

CLEARED FOR TAKE-OFF

Amaury Jordan has spent more time than most in airport lounges and hotel lobbies, but he still loves international travel. That's just as well, he tells **Margaryta Kirakosian**, because forging new partnerships in new markets is the key to surviving the regulatory onslaught that's remaking the Swiss asset management world



Amaury Jordan, CIO of Avalor Investment, isn't spending long in London. I'm catching him during a brief stopover between Zurich and Johannesburg. As I wait for Jordan in the lobby of the old-fashioned Churchill Hotel in Marylebone, it occurs to me that his hectic schedule is an inevitable reflection of his diverse client base.

Jordan is a true man of the world, growing up in a diplomat family he soon became used to moving from country to country.

After giving up his childhood dream of studying insects, he decided to follow in his father's footsteps by joining the Swiss foreign service. However, a visit to New York soon put him on a new path.

'At the time many banks were hiring. I applied for many vacancies and eventually got an offer. I have been working in the financial industry since 1985 and have no regrets about my decision to stay in the field,' he says.

In a similar way to Jordan's career, Avalor Investment emerged following a change of circumstances. The firm was founded in 2005 by three partners who previously worked at a similar wealth manager called Infidar, which at the time was 57% owned by Julius Baer.

That year heralded changes at Julius Baer, including the purchase of GAM and three private banks. At the same time the stake of the Baer family in the bank declined, prompting the partners at Infidar to question their position and where they wanted to go next.

'To have a bank as a shareholder can be fine as long as you are in close contact with the controlling family that understands what you are doing and is supportive of that. But once it is just a financial stake it is not the same anymore.'

Shortly after, the firm's founders started discussions with Julius Baer and its CEO at the time, Walter Knabenhans, who is currently chairman of Avalor's board.

'One of my colleagues, Walter Tobler, had a meeting with Walter Knabenhans and Raymond Bär, and within 48 hours the deal was done. Julius Baer bought back the shares, and six weeks later we opened our own shop just down the street.'

PASSING ON THE BATON

Avalor Investment started its existence with CHF 1 billion in assets under management, which over the following 12 years would increase to CHF 2 billion presently.

'We were very lucky at the time that everything went smoothly and we were able to start with a substantial asset base. But we also quickly came to the realisation that we were too few, which meant if something were to happen to one of us it would be a problem.'

The value of this forward-looking approach is only now apparent. Avalor

The world is a dangerous place for investors

Investment is now at a historical junction: two of the three founding partners, Walter Tobler and Roger Rothenbühler, are stepping down from their roles.

However, the firm is fully prepared for this shift: what started as three partners and one assistant is now 16 employees, nine of them partners.

Jordan says the founding trio wanted to make sure that the price of shares for incoming partners was manageable, allowing them to join the firm without being in debt forever.

In order to join, potential partners must have an understanding of what Avalor Investment is doing, as the team works closely together, and they also need a reasonable concentration of clients.

'It is important to have clients from a certain place, especially as in Switzerland we have so many cross-border rules with different countries. This is something we keep an eye on when talking to prospective partners.'

From the start, partner Beat Schädler was meant to bring to the firm his relationships and expertise from other parts of the financial world as well as to take on clients from Roger Rothenbühler. Patrick von Koss was the first to bring a substantial client base with him – mainly UK resident non-doms as well as Asian clients, an area where he overlapped with Jordan.

Three more partners, Christoph Balmer, Andreas Lüber and Reto Fehr, are in charge of Swiss clients, who present an obvious advantage as they don't have any cross-border issues.

One of the latest to join the Avalor team was Anja Römer, who brought with her not only German clients but also Eastern European clients – something that was previously uncharted territory for the firm.

'Anja wasn't yet 40 when she joined us, but already she had a very impressive track record, working for many years for UBS and later Julius Baer. In our business there is a paradox in that you generally only gain a meaningful client base as you get older, which makes it difficult in terms of the firm's succession planning. In her case it was a perfect balance.'





Jordan himself looks after a specific client base – US clients, which wasn't a target group from the start, but a result of Swiss family members moving abroad.

'Once family members based in Switzerland are no longer there, the assets are likely to become US assets. Rather than wait and risk losing them, we decided to get an SEC licence.'

Jordan says sometimes it is good to experience operating in a highly controlled environment, as it might help you to go through similar regulatory authorisations elsewhere, be it a Finma or Bafin licence.

'SEC regulations are largely about customer protection at the end of the day, and Mifid II, for example, is trying to do essentially the same thing.'

UNITED FOR CHANGE

Jordan not only actively participates in the development of his own firm but also sets the tone of discussions in the wider Swiss wealth management industry. He is the vice-president of the CHF 59 billion Alliance of Swiss Wealth Managers that emerged in May 2016.

However, this is not the first cooperation between independent wealth managers that Avalor Investment has participated in. Together with Geneva-based Forum Finance Group (Citywire Switzerland cover star December 2016) and Lausanne-based Boccard, Avalor shares ownership of a firm called Trilake Partners, which is a fully licenced wealth management company in Singapore.

Jordan says this is one of the first wealth management joint projects between firms from both the German- and French-speaking part of Switzerland.

'We are not a bank and don't have unlimited resources. It requires a lot of heavy lifting for a small firm like ours to set up an entity on the other side of the world. But it is invaluable experience that you can apply in another context.'

The partners of the three firms first met in 2010 when one of their custodian banks organised a trip to Singapore, inviting 15 wealth managers from Switzerland to have a closer look at the market.

Jordan says the idea of Trilake Partners was born on a piece of paper in Doha airport when he and Etienne Gounod from Forum Finance were waiting for their 3 AM flight back to Switzerland.

'In February of 2011 in the course of an insane 72 hours we set up the company, finalised the paperwork, visited around 17 offices, rented one, hired two people and were still at the lawyer's office two and a half hours before the flight to Switzerland. I think it was quite cool.'

Jordan says this project exemplifies the fact that larger wealth managers often face similar challenges, and it is useful to have a platform where they can discuss these issues instead of trying to reinvent the wheel on their own.

This is how the idea of one of the biggest wealth management alliances in Switzerland was born.

QUALITY STANDARD

Turning to asset allocation, Jordan says the firm currently holds a lot of cash, which poses a problem from a business standpoint.

'Who do clients call if they need a lot of money? Us, their wealth manager, because we hold cash and don't need to sell anything. This is really frustrating, but we refuse to put that cash into something simply for the sake of it.'

Jordan says his views are aligned with those of Howard Marks, a legendary investor from the US firm Oaktree who recently said cash is unpleasant, but nonetheless the safest place to be at the moment.

'I don't understand why people fall over themselves to buy a 100-year bond issued by Argentina, as the country went bankrupt six times over the last 100 years. Greece started issuing bonds recently, and people seem to forget what happened two years ago.'

The most valuable rule in investing, according

to Jordan, is to realise that you don't have an idea about half of what is happening in the markets.

'I say to clients: The world is a dangerous place for investors, so we need to try to focus on things that we think we understand, that are not too complicated, so if worst comes to worst there is a reasonable chance they will come out at the end as survivors.'

The overall investment policy is defined based on a balanced grid that can be in dollars, euros or Swiss francs. The neutral equity allocation in a balanced portfolio is 40% with a leeway of 5% in either direction. In growth mandates the maximum equity quota is 70%.

'We think of our overall investment strategy like a highway, say from Zurich to Munich: we agree on the direction we want to go in and where we want to end up, but where you stop to get gas or have your lunch is largely up to you. I like to view a portfolio like a painting: it is made up of individual elements, but the really important thing is that the whole picture be harmonious.'

European portfolios will typically have European stocks at the core with specific funds as satellites. He says things that these companies have in common are visibility of earnings, sufficient capital for investments and underlying quality.

'You are unlikely to see an automotive company in the portfolio, because to launch a new product is very capital intensive: you have to invest billions just to build the factory.

'Something like toothpaste, on the other hand, can be a great business. You will always need to buy toothpaste and the chances are you are going to pick a big brand.'

The wealth manager's long-term view is nicely illustrated by an ongoing 20-year-old experiment Avalor Investment has undertaken with one Swiss family. The father wanted to be involved in the management of the family's wealth, and in response the firm set up an investment committee-like structure.

The firm invites six external experts who each



talk for an hour each about six companies.

'The experts have to prepare for the meeting working under the assumption that we are going to buy shares of these six companies and go on a vacation for five years, during which we are not going to look at the newspapers or read reports, and won't be able to sell.'

In 1998 about 80% of the experts were from banks, but today all six are from specialist fund managers, and there are no bank representatives.

'At first I thought that everybody would come and talk about Nestlé and Roche, and we would end up with a portfolio of eight names instead of 25, which is too concentrated. But it didn't happen that way at all, which is really interesting.'

SUCCESS IN PRESERVATION

When talking about future plans for Avalor Investment, Jordan says preservation is more of a focus than rapid growth.

'To grow just for the sake of growing, I don't think is the right approach. There are about 3,000 independent wealth managers in Switzerland. It is a hugely fragmented market where 50% manage CHF 100 million or less. People have been expecting the market to consolidate for a long time, but it hasn't happened yet.'

Jordan sees digitalisation as the single biggest game changer for the industry as a whole.

'On the one hand, you have regulations that are pushing for consolidation. On the other hand you have technology that is pushing back.

'Where is the balance? I don't know, but I think the chances are we are going to see things here that we didn't think possible. Maybe banks will have a common back office one day.'

Jordan cites the US wealth manager space as an example, where the market is even more fragmented than in Switzerland, with 10,000 firms, but where consolidation took place at the infrastructure level.

'US wealth managers all seem to be attached to a very small number of back- and middle-office providers. There was a massive consolidation at the "plumbing" level that allowed a Mr. John Johnson, president, CIO, CEO and coffee boy of the company, to survive.

'Our work here in Switzerland is much more complicated because of cross-border regulations. It is a multi-dimensional chess game, and represents a huge part of the market share in wealth management.'

Preservation is a theme that is important for Jordan not only at work but also outside the office. The asset manager is involved with two game reserves in Botswana that support the preservation of the natural environment, and he tries to go there twice a year for a week of tracking.

He not only likes to travel to faraway places but also relishes travel-inspired writing. He's currently reading *The Old Patagonian Express* by Paul Theroux. Sadly, he reflects, real-life travel sometimes fails to live up to the romantic ideal:

'Travelling has never been easier, but at the same time more difficult. The whole process of going through an airport for example – I don't know another industry that treats its customers more shabbily than airlines.

'And yet there are so many interesting things to see, a lifetime is not enough.'