the integration of environmental, social and governance (ESG) principles into at least 80 per cent of discretionary mandates by end 2020, rising to 100 per cent by 2025. For assets advised or held in custody, we will increase awareness of ESG and other impact characteristics in our reports to clients.

We also have a programme of active ownership and engagement with selected issuers. Ambitions and precise targets for our investment activities and our own operations will be published by end 2020, in line with the UN Principles for Responsible Banking, signed last year.

In our own business we are taking every step to cut our carbon footprint by employing advanced building technology, reviewing our operations and cutting the greenhouse gas emissions of infrastructure and employee travel.

In 2020 the partners announced that gross and net balance sheet exposure¹⁶ to carbon-intensive companies¹⁷ would be eliminated by year end, from a level of around CHF 250 million at 31 December 2019.

This year the Pictet Group Foundation begins operation with endowment capital of CHF 45 million. It will focus on environmental protection and disadvantaged children and youth.

The Pictet Group has always considered not only the interests of the present, but also of future generations. This is the essence of responsible thinking, and the highest contribution we can make to the future of sustainable life on the planet.

The Prix Pictet

In 2008 the partners of the Pictet Group created the Prix Pictet award to draw worldwide attention to, and stimulate action on, issues of environmental sustainability through outstanding photography. The award is widely acknowledged as one of the most prestigious prizes in global photography.

In eight cycles since foundation, the Prix Pictet has tackled the themes of *Water, Earth, Growth, Power, Consumption, Disorder, Space* and *Hope*. The prize is awarded on an approximately two-year cycle. The Ivorian photographer Joana Choumali received the eighth Prix Pictet for her series *Ça va aller* (It will be okay) on the theme of *Hope*, at the Victoria and Albert Museum, London, in November 2019.

Submission is by nomination. Over 250 nominators — independent experts in photography from 66 countries and six continents — may recommend recent portfolios from up to three photographers each.

To date over 2,600 photographers have been nominated and the eight cycles have together been shown at 97 exhibitions in more than 22 countries globally.

The prize jury comprises curators, critics and practitioners with an expertise in the visual arts or sustainable practice. They are required to select a shortlist of twelve, whose work is powerful visually and in the message conveyed on the given theme.

The portfolios submitted must have narrative drive, and are likely to be deeply researched and several years in the making. Since the Prix Pictet accepts work ranging from documentary or photojournalism to fine art and conceptual photography — and the shortlist is widely exhibited — the selection is in effect an act of curation.

Portraits of a *saudade*

The Ivorian photographer Joana Choumali became the eighth winner of the Prix Pictet with her series *Ça va aller*, taken after the terrorist attacks in Grand-Bassam, Côte d'Ivoire, of Sunday 13 March 2016. Here she writes of the genesis of this remarkable series.

'Bassam is my refuge, the place I go to unwind and be by myself. A one-hour drive from Abidjan, Bassam is a place full of history, a quiet and peaceful town where Ivorians take holidays at weekends. Bassam reminds me of insouciance, of the Sunday afternoons of my childhood I used to spend with my family.

'Three weeks after the attacks, the atmosphere changed. A *saudade*, a kind of melancholy, invaded the town. I decided to wander the silent, empty streets and shoot with my iPhone; I did not want to intrude on people's intimacy and disrupt their mourning. In that moment, I did not feel like a photographer, detached, but part of the wounded inhabitants. Most of the pictures show empty places, people by themselves, walking the streets or just standing, sitting alone, lost in their thoughts.

'In Côte d'Ivoire, people do not discuss their psychological issues or feelings. A post-traumatic state is often considered as weakness or mental disease. Each

conversation is shortened by a resigned '*ça va aller*'—it will be okay. It is used for everything—even for situations that are not going to be okay.

'The attacks re-opened mental wounds left by the post-electoral war of 2011. Back home I felt the need to process this pain and I discovered that I could do so through embroidery. Each stitch was a way to recover, to lay down the emotions, the loneliness and the mixed feelings. As an automatic scripture, the act of adding colourful stitches on these street photographs has had a soothing effect on me, like a meditation. The embroidery was an act of channelling hope and resilience.'



Untitled 2019. A unique print from the approximately 180 unnumbered works of the series *Ça va aller* (It will be okay). 24cm x 24cm, digital inkjet print on cotton canvas, hand embroidered with cotton, lurex and wool thread

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The listings on this page show the Pictet Group's active subsidiaries, branches and representative offices at 1 April 2020

*Pictet Alternative Advisors SA has Real Estate professionals based in Berlin, Geneva, London, Luxembourg, Madrid and Stockholm at 1 April 2020

ABOUT THIS REVIEW

This review is published in traditional and simplified Chinese, English, French and German. It is also available as a pdf from our website, group.pictet, where a regulatory annual report with more detailed financial information may also be found. A microsite of this review is also available at www.annualreview2019.pictet.

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ACKNOWLEDGEMENTS

Special thanks to Leslie Smolan and the Rodney Smith Estate for the images on pages 26-27 and to photographer Lydia Goldblatt for her portrait of the partners.

GRAPHIC DESIGN

Gottschalk+Ash Int'l

PRINTING

Courvoisier-Attinger Arts
graphiques SA

Typeset in:
Lexicon and Trade Gothic Next

Printed on FSC-certified paper:
150 gsm Munken Lynx Rough,
110 gsm Pergamenata Bianco and
240 gsm Gmund Colors Felt

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Published April 2020
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