PICTET 1805

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NEXT GENERATION SEMINAR

PICTET BRIEFING

CONTENTS

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Introduction

This Pictet Briefing presents the highlights from Pictet's Next Generation 2012, the first of its kind, which the Bank held for the younger generation of investors in late August in Geneva.

The idea was to give the younger generation a broad understanding of investment issues as a background to the choices they might be making in considering a new career, going into a family business or becoming involved in investment schemes focused on either business or social causes.

Even though the challenges are clearly different for each generation, exchanging ideas and opinions with like-minded members of the same generation and also with other generations can prove particularly valuable. Moreover, managing the transition from one generation to the next and the issues associated with succession planning and entrepreneurship lie at the heart of Pictet's own experience.

While the first day focused on family governance and wealth/succession planning, Day Two was dedicated to an introduction to finance and wealth management. All topics were addressed through theory, but then followed by extensive group work allowing lessons to be put into practice, including a visit to the Pictet trading floor. Throughout the seminar, Pictet's investment specialists accompanied the group in their learning and reflections.

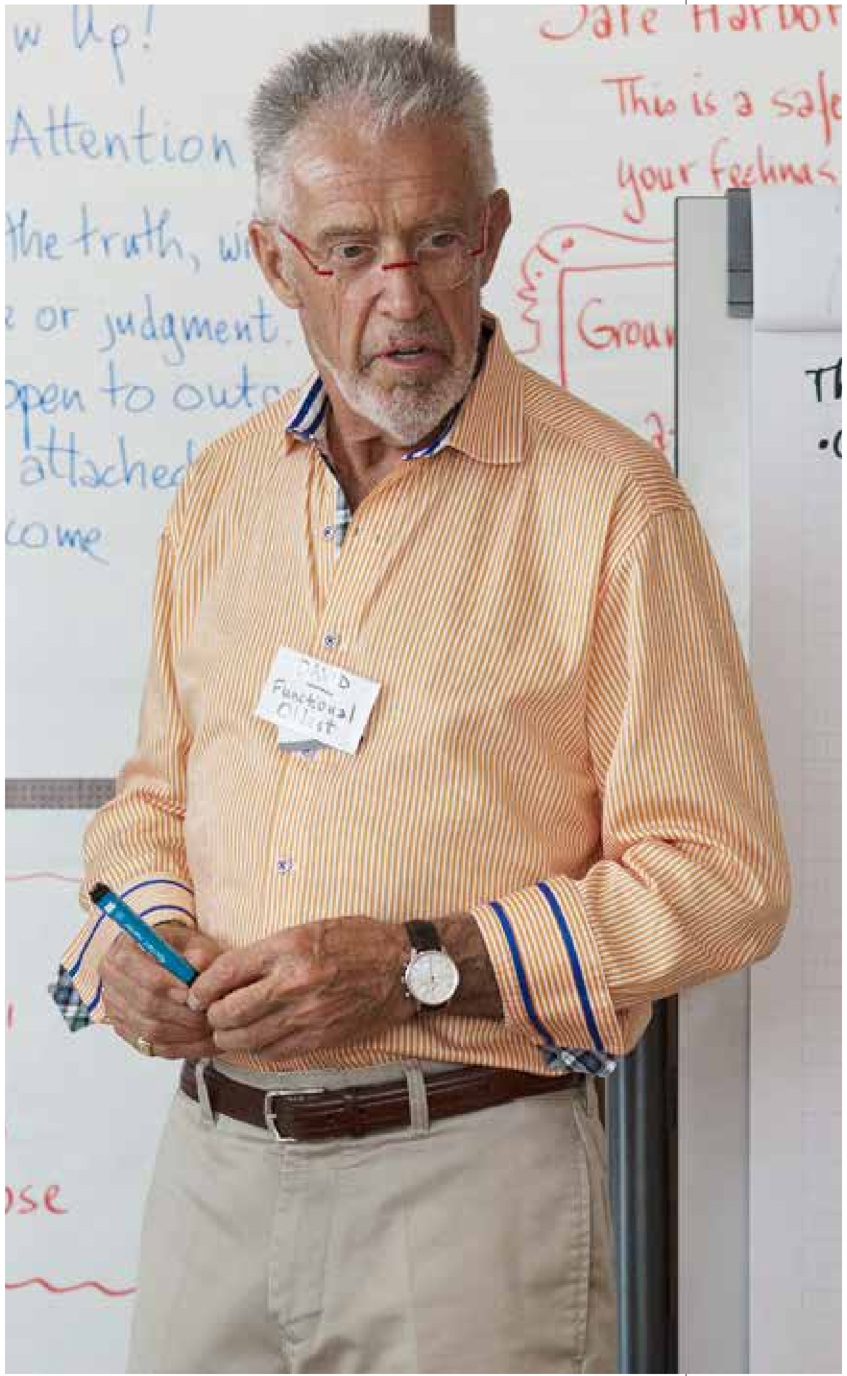
The last day focused on alternative assets and business ventures, with views from leading investors and young, successful entrepreneurs active in emerging technologies and luxury fashion brands. Also part of the programme was a tour of the Pictet art collection with curator Loa Pictet, as well as a discovery tour of Chopard followed by a discussion panel on family enterprises.

Philippe Bertherat
Managing Partner
Pictet & Cie

David Bork

FAMILY GOVERNANCE INHERITING VALUES AS WELL AS MONEY

The principles of sound parenting are the best foundation for the management of a family business, enterprise or of wealth



Jacques de Saussure, Senior Partner of Pictet, opened the workshop with a welcome and some advice. He counselled the participants to take the time to develop all their skills, including human skills, because business is always based on dealing with people. He also advised them to expose themselves to real competition before joining a family firm – if that is their destiny – where relationships are often influenced by the family situation. Finally, he urged them to be passionate and ambitious.

The seminar was unusual in its format. Its first session focused on introducing the seminar participants not to the Bank but to each other and to the world of family dynamics through the eyes of David Bork, the moderator. The aim was to break any initial ice among the 35-strong group of some 20 different nationalities and get them learning from each other. Participants, who ranged in age from 19 to 28, rated this discovery and sharing of common views and concerns as one of the most valuable parts of the seminar.

Family Values

Families are not only a source of wealth but also of values which shape how that wealth is managed. To promote better understanding of family dynamics and the inheritance of values, the seminar participants undertook a series of exercises.

The group had to choose from a list of 80 values and rank the ones most important to them individually. Perhaps not surprisingly, family, honesty, love and respect emerged as the top-rated values.

Birth order and behaviour

David asked each participant to draw a 'genogram', basically a family tree with clear age and gender information on it. David's main aim in this was to introduce a relative notion of birth order. This takes into account not only the order in which children are born but also the spacing between births. So, a child can be a 'functional' eldest child if he or she has much older siblings, say six or seven years older. Likewise, a child with much younger (or older) siblings can be a 'functional' only child.

The importance of this is that birth order, functional or otherwise, can have an impact on a child's behaviour as well as expectations. David stressed that 'birth order is not a precise science; it's an art'. But equally, he made clear it can be a guide to behaviour, especially when combined with the role model lessons that boys typically take from their fathers and girls from their mothers, who themselves will have been influenced by birth order, nominal or functional. As David put it, 'my behaviour is going to be a combination of my actual birth position tempered by the same data about my same-sex role-model parent'.

Inheritance of values

David then asked the participants to draw out of this general discussion of family patterns and values some specific examples from their own families about the transmission of values.

Individual participants cited:

- **Compassion** learned from grandfather and father
- **Humility** – the lesson learned from a father that if you want to succeed, you have to be humble, i.e. accept criticism, and the lesson learned from the mother to be grateful for whatever one has
- **Education** to provide sustainable skills on which to fall back if money fails
- **Independence** – as a family and of its individual members
- **Passion** to succeed
- **Fairness** – for instance, if one brother is running the business, it is important he is competent and does not do injustice to his brothers and sisters
- **Tradition and affection** ▸

However, it was not clear that children gained as much in the transmission of values from their siblings or fellow children. At least, this was the implication of an exercise in which seminar participants were asked to divide into groups of 'oldest', 'middle', 'youngest' and 'only' children – by standard birth order – and then to describe each other. The **results** are below:

Views of oldest children by:
- youngest: as jealous, bossy, protective
- middle: as annoying
- only: as hard-working, bossy, independent, responsible

View of middle children by:
- oldest: as insecure, defensive, anti-authority, attention-seeking
- youngest: as affection-seeking, insecure
- only: as flexible, complacent

View of youngest by:
- middle: as lazy, irresponsible, spoiled, very affectionate
- only: as dependent, irresponsible, lazy but quick to learn
- oldest: as cute, spoiled, play innocent, early starters, less interested in family tradition

View of only children by:
- oldest: as independent, spoiled, used to adult company, lonely, selfish stubborn
- middle: as spoiled, protected, stingy, don't share
- youngest: as self-centred, independent, social issues

Family dynamics

The seminar then focused on some of the previous discussion's implications for family business decision-making. 'If you are in a family business, where decisions have to be taken, some behaviours are going to be positive for decision. If a family is stressed, then it will revert to its pattern of behaviour. If that pattern is productive, OK – if not then there is a problem', said David. Another US specialist, Murray Bowen, systematised this in this way:

1. the family is a system
2. the system contains rules or messages for behaviour – work, love etc
3. we can, and do, learn other patterns
4. but under stress, we revert to the pattern of our family – unless we learn not to revert

> *'Under stress, we revert to the pattern of our family – unless we learn not to'*

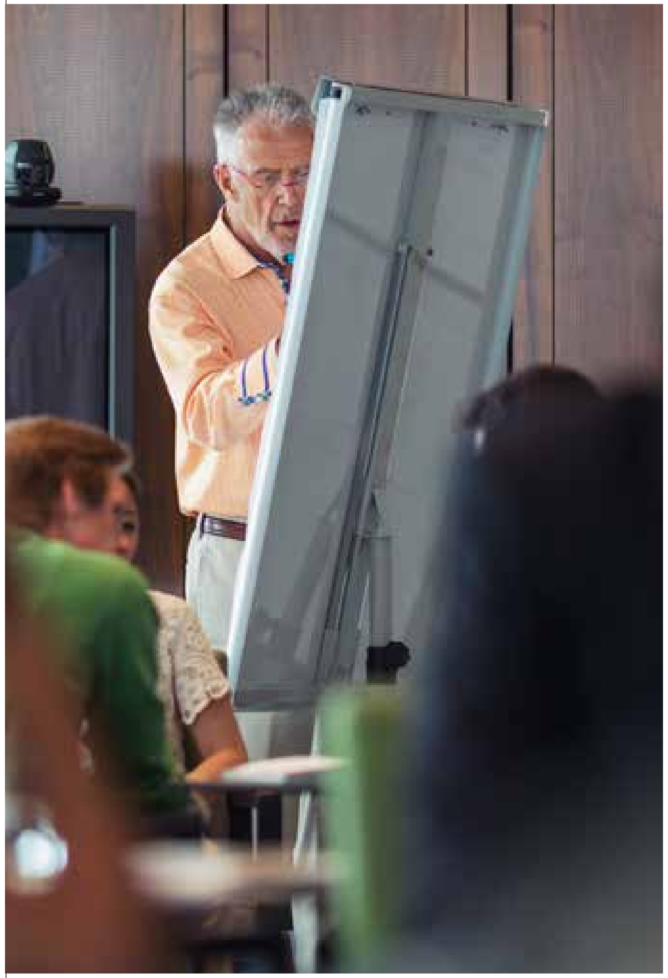
In the stages of adult development, two issues that are perfectly normal but can pose problems were discussed. One was the need to resolve, usually in late adolescence, authority-figure issues, typically with the same-sex role-model parent. If left unresolved, difficulty with authority figures, such as business bosses, can pose problems later on. The other issue can arise out of the natural process of children's individuation from their parents. Finding and using an outside mentor as a temporary life-coach often helps young adults in this individuation process. But David Bork pointed out that in family businesses, parent and mentor are one and the same, and that when the young person reaches the natural stage of drifting away from the mentor, this can lead to feelings of rejection on the parent's part.

Summarising, David Bork suggested that in a family enterprise, what are viewed as personality clashes often arise out of ordinary human development. The principles of sound parenting are the best foundation for managing a family business, enterprise or of wealth. The job of being a parent is to raise responsible adults who have high self-esteem and are able to function independently in this world, with or without the money.

Transparency about money

Talk of independence and responsibility led naturally on to discussion of transparency about family wealth. David kicked off the discussion by observing that 'in some families there has not been the norm of teaching you about money. But how do you learn to drive a car if you're only shown the picture of the car?'

Most participants were comfortable with the degree of their parents' transparency. One young woman said details about money had been only gradually revealed 'so that we keep our feet on the ground until we are mature enough to be responsible'. However, one young man said he had been fully told about family wealth, which made him more responsible. There was a virtual consensus that it was okay to talk about money with immediate family but not beyond. Another participant said she had learnt the non-monetary, i.e. sentimental, value of treasured assets such as family jewellery, while yet another found it 'reassuring that not just our parents, but everyone's parents, were telling their children to be private about money and not to flash it around'.



David Bork urged the participants to be both private and comfortable with inherited wealth. He expressed his 'personal bias' that 'inheritors of wealth have a responsibility to compound the assets over the generations; in other words, when you are finished there should be more of them than when you started.'

Managing the boundaries

The issue of hostile envy of wealth was raised. David Bork counselled participants to 'set boundaries' for curious and hostile people they might encounter, and to turn away criticism calmly and comfortably. He urged a positive attitude. 'If you go about with a sense of fear you will have less of a life. You've got to learn to be comfortable with, and embrace the reality of, inherited wealth'. Nonetheless, several participants replied that an upfront approach about wealth would in today's society inevitably lead to allegations that money had opened doors for them, thereby undermining their achievements.

David Bork replied to this: 'I would not want people to dissemble; I would rather have the problem of being honest and managing the boundary appropriately than to teach people to be dishonest. As you go through life you will experience people who are rude, unpleasant and envious in a hostile way'. One way to deal with this, he suggested, was to remember 'what other people think of you is none of your business'. ■

Alexandre Semboglou

TRUST AND ESTATES
A BEGINNER'S GUIDE

Taking the trouble now to think and plan ahead pays off in the future and smooths succession

The basic idea of estate planning is to try to do something now for the future. This means transmission of wealth, transferring wealth successfully to the next generation in order to minimise taxes, to protect minors, facilitate business succession, preserve confidentiality, cater for marriage and divorce and ensure consolidation of family wealth.

Much of this can be done by agreement within the family, such as arranging joint accounts, joint property, matrimonial property rights, wills, succession agreements. However, trusts and foundations require third parties.

Personally held assets, if held through a trust, can be transferred with greater ease and discretion. These days, people move around more and, depending where people die, there is a variety of law applicable – common, civil or Sharia law. Capital can be divided (for the benefit of children) from income (for the benefit of surviving spouses), but this is more complicated without a trust.

A trust gives legal ownership of an asset to someone, usually a trust company, to look after for the benefit of others. This is particularly useful for the transfer of assets – especially where these are spread geographically – from one generation to another. Because Switzerland does not have its own trust law, Pictet uses several jurisdictions to create trusts, such as Singapore and the Bahamas, but also others.

The purpose of a foundation is the same as a trust, though unlike a trust, it has a legal personality. It is a well recognised structure in civil-law countries, less so in common-law countries. It is commonly used in Switzerland for charities (such as the Bill Gates Foundation).

Generally, in estate planning, financial and business assets are split. The main aim is to ensure succession of business, protection of property and children and to minimise taxes. There is also the possibility of grandparents being named as protectors, especially where the children are minors. Without estate planning, there would be legal fights over houses and businesses and assets would be frozen. Consequently, trusts should be drawn up that are simple, balanced and involve all relevant parties. In order to ensure the settlor's wishes are respected, a 'protector' – a friend of the family or a lawyer – can be appointed. ■

Alexandre Semboglou is Chief Executive Officer of Rhone Trust and Fiduciary Services SA. After being admitted to the bar in Switzerland in 1997 and having qualified as a Swiss Certified Tax Expert in 2002, Alexandre went on to work for different financial services companies and prestigious law firms before joining Pictet in 2005. In 2011, Pictet's wealth planning services, trust and fiduciary activities were transferred to Rhone.

Chris McSorley

THE COACH AND THE EAGLE

The importance of teamwork throughout business was a key theme of the seminar. So Day One ended on a lively note with a pep talk on the importance of team spirit from Chris McSorley, the inspirational coach and part owner of the Geneve-Servette Hockey Club

In his first year with the club in 2001, Canadian-born Chris, in his words, 'pulled the club out of the ashes' and returned it to the Swiss National League A for the first time in 35 years. He prescribed passion and confidence for success. 'You need to be supremely confident – your company is absolutely what you are'. And as for passion, it's catching – 'people want to be around passion'.

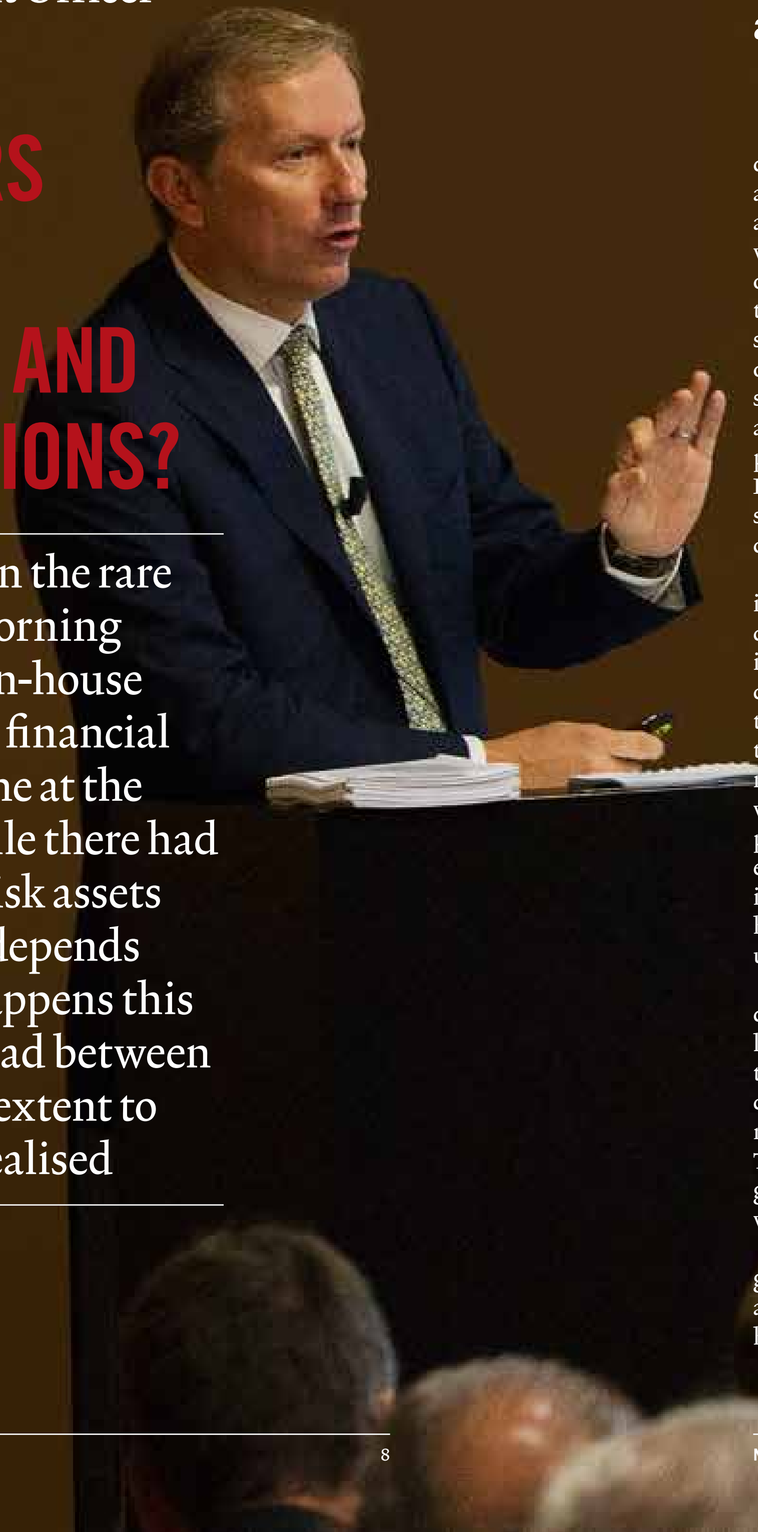
He then displayed his confidence by letting his team mascot, or maybe just private pet, a magnificent American bald eagle swoop into the room and onto his arm.

And just to show us that it was not a dream, the giant, white-headed bird repeated its flight out of and back into the room. A bold bald eagle. ■

INTRODUCTION TO FINANCE
AND WEALTH MANAGEMENT

Yves Bonzon Chief Investment Officer
Pictet Wealth Management

CAN POLICYMAKERS CLOSE THE GAP BETWEEN REALITY AND MARKET EXPECTATIONS?



NextGen participants were given the rare opportunity of attending the morning salon, a Pictet tradition, where in-house specialists give their take on the financial world. Yves Bonzon's main theme at the end of August 2012 was that while there had been a good summer rally and risk assets had performed strongly, much depends on policy expectations. What happens this autumn will depend on the spread between reality and expectations, or the extent to which policy expectations are realised

Three Great Divergences across the world

In Europe, there is a huge divergence between northern and southern Europe. In southern Europe, some 'pretty ugly deleveraging' is taking place, with public authorities trying to correct public finances and to deleverage the public balance sheet while the private sector is carrying out its own adjustment. 'We know you cannot try to correct public and private deficits at the same time. This leads to a vicious cycle of austerity measures, resulting in a further slowdown, failure to meet budget targets and further increase in the public deficit, and pressure for additional austerity measures'. However, there is still an investment 'sweet spot' in the form of investment-grade corporate bonds and Bunds.

The US is in a very different situation, as it does not have the straitjacket of Europe's currency union. The US can print the currency in which it issues debt. The policy has been clever. There has been no attempt to deleverage the balance sheet of the government before the harmful private-sector balance sheet is repaired. Quantitative easing (QE) has been widely misunderstood. It is designed only to prevent further job destruction, not to get the economy growing again. That can only be done in accompaniment with fiscal measures, and here the presidential election creates a lot of uncertainty.

In emerging markets, the most significant development has been China reaching the limits of its export growth model. It is transitioning towards domestic-led consumption and growth. But this is a process, not an event, and therefore relatively slow. The EM equity asset class is very sensitive to growth and is therefore negatively affected when growth rates decline.

In terms of investment prospects, the general picture is good for the corporate sector and bad for governments. The situation of households is diverse – for instance Italy has rich households but a deeply indebted government. Over time, government debt has an impact on stocks. The deeper the difference between nominal GDP growth and the cost of re-financing the government debt, the lower the stock. The US drought has pushed up food prices, hitting many food-importing developing countries.

We know you cannot try to correct public and private deficits at the same time

Asset allocation

Pictet looks at asset allocation through the lens of the sources of return. We live in a world where there is globalisation, where assets are tightly correlated between each other, so we want to diversify by sources of return, by risk factor, as opposed to country, region or sector.

In our portfolio, therefore, we have two important allocation markers – investment-grade corporate credit, and defensive equities. These will not do very well during deflation, but they will preserve wealth. We also have low-volatility hedge funds, and gold, which is an anti-paper currency. 'You own gold as long as confidence in paper currencies as a store of value is on a declining trend, and that is still the case.' Finally, there is an allocation for tactical assets.

In looking at markets, we try not to get carried away by our emotions. So we have a set of leading indicators, which are based on available data not on forecasts. We put absolutely no forecasts into these models, because we don't want to be biased by any prediction, fundamental or judgemental. ▸

In conclusion, there are quite optimistic expectations that Europe's policymakers will intervene to fill the funding gap in the peripheral eurozone countries, and it is now time for them to deliver on these expectations. In the US, another round of QE is priced into stocks, but not in gold and currencies, where there will be some reaction. Volatility too has been compressed by policy, but is likely to increase. ■

Macroeconomics and investing

About growth levels and scenarios

Alexandre Tavazzi Head of Portfolio Management and Equity Research, Pictet Wealth Management

This session focused on 'unpacking' the previous presentation by Yves Bonzon as a way of introducing NextGen participants to macroeconomics and investing. There were **three key themes** – the US balance sheet recession, the European policy response, and the slowdown of China's growth

In macro investing, the first step, Tavazzi said, was to assess growth prospects. This is the number one factor to look at. In a high-growth environment, it is best to invest in equities. But the growth rate has to be judged in its country context – 7 per cent is not high in China but would be fabulous for the US or Europe. The source of growth has to be examined to see whether it is sustainable; for instance Spain had the highest growth in Europe but it was financed out of debt.

The second step is to build a scenario – what do we think is going to happen? We have to have an opinion. So we create a scenario on growth rates, interest rates, and all the macro variables, and measure the consequences on the market. Last but not least, we need to compare the scenario with what is already priced into the market. The best time to invest is when you have a strong scenario, which is not part of the consensus, because this shows a gap where you can get the best performance for your investments.

Investing in a country is not unlike investing in a company. For a company, we look at sales growth, corporate profit and loss, the balance sheet, earnings forecasts. For a country's 'sales growth' we look at gross domestic product. What are the sources of GDP growth – consumption, exports, public sector? How is the country's growth financed? Debt financing can be a problem. As stressed in the Bonzon presentation, when the growth rate drops below the rate at which you can get that financing ▸

you are in trouble, because you will never generate enough profit, enough GDP to pay for what you have on the balance sheet.

Other issues in assessing countries are production growth and sustainability, exports and competitiveness, and the health of the financial sector and banks. Today, small companies often find it hard to get credit to fund their growth. A final factor is whether the country's central bank has a monetary policy with interest rates that allow companies to grow.

'People tend to trust countries more than companies, but in the end the situation is not sustainable'

What are the influences on GDP? Consumption is very important in some economies like the US, where it accounts for 70 per cent of the economy, while in China exports have been a bigger factor. The debt level, the amount of debt on the government balance sheet, is very important in countries like Spain and Italy. The amount of credit available from banks to companies to increase production is equally important. Competitiveness, determined partly by price of labour and the level of the currency, is a significant factor, and an increasing concern in Europe.

People tend to trust governments more than they trust companies, said Tavazzi, but in the end the situation is not sustainable. If you borrow at 7 per cent but your company sales or national GDP grow at 2 per cent, the situation becomes untenable. This is true for Spain, Portugal, Italy, Cyprus, Greece – all countries where their borrowing costs are way above their growth rate.

While most participants decided that low inflation and low government debt levels were good for government bond markets, a few thought otherwise. Tavazzi said that even though he could not agree with this minority opinion, 'the fact that we have different opinions allows markets to exist!' ■

Asset Classes
How to mix and match them

Patrick Thullen
Head of Investment Solutions
Pictet Wealth Management

What is an asset class? Patrick Thullen launched a discussion of asset characteristics and allocation by establishing that asset classes needed to be fairly easily bought and sold. NextGen participants were given a list of six items to consider. Of these, a Bugatti sports car was ruled out; fine art was considered a borderline asset class; investments could be made in wine and luxury handbags through companies holding the wine or making the handbags; and gold and real estate were very definitely asset classes.

The distinction was made between traditional asset classes – cash, bonds and equities that can be easily traded on exchanges - and non-traditional asset classes – gold, hedge funds, real estate, private equity – which involve more complex transactions. Each asset class has a specific purpose. Cash is money that has been'parked' temporarily for future re-deployment. Bond investments make portfolios less volatile while still generating income. Equities are included to create wealth over the long term. The non-traditional assets also have their specific purpose. Gold provides wealth protection in both inflationary and deflationary times, while hedge funds allow use of leveraged investment strategies, real estate gives capital ▸

protection plus income, and private equity potentially high premiums. They may have an illiquidity disadvantage, but have the advantage of often moving differently from the rest of the market. To test their ability to relate macro events to asset classes, NextGen participants were quizzed on the impact of a contracting economy and rising inflation on bonds and equities – and mostly got it right.

> *Ideally we want to choose assets that are going to move differently from each other, but nevertheless progress us nicely towards our goal*

Patrick Thullen then made a general distinction between fixed income and equities. Fixed income investing exists in a very mathematical world. As interest rates go up (and so does inflation), so bond prices go down because USD10 now, in 10 years is worth less than USD10 now, especially if there is high inflation. The longer the maturity, the greater chance of unforeseen events and of money being eroded by inflation. Moreover, government bonds should be safer than corporate ones, because governments (unless they are locked into a currency union) can print more money or raise taxes (unless they are in recession). By contrast, equities are exposed to multiple premiums but also multiple uncertainties. There is no contractual certainty with equities, unlike with bonds. So factors affecting equities can change hugely over time.

Armed with this knowledge of how macro events impact asset classes, Patrick Thullen told the NextGen participants, 'we now want to fit all this together according to your needs. Ideally we want to choose assets that are going to move differently from each other, but nevertheless progress us nicely towards our goal'.

This is done with Strategic Asset Allocation (SAA) guidelines. These set out the basic exposure to various asset classes. In many cases it is the historical performance of a given allocation that guides people in their choice. After that comes the Tactical Asset Allocation (TAA). This, said Thullen, 'is our job to make choices around the fixed points of the SAA' to adapt it to market conditions or, even on occasion, to forgo a given exposure if the possible outcome would be too costly.

Wealth management typically involves clients deciding what they want to invest as 'financing' capital to live off day to day; 'reserve capital' for future needs such as retirement, and 'surplus capital' for non-essential needs. Patrick Thullen advised low-risk tolerance, with mainly fixed income investments for financing capital needs, and medium risk tolerance with a quarter equities for reserve capital needs, but 'open' risk tolerance for surplus capital needs. For this last category, he suggested as high a share of equities 'as 100 minus your age!'

A prudent consideration is to separate financial investment from business holdings. The nature of a family business can determine asset allocation. If, for instance, 80 per cent of the family wealth is in an internet start-up, then fixed income investment might be wise. By contrast, if the family wealth is mainly in top-grade real estate with a steady return, then equities would be appropriate. ■

An evening on family entreprise and entrepreneurship

INDIVIDUAL DRIVE AND SOCIAL DUTY

A dinner debate was hosted at the headquarters of Chopard by the company's CEO **Karl-Friedrich Scheufele.** He was joined by **three other panellists** for a debate moderated by **David Bork**

MODERATOR

DAVID BORK

PANEL

SILJA ANDERSEN
THE BIG ISSUE AND KUKULA CAPITAL. SHE HELPS THE HOMELESS IN THE UK TURN INTO MICRO-ENTREPRENEURS

TYLER BRÛLÉ
EDITOR OF MONOCLE MAGAZINE. JOURNALIST AND ENTREPRENEUR. FOUNDED AND SOLD WALLPAPER MAGAZINE, CREATED WINKREATIVE AND MONOCLE

BERTRAND DEMOLE
PARTNER AT PICTET, COMING FROM A LONG LINE OF PICTET PARTNERS. WORKED FOR HEDGE FUNDS IN NEW YORK AND LONDON

KARL–FRIEDRICH SCHEUFELE
CO-PRESIDENT OF THE CHOPARD GROUP, HIS FAMILY FIRM

Silja, tell us about what makes you passionate as an entrepreneur?

Passion is necessary. I was something of a job hopper, until I met Nigel Kershaw, founder of Big Issue Invest [the social investment arm of the Big Issue, a magazine sold in the UK by the homeless to sustain the homeless]. I felt the passion on meeting someone who was so passionate about business models but also about doing good at the same time. The way the Big Issue works is that homeless people buy the magazine off us for £1.25 and they will sell it for £2.50 in the street. It forces someone to start budgeting, saving, knowing that there is a tomorrow but to meet the expenses of tomorrow they need to make enough money today. Rather than begging, it's about having a sense of pride. In Zambia I have been working with my brother who has set up a fund targeting small businesses there. As a family we are focused on entrepreneurship and how to do philanthropy without just throwing your money away. (SA)

Bertrand, was there a sense of family obligation to join Pictet?

There was no sense of obligation. Pictet is a meritocracy. I had a sense of duty that I had to try to make it. I was quite happy working for a hedge fund, but you can't resist the pull of the family firm. The partnership is not automatically inherited. You join, you prove your worth, you achieve something – and then other partners may look at you and consider you. Every decision by the partners is taken by consensus, and you need to be co-opted as a partner. Your family members do not have the right to vote; they have to step out of the room. Today there are three original families represented among the partners, but there are also outsiders. The pre-partnership tenure can be quite a hardship – being asked to keep your head down, to do better than the others, to show an example and never ask for a favour. (BD)

Karl-Friedrich, was there ever a time when you didn't want to be in this business?

I was always attracted by the creative part of Chopard, much more than the administrative side, which now takes up 80 per cent of my time! We have grown tremendously in the past 10 years, and the challenge is to free myself up for the creative side, which is probably what I do best. Passion was always the driving force. As long as you have this feeling of having fun doing what you do every day you can move mountains. (KF) ▶

Tell us about your most special watch, please

There was a design contest in 1976. One of our designers came up with a sketch of a watch with freely moving diamonds around the dial, and we won the contest, but we had no idea about how to manufacture it. However, it proved a great success, gave birth to a collection we call 'Happy Diamonds' and got Chopard into jewellery. (KF)

Tyler, what got you started?

I wanted to work for television and went to work for the BBC. But I was wounded in Afghanistan and decided I didn't want to do that any more. I spent about two years recuperating, thinking of what I might do. I decided I wanted to do magazines, and went out and raised money and started. Nobody ever tells you beforehand how long some advertisers will take to pay up! We ran out of money, but a number of major media companies approached us, and I sold a big chunk of the business and ran it for six years. (TB)

It must have required passion and commitment to get started?

Certainly. It was four, five people in a sitting room at the start just getting it up and running, and knowing that there was no safety net. It was sink or swim. I am passionate about journalism, the truth, independent media, and what's paramount today is that we are an independent business. When we went to launch Monocle, it was really key that we brought around the table investors who were passionate about real journalism and treating the consumer in the right way. (TB)

Did you have to give control to investors?

No, we hold 70 per cent. It was interesting that the Spanish family who we spoke to first said they were interested, but they did not want to sit around the table with institutions; they only wanted other families. It was an interesting challenge, but one that I'm very happy we rose to. (TB)

What about social responsibility?

We do not have a specific social foundation, but even though some of our competitors with much bigger budgets do not bother, we have naturally gone into social responsibility. Moreover, our expansion has increased our sense of responsibility. To have 2,000 employees these days is a weight on your shoulders, particularly in a family company. (KF)

Micro-lending both in the UK and in Zambia, where my brother and sister live, is very good. It is phenomenal for us all to be at last re-involved in the same cause, after generations of being in the family firm in Denmark. (SA)

In terms of social responsibility towards readers, I believe in meeting the fan base and replying to all their letters. The personal touch resolves conflicts. In terms of the profession, we want to be a finishing school for journalists. (TB)

Did any of you have mentors?

For me, the mentors were my grandfather, my father and the boss at my first hedge fund job at Moore Capital. And what I learnt from them was that people who succeed start working very early in the day and in life. (BD) ■

Nicolas Campiche
CEO Pictet Alternative Investments

ALTERNATIVE INVESTMENTS THE BUSINESS OF SEEKING AND AVOIDING RISK

The sector covers a range of strategies and techniques to increase returns and diversify risk, two concerns of even greater relevance in today's uncertain global economy

Alternative investments – real estate, private equity, hedge funds – are small compared to the mainstream USD 140 trillion invested in equity and bond markets. They amount to about 7 per cent of the total. So how do they relate to the real economy? In private equity you own a private company or a portion of a private company. Investing in a hedge fund is an indirect investment through the fund which invests in the equity or bond markets. In real estate, you can invest directly in a building or indirectly through a real estate investment trust.

Who are alternative investment managers? Most of them have started their career in investment banks or asset management companies, and at some point their entrepreneurial spirit took over and they created their own company. Moreover, they tend to be passionate to the level of obsession. The firms are generally investment boutiques of 10-50 people, focused on one or two sectors, though some have grown much larger, such as Blackstone – which is like Goldman Sachs – with 1,600 people. The companies are private, owned by employees or, like Pictet, by partners with stakes in the business that align them with clients. They also tend to pay very high incentive fees, which attracts talent.

Hedge funds started after the Second World War, with the term hedging referring to protection and the main aim being capital preservation. If you can avoid the downside, you can actually create tremendous upside. Hedge funds can make higher returns, and also provide diversification. This does, however, come with some risks:

- Leverage
- Liquidity
- Counterparty risk
- Fraud

Hedge funds can follow equity strategies as described in the box opposite ▸

HEDGE FUND STRATEGIES

EQUITY HEDGE (52%*)

Long/Short combines both long and short positions in stocks with a simple objective to minimise exposure to the market.

Event Driven/Distressed strategies exploit relative mispricings between securities whose issuers are going though a corporate-change event, such as mergers, divestitures or restructurings.

TACTICAL TRADING (22%*)

Global Macro strategy is based on macroeconomic fundamental analyses and identification of trends. These trends are then exploited through investments in futures contracts on financial, commodity and currency markets around the world.

Commodity Trading Advisors (CTAs) is a strategy based on quantitative algorithms that identify trends in the price of financial assets. These automated trading programmes invest mostly in futures contracts on financial, commodity and currency markets around the world.

Emerging Markets strategies include Global Macro and CTA managers with a bias on emerging markets.

ARBITRAGE (22%*)

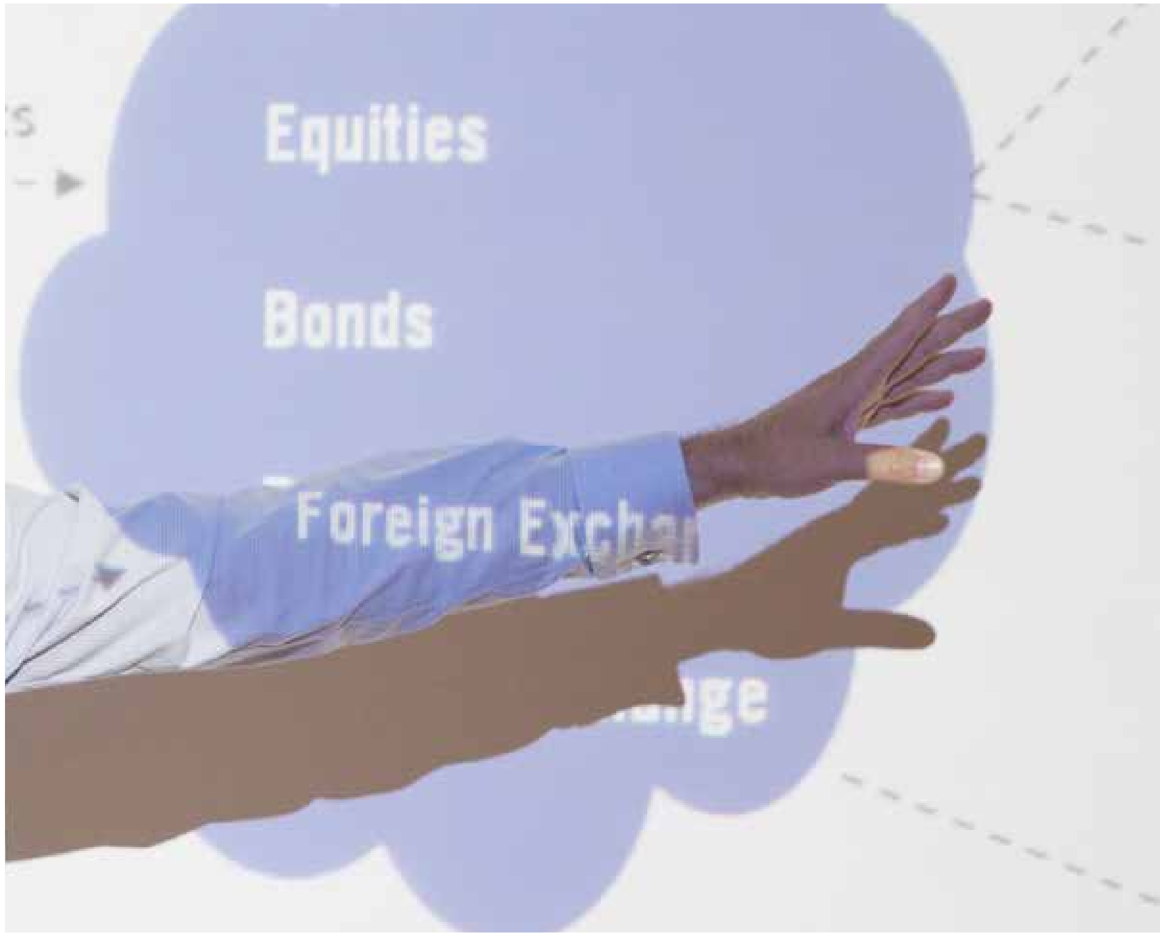
Relative Value exploits pricing inefficiencies between related financial instruments such as stocks or bonds.

Fixed Income arbitrage seeks to exploit mispricings developed between related classes of fixed-income securities such as yield curve and credit spread trading, often neutralising exposure to interest rate risk.

* as a % of total industry assets under management

Private equity This form of investment in unlisted companies has existed for many years, but again became prevalent after World War II. The benefit is a higher return, but there is a liquidity issue because you commit your money for, say, 10 years. Some of the premium return therefore comes from the liquidity risk. There are many strategies related to the lifecycle of companies. Some of which can bring big profits, as was the case for early Facebook investors. Another activity is to buy out a company, with the idea of buying it cheap and selling it dear, and improving it, financially or operationally, in between.

Real estate is a true asset class, in contrast to hedge funds or private equity, which are investment techniques. Property investment thus bring true diversification, a steady yield and a hedge against inflation. There are liquidity and cyclical risks, but even though it is often opaque the largest fortunes are made, and unmade, in real estate. Property investors can, variously, target real estate of top, solid or development value. ■



Skills and Success Forum

Investors and **entrepreneurs** laid out the differing sets of skills they needed to succeed. Their one common theme was the passion behind the ideas making great companies

INVESTORS

Sven Lingjaerde of Endeavour Vision
Often venture capitalists have the reputation of being vulture capitalists. But in fact we are very nice people, hard-working and we invest in real companies. With passion, stubbornness and luck, I have made money over 25 years in some 12 countries in technology and in life sciences.

Venture capitalism is about investing risk capital in innovative start-ups with hyper-growth potential. The aim is to float the company on the market or sell it to another company. Venture capitalists vary as to which stage they invest, which industries, and which regions. Investment scope and geography are related in the sense that if a VC invests in a narrow sector, he should spread that widely, while a VC with a broad investing range can afford to focus on just one country.

The stage of the investment also influences its size – for example USD50k-USD1m at the'seed' stage, USD2-10m in early/late stage development, USD5-10m in expansion, USD30m in the growth phase. To raise VC financing, you need a unique product, you need a visionary with some pragmatism, and a sizeable market opportunity. This means entrepreneurs have to accept competition, dilution and consequent loss of control, and to possess global ambition. But the VC can help with product development, recruiting people, governance, strategic partnerships and prepare to bring the company to market or for sale. It is very important at the outset to fix a goal for the exit. The internal rate of return is vital, with the occasional big winner. Every VC fund needs a home run.

David Belhassen of Neo Capital
We specialise in building international brands, in a partnership with entrepreneurs. As a buy-out firm, we usually look for an investment for five years, though it could be three or seven years. As a buy-out firm, we are an active investor, attending board meetings. We are based in London and focused on European brands. I have always loved brands and was interested in entrepreneurial activity.

As potential partners, we wanted entrepreneurs who are in love with their brand, who can tell their brand stories 1,000 times a day and who are interested in expanding abroad. By aiming for international growth you multiply the size of the business and of potential buyers for the business. There needs to be alignment of interest between entrepreneurs, managers and investors. And if the entrepreneur's aim is to leave the business to his son or daughter, we need to know this right away.

Neo helped Paul, the French bakery business, get established in the UK after an initial failure on its own. Paul was refocused on the up-market UK takeaway sandwich business, and expanded from two to twenty units. Neo exited the business in 2010, having made six times its initial £3m investment. Neo has also ▸

helped Ladurée, the French luxury maker of macaroons and other patisseries, expand internationally. Ladurée's owner originally wanted to expand abroad as a franchise, but Neo persuaded him to grow as an in-house operation. This involved simplifying the supply chain, choosing top foreign locations and positioning Ladurée products as luxury items. As a result, Ladurée has grown from four to fifty units, and Neo exited in 2011 having made a five-fold return on its original investment of EUR 5m.

Following this introduction and case studies by investors, three young entrepreneurs spoke about their challenges and success stories in their respective businesses. There was one common theme, namely the passion that lies behind ideas that make great companies.

ENTREPRENEURS

Raphael Arrigoni of Linalis and Pixelux
Pixelux was founded in 2002 for the video gaming industry and film special effects. Typically, being an entrepreneur is not about making money but about doing something good or different. In drawing up a business plan, it is important to keep it simple and precise, with measurable milestones. But sometimes marketing plans have to be flexible. For instance, we found that there was more demand from the film industry for our 3D animation than in the video game industry for which the product was originally conceived.

Denis Ladegaillerie of Believedigital
This company was created seven years ago, on the assumption that music CDs would disappear and that digital music downloaded from the internet would take over. This proved correct. In the US and Scandinavia, 75-80 per cent of all albums are now sold digitally. Believedigital was therefore created to record artists for digital distribution. Being an entrepreneur is its own set of skills. Denis had to learn the basics of opening a bank account, registering a company and hiring people that he had not needed to do at his previous big company. The other required skill was to develop a simple business vision that could be shared with employees, managers and investors.

Simon Jablon of Linda Farrow
This luxury eyewear company was founded by Simon's mother, Linda Farrow, and revived 10 years ago by Simon. The focus has been on the luxury market, using precious materials for the spectacles and also moving into jewellery and forging collaboration with fashion designers. The company has been growing at an average of 58 per cent a year for the past decade, far outstripping the luxury market's expansion rate of 6 per cent a year and the luxury eyewear sector's growth rate of 6-7 per cent. Simon would like to keep control, but despite a very good profit margin might not be averse to outside investment to sustain the company's growth rate. ■

Sven Lingjaerde Co-founder and managing partner of Endeavour Vision and the European Tech Tour Association, Sven has 25 years' venture capital experience in Europe, Silicon Valley, the Middle East and India / **David Bellhassen** David is founder and managing partner of Neo Capital, which focuses on conducting private equity transactions for European small-cap brands / **Raphael Arrigoni** Raphael is founder of Linalis, an IT services company based in Geneva, co-founder of Pixelux and a board member of EverdreamSoft SA / **Denis Ladegaillerie** Denis founded Believedigital in 2004 / **Simon Jablon** Simon is owner of Linda Farrow, which he relaunched together with his wife Tracy Sedino in 2003 at the age of 24

Christian Gellerstad

AND FINALLY... ABOUT PICTET

We have kept this presentation until the end, because we wanted you first to experience the spirit of Pictet and, most importantly, its people – who are our ambassadors

AND FINALLY... ABOUT PICTET

Pictet operates in a crowded banking landscape, with 320 banks in Switzerland alone. To determine which bank is the right partner for you is a challenge, and sometimes a nightmare. When you choose which banker to manage your wealth, you need to do your homework beforehand.

Apart from a few big universal banks, banks can be divided into those serving corporate and institutional clients and those serving private clients. In the first category, you have the commercial banks helping corporations with loans, mortgages, lines of credit, execution of transactions, managing foreign currency and so on. There are also investment banks, mainly accessing capital markets for companies on the debt side and issuing share capital, but also advising companies on mergers and acquisitions, that he had not doing proprietary trading. The third type in this first category is asset managers, who invest assets into securities for pension funds, institutions, and treasuries.

'We believe there is a lot of cross-fertilisation between asset management and private banking'

Serving private clients are retail banks, which provide basic services to any individual, such as savings and transactions, personal mortgages and so on. Then you have private banks catering to the needs of ultra-high net worth individuals. There are some pure-play private banks, and also retail banks like regional or cantonal banks. And then you have hybrids – and Pictet is a hybrid. It focuses on two areas: asset management and private banking. It is rather unique – we believe there is a lot of cross-fertilisation between these two areas. Asset management brings the asset management culture, the DNA, to private banking, and private banking brings our large client base to the asset management division where we can innovate products according to mandates.

Pictet has a huge asset base, with CHF 357bn in assets under management in mid-2012, and has the best credit rating that an unlisted company like ours can be awarded. Our investments are spread over 80 countries, and we have 3,200 employees, a quarter of them investment professionals, in 22 countries.

So Pictet is not a boutique, or a second-tier player. We are a solid player competing for growth on a worldwide scale. Pictet's second distinctiveness is its legal structure as private bankers, which in Swiss law means that it has to be organised as a partnership. The Partners also stand entirely and personally liable for the Bank. That makes a huge difference. If you are the CEO of any universal bank and the bank goes bust, you lose only your capital in the bank. In the event of such a situation at Pictet, the Partners would lose their entire wealth, their houses, bank accounts – everything. As far as trust is concerned, this creates a very different relationship with clients, as they would obviously rather bank with someone who is not going to be foolish. And this in turn encourages a long-term vision at Pictet.

This business model has stood the test of time, for nearly two centuries. We have continued to grow sustainably and to diversify. For a long time the mainstay has been wealth management, and still today this accounts for just over half the bottom-line profits. But all the time we have added services – the family office unit, the asset management division created in 1967, the alternative investment business in 1989 and mutual funds in 1996. Most recently, we have added a third leg – asset services and trading – which we had to develop to serve our other two divisions and which we now offer to outside parties.

Although we are a very large institution, we have adopted the stance of being completely dedicated to our private clients and treating clients in a holistic way, managing not just part of a client's wealth but the whole.

'Our business model has stood the test of time, for nearly two centuries'

We hope we have created a link with you as friends, as business partners, as clients and maybe as colleagues – and that you will take away the impression of us as a top-league player and a true private bank with a holistic approach to wealth management. ■

Closing remarks from Marc Pictet

We hope you have found this seminar a comfortable place to exchange views.

Some of it has been highly technical, but we hope that part was useful and that we have managed to show you our expertise in wealth management and that we are different.

My parting message to you is that you need to get involved and take your future into your own hands.

Wealth is something you may inherit, but it is something you need to take charge of – whether personally or by actively managing the people you entrust that wealth to.

Marc Pictet
Pictet & Cie

PICTET BRIEFING

The *Pictet Briefing* is a sister publication to the *Pictet Report* that was first issued in 2009. In a more compact format, with shorter texts and contemporary design values, the *Pictet Briefing* is intended as an easily digestible format for Pictet conference reports.

EVENT MODERATOR

David Bork is a pioneer in the field of family business consulting and is among the world's leaders in counselling family businesses. Since 1970, he has assisted hundreds of families in charting their way through every imaginable family business issue.

THE PICTET GROUP

Founded in 1805 in Geneva, Pictet & Cie is today one of Switzerland's largest private bankers, while the Pictet Group is one of the premier independent asset management specialists in Europe, with CHF357bn in assets under management and custody at 31st July 2012.

Pictet & Cie is a partnership owned and managed by eight general partners with unlimited liability for the bank's commitments.

The Pictet Group, which includes all entities directly and indirectly controlled by Pictet & Cie, employs more than 3,200 staff. The Group has offices in the following financial centres: Amsterdam, Barcelona, Basel, Brussels, Dubai, Florence, Frankfurt, Geneva, Hong Kong, Lausanne, London, Luxembourg, Madrid, Milan, Montreal, Nassau, Osaka, Paris, Rome, Singapore, Taipei, Turin, Tokyo and Zurich.

PICTET 1805

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