PICTET BRIEFING

MY FAMILY AND I
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- VALENTINE COLLOMBIN
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- CHRISTIAN GELLERSTAD

PICTET WEALTH MANAGEMENT
THE RISING GENERATION
NOVEMBER 2014
Welcome to this edition of Pictet Briefing, which presents highlights from Pictet’s Next Generation 2014 seminar, held in Geneva in late August. It brought together a lively group of young people who are facing choices about their future responsibilities.

To help in making these choices, the seminar devoted its first day to encouraging them to think about their strengths and weaknesses, and to follow their passions in whatever they choose to do. The second day introduced the participants to economics, finance and investment to help them deal with the wealth management challenges they will face. Business was the theme of the final day, which opened with a visit to Caran d’Ache, the Geneva company famous for its pencils, fine-arts materials and luxury pens.

The seminar also provided some lighter relief, including a cooking night where Pictet’s talented chef encouraged participants to prepare dishes for each other. And I am sure that the opportunity to exchange ideas and opinions with contemporaries was also enjoyable, creating friendships that will endure long after the seminar.

I hope you find this summary of interest, especially if you are thinking about the next generation in your family, or are a member of it.

Jacques de Saussure
Senior Managing Partner
Pictet Group
ROLES AND CHALLENGES IN FAMILY BUSINESSES

During the first morning of the seminar, Professor Randel Carlock of INSEAD explored some of the options facing the next generation in family businesses, and the factors to consider when thinking about the future.

Professor Carlock’s goal in his sessions was to introduce the seminar participants to techniques that could help them make decisions about their lives. These combined evaluations of their motivations and passions with analysis of their family businesses and the challenges facing them. Group discussions were used to explore the options and help the participants get to know each other better.

Family business roles
The first session was about the various roles available to the next generation in a family business, which combined three elements: the family itself, the business and the ownership of the business. The family is important because of the different needs of its members and this is often a source of problems in the business.

Managing the overlaps is where the real challenges lie, Carlock said. He then asked the participants to discuss what role they currently played in the family business, and what they would like it to be. Feedback revealed a variety of ambitions in addition to joining the family business, including managing the family’s wealth, starting a new business, working in its philanthropic activities or a career in a completely different field such as medicine.

‘After the war,’ Carlock said, ‘people did what their parents told them to, but that is no longer the case. In today’s world, you can aim to do what you are passionate about – but you have to plan for the future you want, or it may not happen. If it is to join the family business, you need work experience – perhaps with a competitor or in another industry. Your ambitions should also shape decisions about your education.’

The life-cycle of family businesses
Carlock said that most family businesses pass through different stages with successive generations. The life-cycle begins with the foundation of the business, when it is run by a single person or perhaps a couple – when governance will be simple. The family’s children become the second generation, and will probably work together amicably because they are siblings. It is in the third generation that problems tend to emerge, when there are the partners of the second generation who must be accommodated and the children are cousins who have not grown up together.

‘In every culture, there are sayings like rags to riches and back in three generations, or rice paddies to rice paddies,’ said Carlock.
Feedback from the participants highlighted an impressive range of opportunities they could identify in their family businesses—such as new markets, products, and technologies. Threats included the retirement of irreplaceable leaders, family rivalries and debt burdens created by excessive expansion in better times. According to Carlock, governments are always a threat to businesses through often unpredictable regulation, taxation or economic policies. Weaknesses are almost always about people, he added—most businesses are challenged by lack of talent and leadership.

**SWOT ANALYSIS GRID**

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**Evaluating the family business**

Carlock next introduced a popular technique for evaluating the internal and external factors of strategic importance to a business—relevant in deciding whether the family business can create interesting job opportunities for the next generation. He asked the participants to assess these factors for their family businesses using what is known as a SWOT analysis:

- **Strengths**—Louis Vuitton is supreme in luxury brand marketing and Audi in auto engineering, but what is your family business really good at?
- **Weaknesses**—in the business, such as outdated brands, lack of diversity in management or poor leadership from a founder who was a good entrepreneur but is less skilled in managing a large company.
- **Opportunities**—to create new businesses, as Ralph Lauren did when he moved from men’s ties to polo shirts, or when Apple moved from the Macintosh into music players, mobile phones and tablets.
- **Threats**—to the future of the family business, such as globalisation or disruptive technologies like Uber in taxis or Airbnb in hospitality.

**Personal motivation**

In making career decisions, personal motivation is a key element to consider, said Carlock. He gave the participants a career success map questionnaire, with the answers showing which of five factors were most important to them:

- Getting ahead—do you want to be near the top?
- Finding security—do you value long-term employment?
- Desiring freedom—do you want autonomy in life?
- Seeking highs—do you want to be at the centre of action?
- Needing balance—do you want both a career and a family life?

In the feedback afterwards, he emphasised that the results of the questionnaire were a useful starting point in planning a career, but they were not necessarily the determinant. Style, which is what we do naturally, does not dictate behaviour, which is what we choose to do.

As an example, he cited Nelson Mandela, who admitted in his autobiography that he had been arrogant in his younger days and bad at working with other people. But during his 27 years in prison, he had read and reflected about the nature of leadership, and emerged as a leader.

**Preparing to join the family business**

Carlock reminded the seminar that joining the family business is only one option: ‘You don’t have to, and of course you’re not guaranteed to go into it. So before finally deciding to do it, you have to review what we have covered during the morning. What are your motivations? What do you want to achieve in life? What is important to you? What will get you out of bed for the next 70 years with the excitement that you have today?’

‘Then review the roles that you want to play, whether it’s business leadership, governance or ownership—and alternatives such as philanthropy, investment or starting new companies. Can you enhance your credibility as the boss’s child by taking a job outside the family business for a long period?’

Will such a move help you as an owner join the family business at director level?

‘Do your family values motivate you? What personal or professional talents can you develop? Will your personality or emotional make-up fit in your family? Can you develop the leadership qualities for family ownership, governance or executive roles, perhaps through outside experience.’

‘And think about the support you need to accelerate your growth and performance. Tough bosses are what you need, because they push you to places you can’t imagine. Mentors—people senior to you in the same organisation—can support you in your role and advise on career planning. And a coach is someone you hire from outside the business to focus on your leadership, career and personal development.’

He concluded by explaining that the next generation needs to be passionate about whatever they plan to do. ‘If there’s no passion, don’t do it—life’s too short!’

**Randel S. Carlock** is the Berghmans Lhoist Chaired Professor in Entrepreneurial Leadership and founding director of the Wendel International Centre for Family Enterprise at INSEAD. He founded four companies, one listed on NASDAQ, and also trained and qualified in family therapy at the University of London’s Institute of Psychiatry.
**Successful involvement in philanthropy**

**Etienne Eichenberger** identified three trends he had observed when advising families and foundations on philanthropy, while **Valentine Collombin** and **Allen Adler** described their philanthropic activities.

**ETIENNE EICHENBERGER**

I work with individual donors, families and foundations to optimise their philanthropic work, and have noticed how philanthropy is changing in many ways over recent years.

People are moving from giving on death to giving while living. Instead of doing it by themselves, they are learning from others and getting advice. Rather than waiting for appeals for funds, they are seeking out projects in which they are interested. They are increasingly partnering with donors and social enterprises, rather than just giving to not-for-profits.

*‘From those to whom much is given, much is expected.’* Bill Gates

**THREE BIG TRENDS ETIENNE HAS IDENTIFIED:**

1. **PHILANTHROPY** is becoming more professional, as donors want to know where their money goes and what the results are.
2. **SUCCESSFUL FAMILIES AND ENTREPRENEURS** see philanthropy as a key asset in their portfolio, which offers a platform to engage across the generations.
3. **PHILANTHROPISTS** are willing to collaborate with partners, learning from others and learning by doing.

**Valentine Collombin** set up the Fondation Albatros, her family’s philanthropic foundation, in 2007 to help people in dire poverty and distress.

**Allen Adler** is one of the fourth generation of his family to work in its jewellery business, which he joined in 2005 as Managing Director.

**VALENTINE COLLOMBIN**

From 18, I wanted to work with people who were suffering because they had had fewer chances than me — something I did after graduation.

When my father retired at 62, we started a foundation to do something as a family, and I sought causes to support. I went to Cambodia to visit projects, and saw the large number of children living on the streets with health and drug problems. I also saw Friends International tackling those problems and getting them into school, so I set up a Swiss organisation to increase its visibility and raise money for it.

Our Foundation started with too many small projects, so I asked to become its director to systematise our approach. We focused on fewer but bigger long-term projects, which made it easier to build partnerships that could share resources and work more effectively. I prefer education projects — mainly for children, because the earlier you help, the easier it is to create a good life.

I also diversified by joining Giving Women, a Swiss network of women philanthropists raising money to support women and children. And I have become a consultant to help other foundations and improve my skills.

**ALLEN ADLER**

In 2003, I read an article by journalist Nicholas Kristof in the *International Herald Tribune* about young women in parts of Africa who marry very young and give birth as teenagers to stillborn babies. As a result, they suffer fistulae — wounds in their genital and digestive tracts which can be fatal. While they can be treated, resources are scarce and the women are often abandoned by their husbands and rejected by their communities.

I started to support a clinic in Addis Ababa, Ethiopia, which was founded to care for such women by Catherine Hamlin, an Australian gynaecologist. I found that I got value and meaning from my activities — it made me motivated and happy, as I learnt to overcome obstacles.

My wife and I decided to create the Adler Fund for Women, a dedicated sheltered fund within the Swiss Philanthropy Foundation. This avoided the need to create our own foundation with the associated costs, while still benefiting from tax exemptions because of the Foundation’s non-profit status. At the same time, it has given us a lot of freedom to finance projects we choose to support.
WEALTH STRUCTURING: WHAT IT IS AND HOW TO DO IT

Using trusts and foundations makes it easier to preserve wealth, to pass it on to the next generation and to support philanthropic causes, according to Alexandre Semboglou

If a parent has only one child who is resident in the same country, succession planning is usually straightforward: the child will inherit the parent’s wealth – assuming it is all bequeathed in that way. However, it is much more complicated in most wealthy families, where there may be more heirs, perhaps several countries in the picture and many different types of asset. It can be made much simpler by using wealth structuring strategies to transfer assets to the next generation – or for any other intended purpose.

By transferring assets to trusts or foundations, the parent ceases to be their legal owner, making it easier to achieve a variety of objectives while continuing to be a beneficiary of them. There are other options to achieve the same ends, but trusts and foundations have proved useful in a range of circumstances.

The main difference between the two is that the trusts are private arrangements between settlors and trustees, while foundations create new legal entities. Trusts are quite flexible, with hundreds of years of history backed by court decisions which give certainty. Foundations have no flexibility, but are often preferred by people from countries with civil law who are not familiar with trusts.

Whatever the choice, there is a range of issues that must be considered before completing the arrangements. These include where to make the arrangements, their purposes, their beneficiaries and the powers of the trustees or foundation directors. There are also tax considerations, especially in the current environment of greater transparency – but while these complicate things, wealth structuring can achieve a family’s aims if done with proper advice.

THE PURPOSE OF WEALTH STRUCTURING: THE PRESERVATION AND TRANSMISSION OF WEALTH THROUGH LIFE’S EVENTS

- Protection of minors or people with a disability
- Business succession
- Political risk
- Preservation of confidentiality
- Cross-border succession issues and legal conflicts
- Marriage and divorce
- Consolidation and preservation of family wealth
- Philanthropy
- Tax planning

Alexandre Semboglou is CEO of Rhone Trust and Fiduciary Services. He joined Pictet in 2005 as a tax specialist until 2011 when the group’s wealth planning services, trust and fiduciary activities were transferred to Rhone.
A recipe for enjoyment

At the end of the first day of the seminar, there was time for the participants to enjoy some sporting activities at the hotel on Lake Geneva, followed by a session in the Pictet staff restaurant under the direction of Pictet’s Chef and his team.

On arrival at the restaurant, the Next Generation participants were dressed in chef’s aprons and toques, and shown the menu of cuisine on offer. These included pizza, sushi, gnocchi, rare wagyu beef, chocolate fondue cake and vanilla ice cream. Then, without further ado, the participants were set to work to prepare the dishes to be served to their colleagues, with impressive results.

No meal is complete without good wine, which for this occasion was supplied by Domaine des Balisiers, a bio-dynamic vineyard in the canton of Geneva. Organic for decades, it produces some 150,000 bottles a year including Comte de Penney, a Cabernet Sauvignon/Cabernet Franc, and an unoaked Chardonnay – both matured in stone amphora, Roman-style.

‘I made sushi – I’m a masterchef now!’

‘Great food and nice people – I’ve learnt a lot.’
Do 20th century rules of thumb still apply?

Next Generation participants were invited to attend the August meeting of Pictet’s Wealth Management Investment Committee where developments in the markets were discussed by Yves Bonzon, Chief Investment Officer

The morning salon is a Pictet tradition, at which its specialists discuss the financial environment for investors. In his presentation, Yves Bonzon began by reviewing the returns on the main asset classes since the start of 2014 to see whether changes were needed to Pictet Wealth Management’s investment strategy. And with big geopolitical developments in Ukraine and the Middle East during the summer, he began by reminding the audience that Pictet does not make investment decisions in response to such events.

“We have no capacity to forecast what’s going to happen. We cannot forecast when someone is going to shoot down a passenger airliner. Asset allocation strategies should be constructed in such a way that you sleep well whatever happens – whether it be 9/11, the Iraqi war or the tsunami. They must be able to withstand such events which are unpredictable. We don’t buy US Treasuries or gold because it is getting worse in Iraq, Palestine or Ukraine – simply because no-one has a clue what will happen.

‘Remember that a few weeks before the collapse of the Soviet Union, Western intelligence services had no idea that it was going to happen. The only thing we do – as in September 2001 – is take advantage of over-reaction in the markets by buying assets when their risk premium has increased too fast in the short term.’

The good news, he said, was that the US economy was recovering as expected, with the availability of credit returning to normal and households and companies borrowing again. The Federal Reserve was thus right to be contemplating unwinding unconventional monetary policy and increasing interest rates – though it was not clear when the rises would happen. But he described the forecast for the world’s largest economy as showing a ‘scary consensus’ which could provide investment opportunities if it turned out to be too optimistic or too pessimistic.

The European economy’s recovery had reversed and was still on a mildly deflationary course as Eurozone governments continued to cut borrowing at the same time as companies were doing so. The European Central Bank had systematically overestimated inflation, and had resisted the unconventional monetary policy measures which were needed to restore the health of the economy. Eurozone stocks had fallen, as had the euro, benefiting emerging market assets.

He then moved on to the consequences of these economic developments for investment markets which, he said, had been in an anomalous position for much of the second half of the 20th century. During that period, the dividend yield of equities had been below long-term interest rates, unlike in the previous 100 years. In the capitalist system, interest rates were typically between 2 and 5 per cent and dividends much higher to reflect the greater risk. But in the late 20th century, long-term interest rates had soared above equity dividend yields, despite much lower risk.

What had changed in the 1970s was that inflation took off with a combination of oil shocks, liberalisation of exchange rates and the entry into the workforce of the post-war baby boomers – the single largest demographic movement into the labour market. The situation today was the opposite with the retirement of the baby boomers, globalisation and technological disruption from Uber and the like. These trends were massively deflationary, so what would happen if inflation stayed as low as 2 per cent?

Over the last 50 years, US equities had returned 2.2 per cent over US Treasuries. Today, they were returning less – 4.2 per cent currently, as against 5.3 per cent for Treasuries. If the equity risk premium were to be restored, they would return 7.6 per cent a year, which would mean that US equities were overpriced by approximately 30 per cent. However he cautioned that this gave no indication of movements in the markets: an expensive market could double or halve in the short term; this overvaluation was based on a 10-year perspective.

A second factor was that the dollar had been in a bear market but was now in a nascent bull market – and that this had important consequences for global asset allocation. It would reward investors in assets such as the S&P500 and European export champions, and those who were underweight in emerging market debt and equities, commodities and gold.

Unlike some pessimists, however, he saw no issue with the ending of quantitative expansion. ‘The Federal Reserve is right to taper QE and the transition back to conventional monetary policy should be manageable.’

Yves Bonzon joined Pictet in 1989 as a Portfolio Manager in the Wealth Management Division. In his roles of Chief Investment Officer and Group Managing Director for the division, Yves is responsible for Investment Strategy and the Investment Platform unit.
WHY ECONOMICS MATTERS FOR INVESTORS

The economic concepts that underpin investment strategy were explored by Alexandre Tavazzi, Co-head of Portfolio Management and Equity Research for Pictet Wealth Management.

The understanding of economics is important, Alexandre Tavazzi began by saying, because it helps in making better investment decisions. Investors can identify which countries are growing, the factors behind their growth, whether that growth is sustainable and thus where to put their money. They can then build a scenario about what will happen over the coming months on factors such as exchange rates, interest rates and growth.

Markets anticipate future developments – called consensus – but an economic analysis may predict a different scenario. An investor whose economic analysis differs from the consensus has an opportunity to invest in assets that will present better performance than the market.

When it comes to investing, economics is also a useful tool in choosing companies to invest in. It can analyse their profitability to see whether they are growing sustainably, and the outlook for the sectors they are in. It can also look at their balance sheets to evaluate their debt burdens and future financial needs. It can ask whether their growth is coming from domestic consumption, exports or just stock-building – the last of these may be only short-term.

Then investors can examine a company’s growth prospects in the light of their economic scenarios. For example, corporate profits tend to rise if the economy is growing, if exports are buoyant, if credit is available to finance consumption and if the interest rate is at a level that makes borrowing affordable. So a country’s economic growth prospects can be analysed in much the same way as a company’s: its growth, debt level, industrial competitiveness, trade performance and its central bank’s monetary policy.

The factors behind GDP growth include income, investment, commodity prices, trade, and government policies on regulation and industrial ownership. In developed countries, growth tends to be driven by anything that increases spending, which depends on factors such as housing and jobs. In emerging markets, it is more likely to be export levels and the country’s attractiveness to investors that underpin growth.

Government spending can boost growth but it may raise taxes and require increased borrowing. The ability of a country to borrow depends on how stable investors believe it is – if it is seen as risky, the cost of borrowing will be high. And in a world of decelerating growth, low corporate taxes are also seen as desirable.

Industrial competitiveness depends on several factors, said Tavazzi – including levels of investment, costs of production such as wages, corporate efficiency and exchange rates, which can affect export prices. And quality is also important – demand for high value-added branded products such as Swiss watches and chocolate or German cars is relatively stable even when costs rise.

Finally, central banks can stimulate economic growth – as has been done in the US since the 2008 financial crisis. The US Federal Reserve had hugely increased liquidity in the financial system by increasing the monetary supply and bringing interest rates down to low or even negative real levels.

All of these factors help investors decide which countries to invest in and which companies offer the best prospects. Macroeconomics thus plays a vital role in asset allocation.
Patrick Thullen, Head of Investment Solutions for Pictet Wealth Management, explained the difference between the asset classes and what influences their value.

Wikipedia defines asset classes as groups of securities that have similar financial characteristics, behave similarly in the market and are subject to the same laws and regulations. Patrick Thullen described the characteristics and uses of the three traditional asset classes—equities (stocks), fixed income (bonds) and cash equivalents—which can be traded daily and thus bought or sold quickly.

He began with cash and money management investments: these are relatively safe and liquid short-term investments which are less volatile than stocks or bonds. Cash is an asset class which is a ‘parking position’, he said, useful for investors wanting to wait and see before investing in other asset classes.

Fixed income assets or bonds generally pay a set rate of interest (or coupon) over a given period and then return the investor’s principal—provided the issuer does not default. They are more stable than stocks, and can provide wealth protection in nominal terms, but their value fluctuates over their lifetime with interest and inflation rates—if rates rise, bond prices fall because USD10 in ten years will be worth less than USD10 now. Governments and companies issue bonds, but the latter are more risky and therefore generally pay a higher return (though governments can default, as Argentina has in the past).

Equities represent shares in the ownership of publicly held companies, which are quoted on stock exchanges in countries around the world. They can be tricky to value: performance is a combination of dividends and the price changes in the shares, and there are many factors that investors must consider. There are also risks in the company’s business that can undermine their value—there is no guarantee of a payback. Equities are the most volatile of the three asset classes, but they can provide wealth increases in real terms over the long term.

When companies need funding, they can raise it in various ways, through fixed income or equity. If the company collapses, the shareholders lose their money first, so that is the riskiest option for investors; senior bondholders get the maximum. So the expected return is highest for equities which are the riskiest, and lowest for the senior bondholders. The other difference between equities and bonds is that the first is a form of ownership with the right to vote, while the latter is like a bank loan.

Over the long term, equities have been found to do better than bonds, said Thullen. But that may not be true over the short term—for example, if you have bought when shares were booming and sold when they have plummeted in value. In such cases, it could take many years before they have recovered their value and longer before they have offered a good return. So someone investing a lottery win or IPO proceeds at the peak of the stock market might find it takes years to recoup the money and make a positive return.

Patrick Thullen has been a bond analyst since 1987 and a portfolio manager of fixed income and balanced mandates since 1990. Patrick joined Pictet in 2000 to specialise in fixed income management for Pictet Wealth Management.
Selecting assets for an investment portfolio requires an evaluation of the strengths and risks of the different assets, and of threats and opportunities in the market. The central challenge is to find the right balance between risk and performance for each investor when making decisions such as debt versus equity, domestic versus international assets and growth versus value.

‘It’s like cooking,’ said Fabrice Grin, introducing portfolio management. ‘The matter is all about what, how much and when – and to check that it’s not too hot.’

One big choice to be made is between passive and active management. Passive management simply tracks a market index such as the S&P 500 or the FTSE 100. Active management involves managers who attempt to beat market returns by making decisions based on research and market opportunities.

There are two styles of active management. One is a fundamental approach that relies on detailed research into companies to identify investment opportunities. The other is quantitative, an investment approach which uses mathematical and statistical computer models to identify the opportunities.

When creating a portfolio, a framework is needed to make decisions. There are four fundamental parameters, the first of which is the investment horizon. The others are the reference currency, often where the investor lives or does business; what deposits or withdrawals the investor will want to make; and specific constraints about companies, sectors or countries which the investor prefers or does not wish to invest in.

Investment horizon can be subjective, said Grin. The length of time investors are prepared to wait for results can range from a few months to many years, according to their patience. Or it can be defined by an objective process such as Pictet uses, dividing wealth into different buckets: financing capital to maintain current lifestyle, reserve capital for later in life and surplus capital which can go to other uses. Financing capital must be low risk so that it is available at any time, while surplus capital can take much higher risks over the long term.

When an investor delegates the investment decisions to a bank – a managed mandate – its portfolio manager will select appropriate investment funds or stocks to achieve the objectives identified by the investment framework. Pictet has four classic mandates, ranging from a low-risk portfolio with lower returns to riskier options with higher expected returns.
Nicolas Campiche, CEO of Pictet Alternative Investments, describes the ‘non-traditional’ asset classes which play an increasingly important role in asset allocation.

The bulk of investment is in bonds (USD 99 trillion) and equities (USD 64.8 trillion), according to Nicolas Campiche, but a growing amount is now invested in what are known as alternative investments. These are private equity (USD 3.5 trillion), real estate (USD 3.4 trillion) and hedge funds (USD 2.8 trillion).

Private equity directly invests in the real economy through loans and equity investment in private companies and offers premium returns – it has outperformed public equity markets every year since 2000. Investments in private equity are not liquid, however: there is often a ten-year lock-in period, though investors usually get at least part of their money back in six or seven years.

Turning to real estate, Campiche said that it was a true separate asset class. It can diversify portfolios, since its performance is not highly correlated with that of other investments: when equities fall, real estate tends to rise. It produces rent from tenants, providing an income like bonds. And it is also an inflation hedge, since rents can be raised. On the risks, however, it can be hard to sell when values fall and real estate is a notoriously cyclical asset.

There are several real estate strategies, including prime – investment in highly desirable locations where values are unlikely to fall and tenants will pay their rents. Opportunistic strategies invest in projects where enhancement can create value growth – but the higher returns come with greater risk. Value-added investments, which need management and/or physical improvements have become more attractive as better-quality investments have become expensive since the financial crisis.

There are several private equity strategies, such as venture capital invested in companies at the beginning of their lives, when they may make no profits but have lots of potential. Another strategy invests in growth or buyout opportunities – companies needing extra capital or which can be improved under new management. And decline strategies invest in companies in distress or decline to turn them around.

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Nicolas Campiche joined Pictet in 1994 as an Investment Manager. In 2000 he transferred to Pictet Alternative Investments and in 2003 was appointed its Chief Executive Officer.
Hedge funds mostly invest in financial markets, through traditional assets such as equities, bonds, foreign exchange and commodities. There is a diverse range of more than 8,000 hedge funds, which use a broad range of investment strategies and are loosely regulated. Managers have a lot of freedom to try to preserve capital, and have been relatively successful in achieving this since 2000. This performance does come with risks though: hedge funds use leverage to enhance returns; withdrawals can be curtailed when times are bad; and there are counterparty risks and a danger of fraud.

Yet despite the liquidity and leverage risks of alternative investments, Campiche said, they offer benefits including diversification and enhanced returns, which make them an attractive part of portfolios today.

**THE TRADING FLOOR – BETWEEN CLIENTS AND MARKETS**

Guillaume d’Assier de Boisredon, Head of Global Marketing Sales, gave the Next Generation seminar participants a tour of Pictet’s trading room, the largest in Geneva.

Pictet has trading rooms in Geneva, Montreal, Singapore and a small one in London, but the biggest is in Geneva with 130-150 traders and support staff. In appearance, it looks like any dealing room, with sections for the main asset classes – a buffer between clients and the markets, as Guillaume d’Assier de Boisredon put it.

The trading floor deals in two categories of asset: those that are traded on public markets such as stock exchanges; and those like bonds and foreign exchange that are traded over the counter (OTC). Listed assets can be traded through Pictet’s access to most global exchanges, which means that trades can be executed 24 hours a day. But for OTC trading, Pictet deals through the large network of counterparties it has built up so that it can provide liquidity to clients.

Traders are grouped according to their specialities, whether they be equities, bonds or foreign exchange. Some are more specialised, in emerging market bonds, for example, or derivatives. And some assets such as structured products are so complex that they are only sold to investors who understand the risks.

Since the financial crisis, there are now much stricter regulations on risk assessment when trading. It can no longer be taken for granted that government bonds are risk-free, for example: governments can go bankrupt and there must be a risk premium that reflects exposure to risk. This has slowed trading down, reducing market efficiency as specialists evaluate the risk in transactions.

‘Every day we have to evaluate every position – while the cost of executing deals has fallen, associated costs have risen,’ he said. All over, ‘there is little or no proprietary trading now, which means that fewer people are willing to make a price or accept a deal without a way out.’

Guillaume d’Assier de Boisredon joined Pictet in 2002 to set up the Global Market Sales brokerage service to institutional clients.
Winning in the investment game

The Next Generation participants were challenged to show their understanding of investment principles through a game designed by Mayssa Al-Midani, Junior Financial Analyst. Veronika Schachenmayr-Schlick, Chief Operating Officer of Pictet Wealth Management, refereed the proceedings.

After more than four hours of presentations on finance and wealth management, it was time to see what the participants had learnt. Split up into groups, each was presented with one of four real-life scenarios from the last 40 years: the 1973-74 oil shock, the 1998 tech stocks boom, the 2007 sub-prime housing crisis and the 2008 collapse of Lehman Brothers.

The groups were told that they were managing a portfolio made up of 10 per cent cash, 20 per cent US government bonds, 25 per cent corporate bonds, 20 per cent US equities, and 25 per cent global equities ex-US. With guidance from Pictet private bankers, they had to revise the asset allocation to deal with the changed scenario, to be judged by the performance of the revised portfolio over the following two years and the reasoning behind their decisions.

At the end of the game, the groups presented their recommendations to a panel chaired by Veronika Schachenmayr-Schlick, who had moderated the day’s sessions, with two of the previous speakers: Yves Bonzon and Alexandre Tavazzi. Mayssa Al-Midani who had devised the game, fed the results into the computer to see how well the groups had managed to preserve value.

Just one group had lost money, and then only by a small margin. The judges were impressed by how the groups had approached their task and weighed up the trade-offs, choosing as winner a group which had worked on the sub-prime crisis scenario. Although the group had not achieved the highest growth in their portfolio, the judges were impressed with the out-of-the-box thinking behind a hefty reallocation of assets.

Mayssa Al-Midani joined Pictet in 2011. After completing the graduate programme, she joined the European Equity Research team as an analyst covering European consumption stocks, with a focus on the automobile and luxury goods industries.

Veronika Schachenmayr-Schlick has worked for more than 25 years in asset management for institutional and private clients. She started her career in international equity and commodity management and then specialised in asset allocation. Before joining Pictet in 2008, she worked for Paribas (later BNP Paribas) and Crédit Agricole.

DINNER WITH THE SPEAKERS
Participants in the Next Generation seminar had an opportunity to question the speakers over dinner in the evening. They could choose to join tables which focused on one of the three day’s themes: My Family and I, Finance & Wealth Management, and Business & Entrepreneurship. After each course, the speakers changed tables so that everyone had the chance to ask questions on all the topics that interested them.
Caran d’Ache: 99 years of writing history

A visit to the headquarters of Caran d’Ache in Geneva was hosted by Patricia Hubscher Eichenberger, a fourth generation member of the family that runs it, and the company’s CEO Jean-François de Saussure.

A highlight of the Next Generation seminar was a visit to the Geneva headquarters of Caran d’Ache, the world-famous manufacturer of pencils, fine-arts materials and luxury writing instruments. The pencil factory was founded in 1915 and bought in 1924 by Arnold Schweitzer. He renamed it after a French cartoonist born in Moscow who called himself Caran d’Ache, the Russian word for pencil. The company continues to make its products entirely in Switzerland, and has expanded its range from pencils to wax crayons, ballpoints and ink pens, all manufactured to exceptionally high standards.

Welcoming the seminar participants to its factory, Patricia Hubscher said that her family’s involvement dated back to 1930 when her great-grandfather and grandfather had provided much-needed capital. Her father – who had taken time off on his honeymoon to check out the company’s shops – had worked for the company for 52 years, becoming CEO in 1982. Today the company is professionally managed but the family is still deeply involved: the Chairman is Patricia’s sister – one of the few women to hold such a role in Swiss industry.

Patricia then handed over to Jean-François de Saussure, who explained that at a time when so many luxury products were manufactured far from where the brand is, the company’s owners were determined that Caran d’Ache should be authentically Swiss. The headquarters is the only place where its products are made, employing 280 people with 90 different crafts. Employing staff was very costly in Switzerland, he added, so it was a daily challenge to maintain this Swiss commitment.

Caran d’Ache established a reputation for innovation early on, with the invention in 1929 of a metal mechanical pencil when there were fears of a shortage of wood. Wax pastels were launched in 1952, ballpoints in 1953 and fountain pens in 1970. Many different skills and machines were now required to make the luxury writing instruments, such as the use of Chinese lacquer and precious stones.

A tour of the factory revealed the use of very high technology machines for tasks such as laser engraving, combined with specialised machines designed by the company’s engineering team to make the products. Some writing instruments, though, are handmade, and quality is checked in Switzerland, he added, so it was a daily challenge to maintain this Swiss commitment.

Caran d’Ache is like a virus,’ de Saussure said. ‘When you catch it, it stays with you: the nice products, the family atmosphere and the craftsmanship of the people who work for us and serve the company for an average of 13 years.’

Next year will be the centenary of the company, which will highlight the use of Caran d’Ache products by artists such as Picasso and Miro, architects and designers such as Karl Lagerfeld. And in an increasingly digital world, there is continuing innovation and research designed – as in the Swiss watch industry – to provide relevant products for a new generation of consumers.

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Patricia Hubscher Eichenberger is a member of the fourth generation of the family that runs Caran d’Ache. In 1999, she joined Pictet as a private banker for Swiss clients.

Jean-François de Saussure became Chief Executive of the Maison de Haute Ecriture Caran d’Ache in 2012, after more than 20 years of working in multinational environments.
I made my first investment in 1989 in a small company called SanDisk that pioneered the flash memory behind the digital revolution in photography. People told me that I would never see memory cards in a camera, but that innovation totally disrupted the chemical film industry. Kodak could have bought SanDisk cheaply in the early days, but they were laughing at us. Today Kodak is out of the business and SanDisk is listed on the NASDAQ with a market capitalisation of more than USD20 billion.

Thinking about the future of business, there are two approaches. The first is the pragmatist’s, which is prudent, has a ‘wait and see’ attitude, sticks to budgets and takes a rear-view mirror approach to innovation. They are problem-solvers who identify an existing problem and solve it.

The second is the visionary approach, which is adventurous, creative, obsessed with detail and thinks out of the box. Visionaries have often dropped out of school, start from the customer’s needs to explore new territories, come up with what look like crazy ideas and like to use technology to put things together.

A classic example of the rear-view mirror approach was Creative Labs, which in 1999 launched what was basically a portable jukebox using MP3 technology which could download, store and play back more than 100 hours of digital audio. But customers found the battery life unacceptable, the software unusable and customer service almost non-existent. The company was looking back at the Sony Discman without inventing something new.

SVEN LINGJAERDE’S THREE DISRUPTIVE TECHNOLOGIES FOR THE FUTURE

1. 3D printing is already with us, but the potential is enormous. In medicine, it could be used to print organs – a liver or a knee
2. Graphene is probably the biggest revolution in materials – especially when the price comes down, as it will very quickly
3. Fusion energy – one for the next 50-100 years. Much predicted, but when it comes through, we will have unlimited access to energy
SO HOW CAN PEOPLE IN FAMILY BUSINESSES INSPIRE INNOVATION?

SVEN LINGJAERDE SUGGESTS FIVE TRICKS TO FOSTER IT:

1. Combine unlike ideas
To come up with something new.

2. Talk to people
Cross-pollination is a big factor in Silicon Valley.

3. Build on existing ideas
As Steve Jobs did at Apple.

4. Hire a diverse workforce
Twitter hires people because they are different.

5. Use metaphors
To project a simple vision of what you want to achieve – the ‘Google of shoes’, or whatever.

So keep calm – and start the revolution.

Two years later Apple launched the iPod, which assembled lots of components that already existed in a product which put the customer at the centre. It had less memory but much better battery life and did not attempt to impose old technology that no-one wanted. The user-centric product that created customer satisfaction led to market dominance.

To influence the future requires the revolutionary mindset found in places like Silicon Valley, London and Stockholm. It needs vision, passion, unlimited ambition and self-confidence – which are at least as important as a top university grade. It often combines multiple innovations, is willing to surround itself with the best people, and is prepared to work very hard – the lifestyle is brutal.

Revolutionary innovators use technology, but they often have no clue about it before they start their business. The CEOs of Amazon, Twitter, Google, Facebook and Zynga knew nothing about technology – Jeff Bezos of Amazon came from an investment bank, but he saw the market opportunity. And Sergei Brin of Google knew nothing about search engines.

I have been a science student, university research fellow, consultant, venture capitalist and pharma executive. I also launched a biotech start-up which failed, but I came to realise that creating my own path was what I enjoyed the most.

One of my passions is solving logic problems, and what makes me tick is doing just that. As a consultant, I found that people don’t want solutions – they too like having problems to solve themselves. So I decided to create a puzzle which people could enjoy trying to solve, by combining two popular puzzle games.

One is Rubik’s Cube, invented in 1974 by a Hungarian professor. It became the world’s top-selling puzzle game, with 350 million sold since its launch. There are 43 billion billion ways to scramble it and only 5 per cent of people can solve it—the other 95 per cent buy it because they like the challenge.

The other puzzle is Sudoku, which is also very popular. What they share in common is that they have simple objectives, there are many possibilities, there is only one solution and they are solved by pure logic. My Qubami puzzle uses the 3D Rubik’s Cube structure with three colours and the three symbols X, O and •. The problem is to get three different colours and symbols on every row and column.

There is only one solution for each Qubami and only one person in 200 can find it. Those who solve it – which is 100 times more difficult than Rubik’s Cube – can submit it online to receive a Doctor of Logic certificate. The marketing pilot of 250 at CHF60 sold out quickly with positive feedback, so I plan to launch the puzzle in time for Christmas – and I have more ideas in development.

My advice to the next generation is to follow your passion. It doesn’t matter if you fail; you only regret the things you don’t try.

Sven Lingjaerde is co-founder and Managing Partner of Endeavour Vision, with 27 years of venture capital experience. Recognised for his contribution in shaping Europe’s technology ecosystem, he founded the European Tech Tour Association in 1998.

Kelvin Stott is a management consultant in Geneva, advising pharma and biotech companies.
Christian Gellerstad, Chief Executive of Pictet Wealth Management, explains the different types of banks in the financial services industry and how Pictet fits into the picture.

There are 320 banks in Switzerland – advertisements for their services can be seen on arrival at Geneva airport. New York has 200 banks, London 325 and Hong Kong 296, and there are hundreds in several other financial centres. All of these banks think they are unique, but they can be divided into two major categories.

One, is banks that serve institutional clients – corporations, governments and other organisations. There are three main groups in this category: commercial banks which provide credit and other financial services to help corporations do business; investment banks which help finance organisations such as companies and governments through the capital markets; and asset managers which manage funds for institutional investors such as pension funds and banks.

The second category of banks provides services to individuals, from rich to poor. Here there are two groups: private banks which cater for the needs of high and ultra-high net worth clients; and retail banks which provide the general public with services such as payments, savings and loans.

Some large banks, especially in Europe, are universal banks which do everything for everybody – like UBS and Credit Suisse in Switzerland.

Pictet is, however, a hybrid – a bank that is both an asset manager and a private bank.

For most of our history, private banking was our main activity, but in the 1970s, we began to develop the asset management business in response to the growth of pension funds. Today, asset management has grown almost as large as the wealth management side. In the 1980s, we created a third business in asset services – our technological and operational platform which we offer to other banks and organisations.

There are other aspects that make Pictet unusual:
- We are an old institution that was founded in 1805
- We are owned and managed by eight managing partners, with a succession model that has not changed for more than 200 years
- We have never made any kind of acquisition since our foundation – we have grown organically
- Our partners are responsible for all our activities, both banking and administrative
- We are very independent because of our owner/manager model, with no shareholders to put pressure on us.

For most of our history, we were based solely in Geneva, but we now have 26 offices worldwide. Today we have around 3,500 employees, including 900 investment professionals – a high proportion which reflects the priority we put on optimising the performance of our clients’ portfolios. Assets under management have grown from USD8 billion in the 1980s to almost USD455 billion today, as we have developed from a boutique to become one of the top ten wealth managers worldwide.

We pride ourselves on our ability to provide clients with the services that they need. These range from family governance and wealth strategies, through investment and portfolio management, to trading, safeguarding and monitoring performance. I hope, therefore, that you will take away with you a better understanding of the banking landscape, the different roles banks play and how Pictet fits in.

Please keep in touch with us as your careers develop. Good luck, and we hope to see you again.
PICTET NEXT GENERATION SEMINARS

The inaugural Next Generation seminar was held in Geneva in 2012 to provide opportunities for the younger generation to gain valuable insights that will help them manage their future responsibilities. The program covered three themes: ‘My Family and I’, ‘Finance and Wealth Management’ and ‘Business and Entrepreneurship’.

ALUMNI

This Pictet Briefing summarises the highlights of the second seminar, which was held in 2014, and a third Next Generation seminar is planned for 2016.

The seminars are only a first step, however. Those who have attended them become Next Generation Alumni, and are invited to attend three shorter events, each of which focuses on one of the themes explored in the seminars. These events are open to all the alumni of the previous Next Generation seminars, creating a long-term dialogue with Pictet, furthering their knowledge and expanding their networks.

The 2012 participants were invited back to London in 2013 for the first Alumni event on the seminar’s day one theme of ‘My Family and I’, with particular attention to wealth planning.

In 2015, the second Alumni event will focus on the day two seminar theme of ‘Finance and Wealth Management’, bringing together both 2012 and 2014 graduates.

And in 2017, a third Alumni event will concentrate on the day three seminar theme of ‘Business and Entrepreneurship’, combining participants from the three seminars held in 2012, 2014 and 2016.

For more details, please contact Alexandra Rodriguez-Spaethe or Grégoire Imfeld of the organisation team.