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Reyl & Cie looks East for growth

By: David Walker

Switzerland's Reyl & Cie is looking to expand its client base and investment activities outside Europe as politics limits its scope at home.

If Switzerland's private banks needed any more encouragement that the future growth for their industry is to the East, they got that encouragement recently, from Bern.

For the market in the West seems to have no future. The government announced a tax deal with London in August, following a similar agreement it made with Berlin. Swiss banks face calculating, collecting and remitting tax owed from undeclared Swiss accounts held by UK taxpayers.

To avoid extra, hefty charges, account holders may consent to their identities being revealed to London.

François Reyl (*pictured*), chief executive of the Geneva-based private bank and asset manager Reyl & Cie, says: "Very clearly, the traditional offshore, European-based private banking account market in Switzerland is dying a slow death.

"The opportunities given to cater to clients not compliant with their local tax authorities is quite rapidly disappearing. Switzerland is at the very centre of this. "Exchange of information will increasingly become the norm. The European offshore market is one where we do not see any future. What is happening is requiring Switzerland's banks in general to reinvent their model."

This dilemma raises two questions immediately. First, who will replace the non tax-compliant Europeans who elect to move their wealth elsewhere? And second, how will banks such as Reyl & Cie develop, to keep other clients as Switzerland's tax advantage falls away?

Wealth creation

To answer each question, look east. Reyl says: "We are pursuing a growth strategy, but growth in an axis oriented towards the East." He mentions Asia (including China), the Middle East, India and Russia.

"This is where wealth is being created and where new entrepreneurs are being rewarded with financial success. They may seek the services of a private banker."

Middle East and Asian clients today account for about 35% of Reyl & Cie's private wealth management, and Reyl expects over time for most of his bank's business to come from outside Europe, in terms of origination-of-funds.

At such moments of dislocation – as centres of political influence, economic power and wealth creation shift eastwards – he says the size of a private banking business is less important than its nimbleness.

"It is clearly necessary to be agile in your strategy and be very tactical in response to change. Our decision making process is much shorter and we are accountable for our actions. It's a shareholder culture – once we find people who share the same values as ours, the contractual and deal-making process is easy and quicker."

The joint venture Reyl & Cie struck with Samena Asia Managers in Hong Kong this April was one such example.

This gives the bank access to Asian hedge fund seeding expertise, as well as to traditional strategies in the region including fixed income, special situations and Middle East and Indian infrastructure.

Samena Capital manages capital commitments of about $650m across three closed-ended fund structures.

Expansion

As its own non-European client business expands, Reyl says it is important Reyl & Cie expands its ability to find, and distribute, local Asian managers.

It is also launching its own short-term high yield Asian credit fund, first offshore then in its Luxembourg Sicav.

"You cannot propose asset allocation to clients in these regions without adapting it to the local environment and local investment opportunities. For Asian clients, the opportunities differ greatly from those proposed to our European-based clientele. They include local securities and assets, and fund managers pursuing local strategies."

Reyl's joint venture provides access to Samena's network and experience of the region's managers, as well as "the ability to brainstorm with them the investment themes emerging across the region."

Reyl's own extension fits nicely with the increased allocation it has made to emerging markets fixed income and equities from its global mandates since July 2009.

The managers whom Reyl & Cie uncovers, and the products it develops itself, in Asia will also typically be available to its clients in Europe.

This is part of the answer to the second question of client retention, posed above.

As Reyl & Cie's product range expands, so too will its geographic footprint. Reyl mentions the Gulf states as potential future bases to add to offices in Switzerland (since 1973), Paris for onshore Europeans (2004), Luxembourg (2009) and Singapore (2010).

He says wealthy individuals in Asia, European onshore business and non-domiciled UK residents are all of interest, as is institutional business.

Reyl already offers third-party management and white-labelling of funds for this community, from banks to family offices, insurance and pension clients.

Reyl & Cie manages more than CHF4.5bn, including CHF1.4bn in fund vehicles run by Reyl Asset Management.

It started the funds business in 2002. The strategies offered externally range from equities, government or corporate bonds (standard or convertible) money-market investments, alternative and structured products and commodities.

Mindful of pitfalls

Reyl says his firm elected to expand in long/short funds in Asia, partly because it was mindful of the pitfalls of applying heavily directional approaches to Asia's "growth" markets. "If you look at the Asian market indices this year, they give you an idea of the dangers of investing only directionally in growth markets."

He adds the high number of long-only funds with an Asian focus that are offered to institutional investors in Europe and North America create opportunities for hedge fund managers that provide a different approach to emerging markets.

"Also, there are some Asian hedge funds, but the market is not crowded, so there are -arbitrage opportunities in inefficient markets conducive to good returns."

Reyl Asset Management will provide new managers it jointly seeds with advice on risk controls and middle office operations, as well as its experience in distributing and packaging its products, including in Ucits format within its Luxembourg Sicav.

It will also be able to help managers adopt practices and systems that are acceptable to Europe's institutional allocators. such as a direct risk control function. Samena Capital – which already manages an Asian credit fund – focuses on principal investments in the sub-continent, Asia, Middle East and North Africa – collectively the "SAMENA" region.

Samena Capital was established in 2008 by prominent entrepreneurs from the region and is capitalised with equity exceeding $90m.

It manages total capital commitments of about $700m across a range of funds.

It has two regulated investment advisers based in London (with an FSA FII licence) and Hong Kong (SFC), and an office in Bahrain providing research and operational support.

"There are a number of funds that pursue credit strategies, unhedged in local currency. We believe the strategy is an opportunity to potentially achieve strong returns."

A fund is planned, investing primarily in external debt issued by borrowers from the SAMENA region, though it will also be able to buy in domestic local currency debt markets where appropriate.

The fund will focus chiefly on investment grade and cross-over names, but can buy higher quality high yield credits and special situations as well.

Reyl explains: "The goal is to capture interesting yields on a pure bottom-up approach, not to play currency trades on a top-down basis. We will buy local currency bonds where we find attractive investment cases only. Local currencies should represent a minor part of our exposure."

He notes the chosen region benefits from "relatively high GDP growth rates, solid fiscal and external balances, a well-capitalised banking sector, and reasonable household and corporate leverage.

In addition, credit in the SAMENA region has traditionally offered excess spreads relative to comparably rated credits in developed markets".

Reyl adds that the credits are often less understood and under-researched, which creates opportunities in itself for "investors with the local knowledge and analytical insight to exploit these opportunities".

The fund will also have the ability to install some hedges in currencies and rates, to manage risk.

"We believe returns in credit – even without currency gains – could very well reach double digits, as the latest correction and dislocation in the market has created many opportunities for investors. Investors who invested in the Asian credit markets after the Lehman crisis saw private equity-like returns with debt-like risk."