Prague Economic Forum – November 8

Ladies and Gentlemen good afternoon to all of you

I am Bertrand Cozzarolo, Head of Private Banking for Société Générale Group and am delighted to have this session with you today.

I would like to share with you some major trends that I can see in the Private Banking and Wealth management business in Western Europe today. Of course this is a very wide topic and I will focus on a few key topics.

I. <u>What is the prevailing mindset of wealthy clients today?</u>

First clients are experiencing significant volatility in all markets irrespective of asset class

- In 2022, Private banking clients have been impacted by the decline of the markets, both equity and bond markets, ie for the first time at least in a decade, clients with a conservative investment style, so called defensive strategies lost almost as much as the ones with a more dynamic approach, ie 10 to 15%.
- In 2023, there was a rally at the beginning of the year on the equity markets, but in the US this was driven by only 7 technology stocks, most notably the chip maker Nvidia. Apart from these stocks, there was no rally at all.
- Since August of this year, we live the same scenario as 2022, history is indeed repeating itself, with a decline both in equities and bonds.

Secondly, U/HNWI live, as all of us, in a time of considerable economic and geopolitical uncertainties, with the added challenges caused by climate change being more tangible and visible by the day.

- The tax environment further adds to the uncertainty: in Western Europe, with the notable exception of Germany, governments have accumulated a substantial level of debt to support the economy during the Covid period. One can suspect tax rises could be on the agenda, existing tax breaks could be cancelled. **So there is a perception of potential tax instability going forward and further undermines investor confidence.**

Third, and more positively, our clients also see potential opportunities down the road. As we all know, in most of the economies, we have been living in a world of cheap money which has inflated the value of assets. These days, money is more expensive, refinancing of existing debt can prove more difficult. Some companies will need to offload assets to raise cash. This will inevitably put pressure on the value of assets. **Some of the very wealthy clients I meet just wait for the right opportunity to buy real estate or other assets at a discount.**

<u>So overall, in the current environment, HNWI and UHNWI tend to be in a wait and see mode.</u>

II. <u>What do they expect from their private bankers and wealth managers? Where do they invest their money?</u>

<u>When it comes to investments</u>, <u>today</u> most clients want, first and foremost, to protect the value of their assets, to protect their future income.

Hopefully, in the current environment, clients can benefit from good returns, thanks to the high level of the interest rates, without taking significant risks.

Where do they allocate their money as a result?

- For short term placements : we see a lot of inflows in term deposits and money market funds.
- For longer term placements:
  - There is a lot of interest in "buy and hold" bond strategies, the so called "dated funds" whereby clients secure good returns for a limited credit risk
  - Capital guaranteed structured products are also very popular these days, offering returns in the range of 5-6% in Euro
  - There is also a lot of interest for Private debt and infrastructure funds.

If we take a step back and consider now the next 3 to 5 years, a major trend is poised to further materialize, which is the **<u>growing interest of clients in private assets</u>**: private debt and infrastructure, as I just mentioned, but also private equity and real estate. Of course, real estate funds face a lot of difficulties today and clients are currently cautious about private equity.

Private assets, historically geared towards institutional investors and UHNWI are increasingly open to retail investors, with products specifically designed to accommodate the clients request for liquidity in spite of the long term and illiquid nature of the underlying assets. Private assets typically represent today less than 5% of clients porftolios but are expected to grow twice as fast as traditional investments in the coming years. This asset class is of course attractive thanks to its expected returns, but also because it channels people's money to tangible realities such as mid sized companies. It is increasingly important for clients to understand where their money goes.

<u>Which leads me to another major trend, sustainable investing</u>, ie investing taking into consideration environment and social policies as well as the governance of companies in which we invest, the ESG criteria. This is something very important for Société Générale Group.

Today most of the new funds launched in France and Northern Europe take into consideration, at least in a minimal way, some ESG criteria. In the least ambitious approach, asset managers will exclude of their portfolios companies on ESG criteria, while in the most ambitious approach asset managers will select only companies which have a positive impact on one or several of the Sustainable Development Goals of the United Nations.

Of course these criteria are subject to continuous discussions and improvements, and we can hear accusations of greenwashing. But overall, the asset managers and the banks in Europe move in the right direction.

The attitude of clients towards sustainable investing is quite heterogeneous.

A minority of clients do not care about ESG and decide their allocation of assets based solely on financial indicators.

A vast majority of clients welcome ESG criteria in their investments, but only to the extent that it has no negative impact on the financial performance of their investments. The problem we faced in 2022, in the wake of the war in Ukraine, is that the best performing stocks were oil & gas and weapons which are typically excluded or underweight in ESG portfolios.

Younger clients tend take a much more proactive approach towards the protection of the climate and expect their Private bank to offer products at the highest ESG criteria.

This younger generation of wealthy clients also accelerates the **<u>evolution in the way Private Bank serve their clients.</u>**

Most clients of course continue to enjoy in person meetings with their banker, investment specialists et wealth planners, in order to address core questions such as: how can I transfer my wealth to my children or to a charity? How can I reduce the tax burden upon selling my company? Should I create a holding company, how do I deal with my succession plan? And **there is growing demand for expertise, advice in a complex world.**

But there is also a growing demand for digital capabilities: information on the clients portfolios, transactional interfaces, but also trade ideas. We have launched in France a tool that sends to clients personalized recommendations on their portfolio and this is widely appreciated. When majors economic or political events happen, clients expect their private bank to send recommendations on what to do with their portfolio, with the possibility to implement the advice in 1 click. I strongly believe such tools will be offered widely by Private Banks in Europe in the coming years.

On the contrary, so far, pure digital players have had limited traction in the Private banking space.

These were the main trends that I can observe and that I wanted share with you this afternoon.

Thank you very much for your attention.