



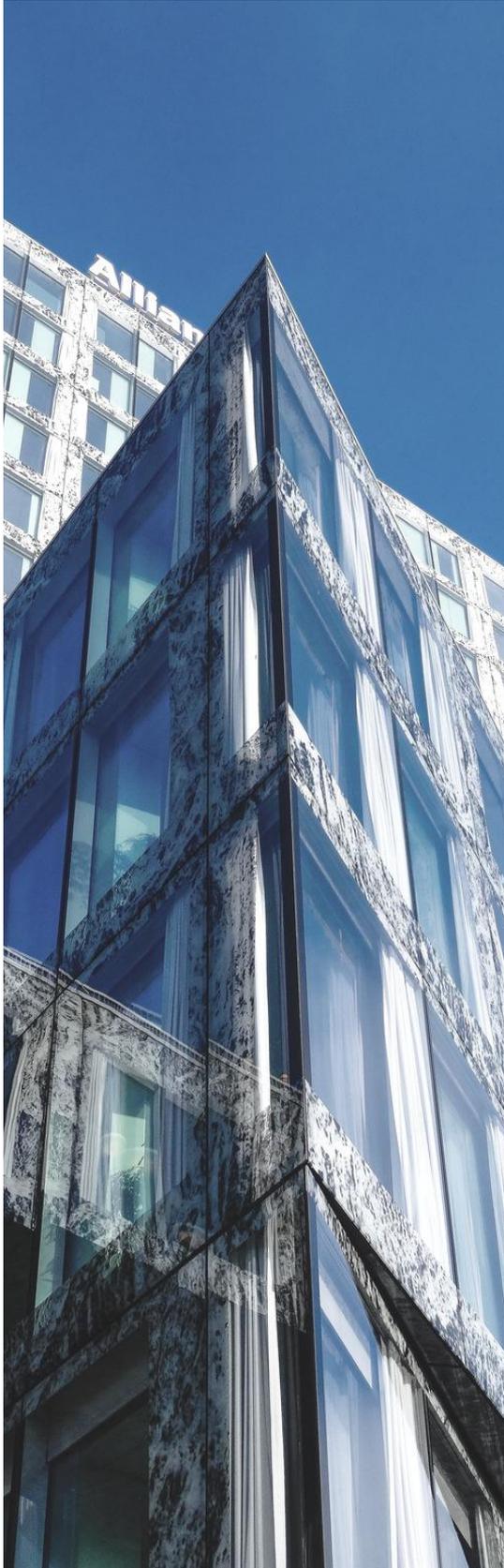
LUDGATE SEARCH | INSIGHTS

ASSET MANAGEMENT IN

SWITZERLAND

LOCAL MARKET FOCUS

MARKET OVERVIEW



Switzerland is one of the leading financial centers in the world and has a long tradition in private banking and wealth management. The financial sector is an important pillar for the Swiss economy and contributes significantly to GDP - in 2017, the financial sector generated CHF 60.74 billion, totaling 9.1% of Switzerland's total economic output. Compared to other major financial centres, only Luxembourg (27.3%) and Singapore (12.5%) have a higher relative contribution to the financial sector to GDP.

Asset managers based in Switzerland manage more than CHF 2 trillion on behalf of domestic and international clients, approximately three times the size of the Swiss GDP and about twice the amount that is held by Swiss pension funds. Moreover, asset management firms in Switzerland employ a large number of highly qualified investment specialists and contribute significantly to cantonal and federal tax revenues.

Insurance companies and pension funds control large amounts of financial assets and delegate the management of all or part of their assets to external asset managers. Very often asset managers offer their services to other institutional clients like corporates, endowments and foundations, family offices or sovereign wealth funds. These clients very often invest through a combination of investment funds and discretionary mandates (EFAMA, 2017). Most of the asset management firms based in Switzerland offer collective investment schemes as investment solutions to their clients. This is strongly followed by a large number of asset management firms managing client's assets in the form of discretionary mandates. About half of the market offers advisory services and a relatively small fraction of asset managers offers investment solutions based on ETFs. However, the demand and supply of ETF products is on the rise.

CURRENT TRENDS

Swiss boutiques are currently in the process of redefining their business model due to the change in market conditions, both in terms of revenue and cost. The process induces some consolidation that should continue over the medium term. Levels of service remain key to moving forward for Swiss boutiques. A lot of foreign asset managers are seeking entry to the Swiss market. But they must focus on a few products with a clear strategy and management style. The offer should exhibit a differentiation for the investor as the supply of products is already quite important. Integration of sustainability into investments of Swiss asset managers is booming.

The number of Swiss institutions implementing ESG has grown over the years. They are not only buying ESG products, but also actively implementing strategies into investments. Also, the shareholder engagement has widened to include international companies and sustainable investment funds now represent 9% of the Swiss fund market. Not surprisingly, most asset managers have already taken measures to integrate ESG consideration in their investment processes, with more or less significance and intensity.

Regulation is currently “the most pressing challenge” for Switzerland’s asset management industry and its efforts to maintain its EU client base. On a scale of 10, regulation was rated an average 7.7 by asset managers surveyed by the Institute of Financial Services Zug IFZ, part of Lucerne University of Applied

Sciences and Arts. The second largest concern for Swiss asset managers, with a score of 6.7, was “finding new clients” – and the researchers said these challenges were linked. “In the case of asset management, being compliant with international regulatory standards is a fundamental requirement to be able to export Swiss asset management services abroad,” the authors of the study noted.

A good recent example is the implementation of MiFID II in January 2018 requiring asset management firms to disclose their fees. To address these regulatory challenges new innovative technology solutions, collectively known as Regulatory Technology (RegTech) have been implemented. The use of advanced data analytics and artificial intelligence provides asset management firms with powerful tools to monitor risks, comply with regulatory requirements and improve operational efficiencies and cost effectiveness in the back office (Confluence, 2017). RegTech solutions often rely on automation and information management technologies, delivered as Software-as-a-Service (SaaS) or on a cloud-based approach

The main value of RegTech solutions is that asset management firms can demonstrate and verify at any time that the relevant regulations have been applied. Moreover, from a regulators perspective an ongoing automated supervision and transparency in the applied regulation is guaranteed.

ACTIVE VS PASSIVE

Swiss asset managers offer their customers a broad variety of products and services based on different asset classes. The two most frequently used are equity and bond investments, followed by multi asset approaches where investments as a combination of equity, fixed income and other asset classes are made. Swiss asset management is diverse in the sense that asset management institutions offer products and expertise in a variety of alternative asset classes like real estate (38%), hedge funds (35%), private equity (32%), commodities (28%) infrastructure (25%), and insurance linked securities (15%).

The value proposition is not only related to the asset classes offered by asset managers also differs in terms of the chosen investment approach where a distinction between active and passive investment management is made. Over 80% of the clients in the Swiss market follow an active investment approach, while only a fraction following a passive strategy. About 17% of clients portfolio's are management based on both active and passive strategies.

FEES

The fact that the majority of asset managers follow an active portfolio management approach is consistent with the observation that asset managers in Switzerland have a strong exposure to alternative asset classes, which are very often based on active portfolio management strategies. On the other hand, the limited size of the domestic market, as well as the fact that competition in asset management is fierce, and global, makes it difficult for Swiss asset managers to increase their customer base, which intensifies pressure on fee reduction.

Active managers globally as a group have struggled to materially outperform passive strategies in the recent years, which have created additional pressure on fees in the Swiss market. Genuine active managers building high conviction portfolios with high active shares – will be in a better position to capitalise moving forward.



Looking Ahead

FUTURE TRENDS

The success of Switzerland as an innovative economy is well proven, and as a result of its attractiveness to internationally recognised researchers and experts, Switzerland has strong industry clusters; especially in life sciences, information technology or the mechanical, electrical and metal industry. In addition, based on an established talent pool in engineering and economic sciences, as well as a major international financial center, Switzerland offers good conditions for innovation driven growth in the asset management industry.

This should ensure that asset managers in Switzerland are well placed to face future challenges and to push the digitisation of the asset management industry. In particular, the emergence of FinTech start-ups offering digital or online investment management services pose a significant challenge to the more established financial services providers.

Recently, traditional financial advisory and asset management firms have started to enter this growing market and provide digital investment advice and investment management services to retail investors. Moreover, the combination of big data and machine learning has the potential to improve alpha generation by using a factor investing approach. For instance, smart beta strategies target these factors using a rules-based approach with the goal to outperform a corresponding market capitalization weighted benchmark.

Rules-based factor investing uses large volumes of data to establish relationships between the chosen factors, their risks and returns. In this context, advances in artificial intelligence will become a very powerful tool to blur the lines between active and passive investment management.

Spotlight On...

SwissOne Capital, an asset management company specialising in crypto, is to launch what it says is the market's first tokenised and fully-regulated index fund. Crypto as an asset class continues to edge towards maturity, and each regulatory win advances that evolution. While other crypto funds exist, SwissOne Capital's fund will be the first to offer the liquid utility of tokenisation with the safeguards of regulatory recognition. They will be licensed by FINMA for Swiss distribution.

According to a PwC global blockchain survey, regulatory uncertainty stands as the number one barrier to entry in the crypto market, with lack of trust following closely behind. Approval by an entity such as FINMA should substantially ease those chief concerns and legitimise an entrypoint in Switzerland's massive crypto market; the country is the number one searched location for "Crypto Fund." How this will affect the general crypto market will be seen in the coming months.

EXECUTIVE SEARCH & SELECTION

Over last 12 months we have noted significant movement across the Swiss market. Numerous well established local firms and global asset managers have conducted searches for Sales Directors and Country Heads, covering German and French speaking clients across all channels; as well as several new entrants into the Swiss market. For example, following the appointment of Marco Bus as the CEO of Eurizon Capital in Luxembourg this summer, the asset management arm of the Italian bank Intesa San Paolo, has opened a commercial office in Switzerland, naming Manuel Dalla Corte as Country Head. Dalla Corte previously worked at Aviva Investors, Lombard Odier and UBS Wealth Management. Swiss asset manager Systematic Investment Management AG (SIMAG) has also announced the appointment of Christian Gast as CEO. As CEO, Gast will lead the newly founded company SIMAG and develop the firm to become a

leader in systematic investment strategies in the Swiss market. Previously, he headed up the iShares and Index Investing Schweiz at Blackrock, a position he has held since 2010

We have seen some appointments of senior sales in Geneva, mainly to cover private banks and key global strategic partners, most of the searches have been conducted in Zurich. Overall the demand has been for highly technical sales professionals, with a solid track record in active asset management space, ideally in alternatives. We can only assume this trend is here to stay as active asset managers continue to develop their alternative product offering to defend and increase their market share in one of the most complex and competitive European markets.

MARKET MOVES

- DECALIA Asset Management strengthened its institutional sales team by appointing Truong-Linh Pham. He joins after 14 years at Edmond de Rothschild Asset Management.
- Vontobel Asset Management appointed Stéphane Matile as Head of Partnerships. Matile joins from Robeco SAM, where he was Country Head Switzerland and Head of Wholesale, responsible for business development and account management in Switzerland as well as for steering the international wholesale strategy.
- Candriam appointed Thomas Kälin as Senior Client Relationship Manager for the wholesale distribution and institutional market. Kälin was previously client director for GAM AG in Zurich, responsible for the wholesale segment.
- Fedor Plambeck joined Janus Henderson Investors in Zurich as Sales Director. Plambeck has worked in the financial services industry for almost 25 years. Most recently he was with Deutsche Bank.
- Lazard Asset Management appointed Stephan Heitz as Managing Director and Head of Lazard Fund Managers (LFM). Before joining, Heitz had a 9 year stint at AXA Investment Managers as head of Continental Europe.
- Asset Manager BlackRock appointed Ed Gordon as Head of ETF and index investing for Switzerland. Gordon previously worked at UBS Israel.
- Aberdeen Standard Investments appointed André Haubensack as Head of Distribution for Switzerland internally.
- J.P. Morgan Asset Management appointed Claude Kurzo as country Head Switzerland. Kurzo was most recently based in New York as global head of Strategy & Business Transformation and sat on the company's global asset management operating committee.



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Ana Maria holds a 1st class degree in International Business and speaks Italian, French, Croatian, and Slovenian.

Ana Maria began her career at a boutique search firm where she was responsible for developing their Distribution, Asset Management desk. In 2012, she joined BRUIN Financial, sister company to Ludgate Search, to grow and lead their European Distribution team, focused specifically on senior assignments in Asset Management, Alternatives and Wealth.

In 2017, Ana Maria was mandated to grow Ludgate Search, the Executive Search arm of The FISER Group. She focuses on senior distribution mandates, specifically capital raising roles in Europe including roles based in UK, Nordics, Germany & Austria, Benelux, France, Switzerland, Italy and Spain.