IMpower | Incorporating FundForum

CEO Perspectives on Global Finance

Exclusive insights straight from the IMpower leader-to-leader interview series

Introduction

Throughout the 2-day conference, IMpower incorporating FundForum 2023, asset and wealth management CEOs were also given unique access to listen and pose questions to a number of leading industry CEOs, during a series of one-on-one interview sessions.

These CEO perspectives are summarised in the following pages where insights on private market investing, the health of Continental Europe's banking system, the challenges of internationalising a legacy business, and building a strong culture for future success, are shared.

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01 Europe's banking system is solid

One of this year's primary sources of market volatility has been the implosion of three US banks, which took place in quick succession in March: Namely Silicon Valley Bank, Silvergate and Signature Bank.

Could this lead to systemic failure and spread contagion to Europe? Luckily, aside from one major European casualty, this has not materialised. Still, it placed risk management, corporate governance and leadership, firmly in focus.

In a fascinating discussion with Massimo Tosato, Chairman, M&G Group, Davide Serra, Founder and CEO of Algebris Investments, gave his perspective on what went wrong this year with SVB and Credit Suisse. Serra is one of the foremost experts on the global financial sector. Since 2006, he has built Algebris into a multi-billion dollar business.

To get a sense of perspective on the health of Europe's banking system, Serra referred to the '08 Global Financial Crisis. Global GDP, at that time, was approximately USD80 trillion: A figure that one would arrive at by combing total assets of seven or eight global financial institutions; i.e. Barclays, AXA, BNP Paribas, UBS, Credit Suisse, several Chinese banks. This GDP figure was financed with USD3 trillion of equity and USD1 trillion of preferred securities, with gearing of 20:1.

Today, global GDP is approximately USD100 trillion, which the banks are financing with USD9 trillion of equity and USD3 trillion of preferred securities. This has reduced total leverage in the system to 8:1: A far stronger situation than pre-08.

What marks Europe out differently to the US is the extent of its regulation. A small bank in Malta or Latvia with USD10 billion is regulated as if it were a top 30 financial institution. This is not the case in the US, where, in 2018, President Trump relaxed regulation on all but the biggest banks, increasing the 'systemically important' threshold from USD50 billion to USD250 billion.

As Serra explained, this led to a period of excess. SVB was unusual. It only had 20 branches, yet it had USD200 billion of assets. A normal bank branch has USD100 million. In just three years, SVB grew from USD50 million to USD200 billion and funded short-term liabilities with 10-year Treasuries at a massive scale; even while the Fed last year was aggressively raising interest rates.

With only 12% of deposits below the FDIC's limit of USD250, 000, SVB experienced one of the fastest bank runs, its VC billionaire clients withdrawing their money in two days.

"Europe's banking system, by comparison, is still very safe, from a credit perspective," said Serra.

Massimo Tosato
Chairman, M&G Group

Davide Serra
Founder and CEO, Algebris Investments

Credit Suisse was, in his view, an aberration, noting that over 10 years, the bank never made any profit. In recent years, it suffered two 6 or 7 standard deviation losses: Firstly, when a small family office, Archegos, imploded and caused a USD5.5 billion loss, and secondly when Greensill, a small supply chain finance business collapsed, leading to a USD1.7 billion loss.

> “Had they lost money on Lufthansa or SwissAir, or a G-20 country, fair enough. But that wasn’t the case,” said Serra.

He said the second mistake made by the Swiss was the decision to allow contingent convertible bonds – also known as CoCo bonds or AT1 bonds – to fall to zero in the event that something at the bank went wrong.

> “A US fund manager came in who didn’t like the ability for bonds to convert into equity. So they said, ‘Why don’t you design me a bond-like instrument, where if something goes wrong it goes to zero and equity can still be worth something?” explained Serra.

Needless to say, the ECB did not decide to follow this approach: The AT1 bond write-down, following Credit Suisse’s demise, could not be repeated elsewhere in Europe.

By acquiring the bank, UBS did the best deal ever. Over the course of one weekend, an asset worth USD70 billion had risen to USD120 billion. UBS made in a few short days a significant percentage of what had taken Credit Suisse 170 years. Not a bad deal.

02 Grappling with Transparency

The above highlights one of the most important elements of finance: Transparency. This applies to every facet of asset management, from client onboarding, to risk management, to portfolio construction.

As institutional investors increase their exposure to private markets, which do not offer daily pricing and liquidity, or regular reporting, getting the right 'look-through' capabilities on how and where fund managers are generating returns is vital: Whether this is in private equity, private credit, or real assets.

Dirk Jargstorff is the CEO of Bosch Pensionsfonds AG in Germany, where he oversees EUR6 billion for 200,000 pension beneficiaries. Day-to-day, he focuses on market risks, regulatory risks and operational risks. A couple of years ago, the organisation started investing more in private markets: Mainly private equity and infrastructure. With total exposure now around 21%, this has helped to generate double-digit returns but as Jargstorff explained: Why is it this way?

What is the real risk into this asset class and what is the composition of returns?

"We have set up a private market monitoring system, before we allocate capital, to determine, 'Is the strategy really being followed as initially agreed upon? Do we have broad diversification? Are sustainability criteria, which we've agreed upon, being followed? Are there any changes in the team structure?"

"At the moment we have more than 40 different mandates and we don't get that depth of transparency. We urge for at least some creativity and some support from GPs, regarding the results structure, in order to feel comfortable."

Dirk Jargstorff
CEO, Bosch
Pensionsfonds AG

03 The Talent Dilemma

Another prominent risk that CEOs face is talent. Without the right people in place, how can financial institutions – be they pension funds, private banks or asset managers – expect to survive?

This requires finding people with the right experience, knowledge, and skill-sets to operate not only at the top levels of organisations in senior roles, but across all business divisions. Jargstorff acknowledged that they need data analysts, data security specialists, ESG specialists, as well as investment specialists and regulatory specialists.

"And they are really hard to find. I think this is the biggest risk of not being able to run a business. Maybe it's not so bad today, or tomorrow, but it won't be okay forever. In terms of risk management, where do we get the people from?" he questioned.

The talent and wider culture needed to run a successful financial institution was also addressed by Gerard Mathieu, CEO, Barclays Private Bank Monaco.

Although a tiny principality, Monaco is home to 27 private banks and more than 66 external asset managers. Even for a private bank, therefore, attracting the brightest and the best has its challenges.

Monaco's financial market has grown significantly over the last decade and as Mathieu noted, younger people are choosing to relocate there:

"They like the safety and stability of Monaco and the ease of networking. We see more entrepreneurs, which is helping us attract more talent from London, Singapore. We need to respond to the demand of international clients coming from Australia, New Zealand, Eastern Europe, Africa, the Middle East."

Over the next 10 years, Mathieu pointed out that more than a third of global wealth will be transferred to the next generation. For private bank CEOs, understanding the changing nature of their potential clientele will be necessary.

Gerard Mathieu
CEO, Barclays Private Bank Monaco

Female entrepreneurs, for example, are increasingly creating wealth and as Mathieu said: "We have to adapt because these clients will have different needs and different expectations from private bankers.

"As our business model is closely linked to the Barclays investment bank, whenever we develop a new client we want to do it with our investment banking division. We want to be complementary and have that synergy to provide the full spectrum of services to entrepreneurs."

Younger, dynamic entrepreneurial wealth: It is a trend that is likely to shape Monaco's demographics over the coming years.

How then, might Artificial Intelligence, and the proliferation of digital banking and wealth applications and platforms – all of whom are competing with traditional bank institutions – be incorporated? Will robo-advisors take over and will the personal human touch remain in tact?

"It is a big question for us," said Mathieu. "We need to be more digital in the back office to help our colleagues be better equipped at servicing clients. That's really what our clients are expecting from us. They are expecting very quick digital solutions. But at the end of the day, when I read client surveys, what they're expecting from us is the personal touch, they want bespoke solutions... and that will always be the human being."

04 Investment-led Culture

In today's post-Covid world, maintaining and championing one's culture is a key priority for CEOs.

In an engaging discussion, Massimo Tosato (referenced earlier), asked Joseph Pinto, CEO, M&G Investments, to share his insights on how to modernise an old business and be a winner in 2025. Pinto only assumed his new role at M&G in March 2023, having previously spent 13 years AXA Investment Managers. One of the first observations he made was how impressed he was by what he called "a century of investment-led culture".

The M&G Group comprises of three key divisions: An insurance balance sheet (Prudential Corporation Asia), a retail business and a global asset management business.

Pinto's role as CEO is to make M&G, which has a strong UK investment focus, more international. Having forged a strong reputation as a UK credit investor, it now operates in Europe, Chicago, and has also hired a team in Asia.

"The culture has evolved from a UK-centric one progressively to a more global one. We are not there yet. We still want to internationalise other business capabilities.

We've also brought in non-UK executives to the top of the organisation as we learn how to deal with international clients out of London," said Pinto.

Mathieu is equally focused on expansion as Barclays Private Bank seeks to build on a century of success in Monaco. It is growing and investing in other parts of Europe, the Middle East and Asia, to further burnish the Barclays brand and attract new clients. Protecting its culture is part of this expansion strategy.

"Our values are extremely important when it comes to shape how we service our clients, but also how we support and serve society. At Barclays, for example, blue finance (ocean preservation) and ESG are extremely important topics in everything we do. We believe that our values make a difference and make our culture stronger in the world today."

Joseph Pinto
CEO, M&G Investments

Another aspect to how Pinto is pursuing a global strategy for M&G is to ensure that its investment professionals are properly compensated: In particular private market executives running PE/VC portfolios where carried interest can form a significant part of their earning power. Examples of fund teams spinning out of large asset managers include the formation of Permira, which span out of Schroders, and Ardian, which span out of AXA Investment Managers to become one of Europe's largest PE groups.

Pinto confirmed the right capital schemes and autonomy are in place to effectively deliver the appropriate performance. For the last 20 years, it has been successfully running the PruFund: One of the biggest With-Profits multi-asset funds in Europe, with more than EUR60 billion in assets.

"We've had the strength to invest in and democratise access to private markets using a long-term retail product within an insurance wrapper. The group understands the importance of paying our asset management people well because they've been delivering significant value to our customers," explained Pinto.

Another key component of M&G's global strategy will be to reduce its reliance on placement agents by strengthening its sales teams across Europe and Asia to better serve institutional clients, and make them more aware of M&G's product offering. As it continues to accelerate its recruitment plans, Pinto said that while some placement agents are still being used, "the long-term goal is to stop working with them".


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